WRITTEN EVIDENCE FROM THE SCOTTISH BUILDING FEDERATION

The Scottish Building Federation is grateful for the opportunity to provide input to the Infrastructure and Capital Investment Committee's call for views on the Scottish Budget 2013-14.

About the Scottish Building Federation

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

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.

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.

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.

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.

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.

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.

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.

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.

Housing

The housebuilding sector in Scotland continues to suffer the negative effects of the economic downturn. Overall, the number of new homes completed each year has slumped from 25,741 in 2007 to 15,150 in 2011.

Even more dramatically, private sector housing has plummeted by 54% from 21,679 units to just 9,893 during that same period.

We welcome the major drive there has been to target greater public funding towards building new homes in Scotland. As a consequence of this drive, the number of public sector homes completed has risen from 3,062 in 2007 to a peak of 6,285 in 2009, subsequently dropping to 5,257 in 2011.

We note the commitment in the draft budget 2013-14 to provide an additional £40 million for affordable housing during the budget years 2012-13 and 2013-14, which we understand to be a reflection of the Barnett consequentials arising from the UK Government's "Get Britain Building" fund announced in its 2011 Autumn Statement.

However, this is a very modest additional commitment given the fact that rates of new housebuilding are now at a historic low while changing demographics mean the demand for new homes continues to climb. Furthermore, even with the additional funding commitment announced, we would draw attention to the fact that the Housing and Regeneration budget faces a cut of £711.8 million or 45% over the three year period 2012-13 to 2014-15, compared to the level of funding available during the period 2009-10 to 2011-12.

If the delivery of more housing is to become a central plank of the Scottish Government's economic recovery strategy, more will need to be done to mitigate what remain huge cuts to the Housing and Regeneration budget.

Capital investment

The draft Budget 2013-14 reiterates the Scottish Government's commitment to switch over £700 million from resource budgets to support capital spending over the Scottish spending review period 2011-12 to 2014-15.

SBF welcomes all efforts by the Scottish Government to prioritise capital spending but would point out that the latest spending plans to 2014-15 show a net reduction in capital spending of £5.7 billion in cash terms or 25% over the period 2009-10 to 2014-15. In this context, efforts to prioritise capital investment to stimulate economic recovery need to be redoubled – particularly in relation to affordable housing, as outlined above.

We remain very concerned about the slow rate of progress being made towards the point where the Scottish Government's £2.5 billion NPD pipeline begins to deliver projects on the ground. Following the launch of the Scottish Futures Trust in 2008, the NPD pipeline was initially launched almost two years ago in November 2010. As of June 2012, the Scottish Government records a total of five NPD projects with a cumulative capital value of £464.9 million that are either operational or under construction.

Construction on most pipeline projects is not due to start until late 2013 at the earliest. In this context, we are concerned that the commitment in the draft budget to bring forward £80 million of NPD funding for new schools will not have an effect until the 2014-15 budget. Given how badly construction firms are suffering as a result of the current poor economic conditions, this funding should be accelerated further so as to start benefiting the industry as quickly as possible.

Fuel poverty and energy assistance

SBF welcomes the additional £30 million funding commitment towards a Green Investment Package to support energy efficiency measures to tackle fuel poverty, contribute to meeting carbon emission reduction targets and provide opportunities for small and medium sized construction firms.

However, it is important to note that the additional funding commitment announced in the draft budget comprises a very small proportion of the total cost of improving the energy efficiency of Scotland's existing housing stock to meet the 2020 target of a 42% reduction in carbon emissions from 1990 levels. According to the Scottish Government's own figures, the estimated cost of meeting this target in the domestic built environment could be as much as £16 billion between now and 2020. Meanwhile, achieving similar reductions in carbon emissions from Scotland's non-domestic buildings will incur significant additional costs.

This is a policy area where SBF firmly believes that the public sector should be leading by example. In a recent submission to the Scottish Government's consultation on its Sustainable Housing Strategy, SBF brought forward proposals for the introduction of a pilot 'Building MOT' scheme for buildings in the public sector. The scheme would operate in a similar way to the annual MOT test for cars and would require buildings to be regularly assessed to ensure they meet minimum safety and energy efficiency standards.

Longer term, SBF envisages that the scheme could be rolled out to the domestic sector and could help bring about the market transformation sought by the Scottish Government, whereby more energy efficient homes attract a premium when put on the market. Currently, homes are only required to be surveyed when they are put up for sale and the energy efficiency rating of a property tends to have little impact on its value.

As advocated in our submission, SBF believes the 'Building MOT' initiative would enable those buildings surveyed to be targeted for the installation of suitable cost-effective measures to improve their energy efficiency. Such an approach would help to reduce carbon emissions from the built environment, reduce heating costs and support the building industry with new opportunities to retain employees and apprentices and to develop valuable green skills.

Scottish Water

We note the Scottish Government's continuing commitment to provide direct loans to Scottish Water and to retain the company in public ownership, imposing significant liabilities on the Scottish budget as a consequence. 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.

We deeply regret the Scottish Government's refusal to revisit its position on Scottish Water given the substantial cuts Scotland's capital budget continues to face over the next three years and beyond.

Public procurement

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.

SBF strongly welcomes the root and branch review of construction procurement previously mooted by Alex Neil and more recently confirmed by new Cabinet Secretary for Infrastructure, Investment and Cities Nicola Sturgeon. Nonetheless, we maintain that this review and the introduction of far-reaching measures to reform the process for procuring public sector construction contracts is long overdue. The difficulties associated with current public procurement practices are well known, particularly within the construction sector, and there is an urgent need to address them.

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.

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.

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.

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.

In early 2011, the Scottish Government consulted on the creation of a standard pre-qualification questionnaire for the procurement of public contracts with a view to implementing this in the course of 2011. However, there appears to have been little progress towards implementing a standard PQQ process since then.

In light of all these concerns, it is vital that the current construction procurement review be rapidly concluded so the measures needed to streamline existing processes can be implemented as quickly as possible.