



Economy, Energy and Fair Work Committee

SCDI consultation response

Construction and Scotland's Economy

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

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Introduction

The **Scottish Council for Development and Industry (SCDI)** is an independent and inclusive economic development network which has been serving Scotland since 1931. Our diverse membership represents all sectors and all geographies of the Scottish economy. We work on behalf of FTSE 100 companies, world-class universities and colleges, local authorities, charities and social enterprises, public sector agencies, trade unions and small- and medium-sized enterprises from across Scotland. Our mission is to inform, influence and inspire our members, alongside government, policymakers and other stakeholders. Through research, analysis and events, we provide the thought leadership, policy support and platform for collaboration necessary to deliver greater social and economic prosperity.

This paper is SCDI's submission to a call for views from the Economy, Energy and Fair Work Committee of the Scottish Parliament in relation to its inquiry into the **Construction Sector and Scotland's Economy**. The views and evidence contained within it were informed by consultation with our members.

Economic Impact of the Construction Sector

- 1. How important is the construction sector in Scotland as an economic enabler? If possible, please provide evidence of knock-on multiplier impacts at local, regional and national levels, and explore the impact of the sector on national GDP performance.**

Construction is a significant sector of the Scottish economy. Official data shows that the Construction sector represented 6% of the total onshore Scottish economy in 2015. However, the sector is also of strategic importance as an enabler of economic activity across the rest of the economy. The Construction sector delivers and maintains the transport, housing/real estate, security, energy and digital infrastructure which is the necessary foundation of economic activity and growth for individuals, employers, investors and public services. The sector will also be crucial to the delivery of the Scottish Government's National Infrastructure Mission, which SCDI has welcomed.

The performance of the Construction sector is therefore critical in relation to Scotland's economic performance. However, it is also somewhat volatile due to various factors, including adverse temporary weather interruptions, shorter business cycles in the sector and relatively higher amplitudes than other sectors.

Moreover, there had previously been a recognition that the official data in relation to the sector was problematic and did not always provide as accurate a picture of its performance as desirable. The official methodology has recently been reviewed. The importance of gathering and reporting reliable and robust data about the Scottish

economy has greatly increased as the Scottish Government's budget has become increasingly closely tied to the performance of the Scottish economy relative to the UK.

The Gross Domestic Product (GDP) of Scotland grew by 0.2% in the third quarter of 2018. The largest single sectoral contribution to this positive rate of growth was from the Construction sector. Q3 growth of the Construction sector was strong and revised upwards from 2.7% to 2.9%. Public investment in infrastructure since the Great Recession of 2008/09 has played an important role in increasing activity and output in the Construction sector. Major Scottish Government projects such as the Forth Replacement Crossing, the M8 upgrade, the Aberdeen Western Peripheral Route and the Queen Elizabeth University Hospital in Glasgow contributed to a significant expansion of employment and growth.

However, as many of these projects have reached completion, employment in Scotland's Construction sector has fallen back. The number of people employed in the sector, despite strong output growth, fell by 5,000 in Q3 2018. Over the past decade, employment in the sector has decreased by around 46,000 people, more than any other sector of the Scottish economy. It is likely that diffusion of technology and innovation has also contributed to this reduction as firms modernise their processes and seek to reduce labour costs.

2. What are the causes of the sector's productivity challenges? Can you suggest possible solutions?

Scotland's Construction sector is home to numerous highly productive and innovative firms. However, like all sectors of the Scottish economy, some Construction firms face challenges. As the Fourth Industrial Revolution fuels the development of radical new technologies in automation, Artificial Intelligence, 3D printing and digitisation, it is critical that firms harness these opportunities and apply new technologies to their operations in order to achieve higher levels of productivity and competitiveness.

Improving productivity is a key priority for SCDI and our members. As announced in the [Economic Action Plan](#), SCDI will work in partnership with the Scottish Government and business to pilot the Productivity Clubs model, which will seek to facilitate knowledge exchange, enhanced management practices and technology diffusion to deliver results.

3. How effective is Scotland's construction supply chain? Explore areas of gaps, duplication, etc.

Specific questions related to Scotland's construction supply chain are most appropriately addressed directly to the sector itself.

4. What is the future economic outlook and implications of Brexit on the sector?

The most recent official GDP data (see Question 1) suggests that the immediate outlook for the Construction sector is relatively positive. However, Brexit-related uncertainty is likely to have an increasingly negative impact on levels of business and inward investment over the medium- and long-term in the UK. This will inevitably have a negative knock-on impact on the number of new and completed construction projects in Scotland.

Our members report that their businesses or clients have postponed, scaled-back or cancelled planned investment because they cannot confidently predict the regulatory landscape and macroeconomic climate of the post-Brexit Scottish economy. There is some evidence that activity in the sector across the UK has slowed as capital has left the UK for more stable markets in the European Union.

Access to talent and labour for employers is a growing concern for SCDI and our members. The UK's withdrawal from the EU – and, if implemented, the **UK Government's White Paper proposals on immigration** – are anticipated to heavily reduce the supply of labour and create shortages of specialist skills in the sector. Some companies in the sector are somewhat reliant on migrant labour. Employers are reporting difficulties in recruitment due to a tight domestic labour market with 3.6% unemployment in Scotland, a difficulty for the sector which Brexit is likely exacerbate.

Completing adequate and effective preparations for the UK's exit from the EU, given the wide range of divergent scenarios, has proven challenging for business. Supply chains and just-in-time processes could be disrupted, especially in a 'no-deal' scenario, which would be disastrous for the Scottish economy. The degree to which businesses and organisations are prepared for Brexit varies considerably. Most businesses and organisations have committed time and resources, albeit often limited, to Brexit scenario-planning. However, it is clear that a significant minority of businesses have not undertaken any planning to date citing insufficient capacity, insufficient information, uncertainty around the final terms of the UK's departure or unknown factors such as changes in input and labour costs. Small- and medium-sized enterprises are a particular concern.

5. The UK Industrial Strategy Challenge Fund and the linked Sector Deal for construction aim to address issues such as improving procurement practices, skills, exports and innovation. How do these impact on Scotland?

The **UK Industrial Strategy (UKIS)** provides significant opportunities for Scotland and its Construction sector. SCDI's Investment & UKIS Commission has been working since its launch in May 2018 to increase awareness of and engagement with

the UKIS in Scotland, successfully driving increased securing of funds from the Challenge Fund. In addition, the UK-wide Construction Sector Deal agreed and announced in July 2018 is worth £420m.

However, there is very limited awareness of and engagement with the UKIS from Scotland-based construction firms. SCDI's Commission recognises this and is acting in partnership with the UK Government and the Scottish Government to support firms to address the challenges of capability, capacity and resource for companies of all sizes and understand the complex, evolving landscape of opportunities, especially in relation to bid development and positioning.

Access to finance

- 6. What are the sources of and barriers to accessing finance in the sector? We would welcome perspectives from all sizes of businesses from micro through to Tier 1.**

This question is most appropriately addressed directly to construction businesses.

- 7. What are your views on payment terms and payment behaviours across the sector?**

This question is most appropriately addressed directly to construction businesses.

- 8. How effective is the financial management of large-scale infrastructure projects and the mechanisms used e.g. project bank accounts?**

This question is most appropriately addressed directly to construction businesses.

Skills

- 9. Does the sector's skills planning model allow it to realise its full potential, in terms of attracting talent, meeting skill shortages, preparing for technological change?**

Record-low levels of unemployment have resulted in a tight labour market and a restricted supply of labour in Scotland. As a result, capacity within the Construction sector is very limited. Skills shortages are a particular concern in sub-contract areas such as curtain walling and mechanical/electrical services. A longer-term, coordinated view to workforce planning is required from employers, the education sector and government.

10. How does Scotland's apprenticeship system contribute to the sector? Is it doing enough to meet equality challenges in the sector?

Skills and training providers, particularly those working with disadvantaged, deprived or long-term unemployed groups, believe that government and business should offer greater support to individuals to prevent their exclusion from the economy. However, the Construction sector has traditionally had a strong record of employing, for example, those with convictions. It is vital that this continues and is replicated by other sectors.

However, only 11% of the Construction sector workforce across the UK are women, while 99% of on-site workers are men. Creating inclusive and diverse workplaces in the sector therefore remains a very real challenge. In response, **Go Construct** is a UK-wide industry initiative that aims to attract, inform and retain a talented workforce for the sector, including diversity of gender, ethnicity and sexual orientation.

Procurement

11. How do public procurement practices and procedures impact on the sector?

Public procurement has previously been dependent on a small number of large private sector firms for delivery of most major construction projects. The risks inherent with this approach are increasingly clear, however, in the context of the collapse of Carillion and the difficulties faced by Interserve. Public procurement practices should broaden the base of providers and open up contracts to SMEs to support business scale-up, develop supply chains and spread risk for the public sector. However, analysis by the Bank of England's Agents for Scotland suggested only a limited economic impact from Carillion's collapse, for example, as their contracts and employees were largely picked up by other firms.

12. Do you have any suggestions on opportunities to enhance procurement practices across the sector?

The current emphasis in public procurement is often on the upfront cost of infrastructure, rather than the overall lifetime cost. There is a need to move away from this short-term approach to holistically consider long-term fiscal, strategic and environmental impacts to deliver optimum value for the public pound.

Infrastructure investment

13. Considering the national infrastructure construction pipeline, is the planned pipeline sufficient? And has the sector got to the ability to meet the country's infrastructure needs to drive growth?

Improvements in planning performance will be required to facilitate economic development at the scale necessary to deliver the planned construction pipeline and support increased inclusive economic growth. Delays in the processing of planning and warrant applications by local authorities are increasingly challenging for developers and contractors.

Innovation

14. What are your views on the Construction Scotland Innovation Centre?

Construction Scotland Innovation Centre (CSIC) plays a positive and important role facilitating and supporting collaboration between academics, innovators and businesses to develop innovation partnerships across Scotland. For example, CSIC has enabled the development of successful UKIS consortia with SME-leads and a collaboration with Scottish Natural Heritage on innovative circular economy projects in the Construction sector. The CSIC is a model of innovation for other sectors. Nonetheless, there is an opportunity to increase the CSIC's profile and visibility, and to enhance its external engagement, including with the wider real estate sector.

15. Where are the opportunities for growth within sub-sectors, e.g. offsite construction?

This question is most appropriately addressed directly to construction businesses.

16. How will technological changes (e.g. robotics, automation) impact on the sector? How can Scotland take advantage of this change?

As noted in SCDI's *Automatic... For the People? (2018)* report, the Fourth Industrial Revolution will disrupt business models, workplaces and labour markets in all sectors and all geographies of the Scottish economy. No employer or employee will be unaffected – some jobs will likely be displaced; many others will be changed or transformed; new, as yet unheard-of jobs will be created. There are significant opportunities and challenges, from the prize of higher levels of productivity to distributing the gains of technological change equitably. Scotland needs its firms to think and act with ambition. Scotland also needs the public, private and third sectors to coalesce around a national strategy to identify opportunities, manage potentially destabilising change and deliver increased prosperity through coordinated action.