

FINANCE COMMITTEE

DRAFT BUDGET 2014-15

SUBMISSION FROM SCOTTISH BUILDING FEDERATION

About SBF

1. Founded in 1895, SBF is the lead voice of the construction industry in Scotland; an industry which contributes around £10 billion annually to Scotland's GDP and – directly and indirectly – provides employment for around 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: Current State of the Construction Industry

2. As has been well documented, the Scottish construction industry has suffered a significant contraction in output and employment over the past five years.

3. Our latest survey of SBF members shows industry confidence is slowly improving but remains in negative territory overall, with a confidence rating of **MINUS 13**.

National Performance Framework

4. In previous evidence to the Finance Committee, SBF has highlighted those national 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

Increasing the Number of Businesses

5. We note the Scottish Government's own positive assessment of this indicator on the basis that there were 363 businesses per 10,000 adults in Scotland in 2012, compared to the 2006 rate of 352 businesses per 10,000 adults.

6. The construction industry has suffered from a significant number of business failures in recent years. Between 2008 and 2012, a total of 655 Scottish construction firms went into compulsory liquidation, equivalent to 19% of the total number of Scottish firms going into compulsory liquidation over that period.

7. One of the particular effects of the economic downturn has been a fragmentation of Scotland's construction industry. While this may mean that the overall number of businesses within the industry has gone up, this is at a time when overall employment within the industry has fallen significantly. Figures from Scotland's Annual Population survey show the number of people employed in the

construction industry has dropped by 62,500 between 2008 and 2012, equivalent to more than 25% of the industry's total workforce.

8. In this context, we are not convinced that an increase in the number of businesses per head of population can necessarily be considered as an indicator of economic success, particularly as this relates to the current status of the construction industry.

Improving the Skill Profile of the Population

9. The Scottish Government also gives a positive assessment of its performance against this indicator, reporting a steady decrease in the percentage of working age adults with low or no educational qualifications (SCQF Level 4 or below), falling from 16.4% in the 2007 baseline year to 13.0% in 2012.

10. The construction industry has traditionally been a cornerstone of Scotland's apprenticeship system, providing high quality training and employment opportunities for thousands of young Scots.

11. 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.

12. In this context, we are concerned that the number of construction apprentices registered by the Scottish Building Apprenticeship and Training Council (SBATC) has fallen by 43% from 2,271 in 2008 to 1,299 in 2012.

13. 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 19,921 in 2012/13.

14. There can be no doubt that the Scottish construction industry has been weakened by a significant downsizing as a consequence of the economic downturn. The tight margins associated with public sector work mean there is limited scope for companies to invest in skills and training. Traditionally, higher margins in the private sector have helped to offset this, offering greater opportunities for contractors to target funding towards developing their workforce.

15. Until the private sector begins to show stronger signs of recovery, it seems inevitable that training and recruitment budgets will continue to be squeezed. As the proportion of directly employed labour within the industry reduces, there is a growing expectation on SMEs to focus more effort and resource towards training and development but the associated costs remain a major barrier for many.

16. While employers are fully committed to developing the industry's future workforce, it is important to recognise the level of commitment associated with recruiting for a four-year apprenticeship when compared to the average lifespan of a major construction project - typically between 6 months and a maximum of two years. This further underlines the need to reinforce clarity and certainty around the

planning process and the delivery of public authorities' future project pipeline as a means of giving construction employers the necessary confidence to invest in rebuilding industry skills and capacity.

Housing

17. The Scottish Government gives a positive assessment of the progress made in improving access to suitable housing options for those in housing need, based on 95.7% of homeless households having been entitled to settled accommodation in 2012-13 compared to 91.0% in 2011-12 and 87.8% in 2010-11.

18. Meanwhile, its assessment of performance in increasing the number of new homes is neutral, despite an acknowledgement that the supply of new housing in Scotland has decreased by 36% from 26,386 in 2006-07 to 16,882 in 2011-12. The Scottish Government's analysis goes on to argue that a major decline in housing output from the private sector has been "partly offset by an increase of nearly 500 in the number of local authority new build homes".

19. We strongly welcome the additional funding directed towards building more public sector homes – and recent progress towards increasing the level of grant made available per unit to reflect rising core costs.

20. Notwithstanding this progress, available evidence points to a sustained and significant shortfall in housing in Scotland. According to the Scottish Government's own Homes Fit for the 21st Century strategy (2011), Scotland will "need to be building in excess of 20,000 homes each year just to accommodate household growth." The latest house-building statistics for Scotland, published in June 2013, show only 14,877 new builds were completed during the year ending December 2012, 5000 fewer than the target identified in the report. The latest house-building figures also show house-building output slowing down: new build completions in Q4 of 2012 were down 9% compared to Q4 of 2011.

21. The need for more housing has also been highlighted by a recent Audit Scotland report, which concluded that the "supply of housing is not meeting current levels of need." Between 2012 and 2035 Scotland can expect the number of people aged 75 and over to increase by 75 per cent and the number of one person households to increase by 44 per cent. This trend, compounded by housing pressure as a consequence of welfare reforms, has led Audit Scotland to conclude that Scotland will "need 21,230 additional homes each year between 2011 and 2035", or more than half a million additional homes over 25 years.

22. In this context, we cannot agree with the Scottish Government's own positive assessment of its performance against both of these indicators since they fail to reflect the significant shortfall in delivery of new homes that persists in Scotland.

23. As the National Performance Framework itself acknowledges, "*through its policy and guidance, Government sets the framework that supports planning authorities to identify current and future housing requirements, determine how and where these should be built and deliver the generous supply of land necessary to support that*".

24. SBF has already submitted evidence to the recent Scottish Government consultation on its new draft Scottish Planning Policy, which points out continuing poor performance by many of Scotland's local authorities in determining major planning applications.

25. Planning performance statistics published on 18th July 2013 show that, over the 12 months to March 2013, major planning applications took an average of 62 weeks to be determined, four times the Scottish Government's target time period of four months. Only two of Scotland's 32 local authorities (East Dunbartonshire and Stirling) recorded an average time period below four months for the determination of major planning applications.

26. SBF fully recognises the significant workload and financial pressures Councils are currently facing. But a system where the average major planning application is taking more than a year to determine is a real cause for concern. It acts as a major drag on delivering the large-scale industrial, commercial and housing developments our industry and the Scottish economy need to build a long-term recovery. Future planning policy needs to reinforce its focus on enabling appropriate developments in suitable locations. Additional efforts are required to streamline processes and invest the necessary resources to help ensure many more applications are determined within established deadlines.

Reducing Scotland's Carbon Footprint

27. 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.

28. 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.

29. 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.

30. 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 2020, 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.

Other Indicators

31. Despite the impact of the economic downturn, the importance of the construction industry to the Scottish economy should not be underestimated. Indeed, ministers regularly emphasise the crucial contribution capital infrastructure delivered by the construction industry has to make towards achieving sustainable

long-term economic growth. Quarterly National Accounts for Q1 2013 show the construction industry still contributed more than £8 billion in gross value added to total Scottish GDP of £127 billion in 2012. This equates to more than 6% of Scotland's GDP, more than agriculture, forestry and fishing, mining and quarrying and the electricity and gas supply industries combined.

32. While there are specific national indicators focused on the housing sector of the construction industry, it is important to put the relative size of this sector of the industry in proper context. In 2012, new house-building contributed 18% of the total value of output from the Scottish construction industry. Other new work aside from new housing (infrastructure, commercial, industrial and other public sector work) contributed 42% of the total value of output from the industry. Meanwhile, repair and maintenance contributed the remaining 40% of the industry's total output value.

33. In light of this and the relative overall importance of the construction industry to Scotland's economy, we believe there would be merit in developing additional national indicators to measure Scotland's performance in fostering the positive environment needed for the construction industry as a whole (and not just the house-building sector) to flourish.

34. Crucially, new indicators should be considered that can assess the impact of measures to streamline the planning process. New indicators should also provide a mechanism to assess the time taken to deliver Scotland's planned pipeline of publicly funded major construction projects against a defined baseline.

Measuring Performance

35. In order for the NPF to be a truly effective tool, we would recommend a future requirement for performance against the national indicators to be independently assessed via the auspices of an organisation separate from the Scottish Government such as Audit Scotland.

Conclusion

36. SBF believes that the National Performance Framework has provided a useful basis for measuring the Scottish Government's performance towards achieving its single overarching purpose.

37. That said, for the National Performance Framework to provide a suitable basis for determining future spending priorities, additional indicators should be incorporated that reflect the critical contribution a clear and sustained programme of direct capital investment has to make towards achieving the overarching purpose of sustainable long-term economic growth – and how effectively that programme is being delivered. This in turn will provide a mechanism for measuring the success or otherwise of policies designed to support a sustainable long-term recovery in the Scottish construction industry.