Introduction

As the leading body representing the Scottish construction industry, the Scottish Building Federation (SBF) is grateful for the opportunity to submit evidence to the Scottish Parliament’s Scotland Bill Committee. In view of the important implications for the Scottish construction sector, SBF’s main interest with respect to the Bill is the proposal to give the Scottish Government substantial capital borrowing powers.

SBF views this proposal as representing a major opportunity to expand Scotland’s future ambitions for capital investment as an important means of stimulating economic growth in the wider economy.

Independent research demonstrates that investment in the construction sector is one of the most efficient mechanisms for stimulating economic growth with every £1 invested in construction output typically generating £2.84 in total economic activity\(^1\).

Given its specific area of interest, SBF has limited its submission to responding to those questions in the call for evidence that relate directly to the issue of capital borrowing powers.

1. In its report, the Session 3 Committee supported the general provisions of the Bill but recommended several amendments to strengthen it. What are your views on these proposals in general terms?

The Scottish Building Federation is particularly supportive of the report’s recommendations concerning enhanced borrowing powers for the Scottish Government. In particular, we support the proposal to raise the limit for prudential borrowing from £2.2 billion to around £5 billion.

We also strongly support the recommendation that these powers be brought forward so as to allow their early deployment.

We are particularly concerned about the additional short-term pressure on the Scottish Government’s budget for capital investment arising from the commitment to complete the new Forth Crossing by 2016. With an estimated cost in the region of £2 billion, the current proposal to fund the project entirely through traditional public capital investment places huge pressure on the Scottish Government’s capital budget at a time when that budget is already facing a significant reduction, with a cut of around 40% predicted over the period of the current UK spending review.

In this context, SBF believes early access to borrowing powers should be a prerequisite for proceeding with the new Forth Crossing according to the current proposed timeframe. Without a commitment to bring forward those powers as a matter of urgency, as advocated by the Session 3 Committee report, other

---

\(^1\) Construction in the UK Economy – Benefits of investment: Study commissioned by the UK Contractors Group, published in October 2009
categories of capital expenditure such as affordable housing, the construction of new schools and hospitals, and improving the energy efficiency of existing building stock are vulnerable to substantial further cuts. Such a scenario would take place at a time when, as SBF has consistently argued, the Scottish Government ought to be increasing investment in these areas as a key mechanism for accelerating Scotland’s economic recovery.

In the event that Scottish Government borrowing powers are not accelerated, SBF believes that the timetable for completion of the new Forth Crossing must be reviewed to ensure the project can proceed without compromising other core capital spending priorities.

2. What are your views on the amendments that were then made to the Bill during the Committee stage at the House of Commons subsequent to the report for the Session 3 Committee?

In light of the comments above, we are disappointed that no further changes were introduced to the Bill that would allow higher limits on capital borrowing or the earlier introduction of these powers.

3. What is your view on the Bill's borrowing proposals subsequent to the UK Government amendments?

We note the subsequent proposal from the UK Government to bring forward to 2011 pre-payments to allow work on the new Forth Crossing to begin and recognise it as a positive step towards facilitating the commencement of the project while easing pressure on other sections of the Scottish Government’s budget.

However, we do not believe the measure goes far enough to address the concerns previously raised about the crucial importance of protecting and increasing public capital investment as a key tool for accelerating Scotland’s economic recovery.

In view of the significant added value to the wider economy generated by such investment, we would advocate a strategy that not only protects spending in areas such as affordable housing, building new schools and hospitals, and improving the energy efficiency of existing building stock, but seeks to increase investment in these areas year-on-year over the current UK spending review period.

If utilised to help fund the new Forth Crossing, acceleration of borrowing powers would help the Scottish Government to pursue just such a strategy, notwithstanding the significant reductions to the Scottish budget envisaged over the UK spending review period.

Conclusion

The Scottish Building Federation would urge the Scotland Bill Committee to continue to pursue the Session 3 Committee’s recommendations on capital borrowing with a
view to securing the powers necessary to deliver the new Forth Crossing without compromising other key budgetary priorities for capital investment.

In view of current economic conditions and the budgetary restrictions imposed by the UK spending review, we are of the opinion that the new Forth Crossing should only proceed according to the current timetable if borrowing powers can be accelerated to allow a significant proportion of the project costs to be funded by this means.

In the event that these powers can be secured, we would urge the Scottish Government to ring-fence any public funds saved from the new Forth Crossing project for re-investment in other areas of capital investment. In particular, we would like to see a reverse in anticipated cuts to public investment in affordable housing, school and hospital building programmes and initiatives to improve the energy efficiency of Scotland’s existing building stock over the next five years. Furthermore, where the use of borrowing powers makes this possible, we would like to see investment in such areas increased over that same period, as an important means of stimulating Scotland’s economic growth.

Michael Levack
Chief Executive
Scottish Building Federation
9 September 2011