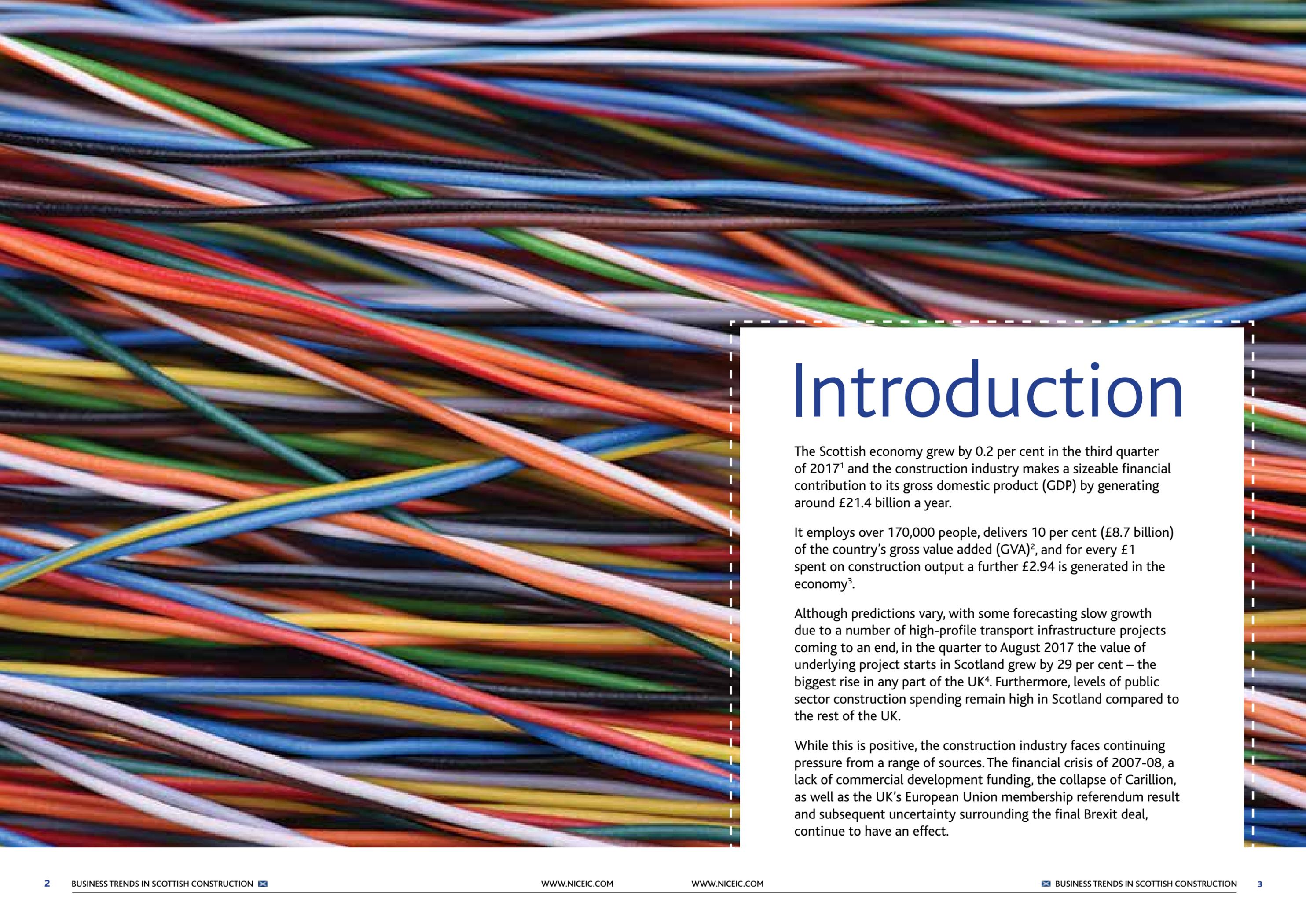




# BUSINESS TRENDS IN SCOTTISH CONSTRUCTION





# Introduction

The Scottish economy grew by 0.2 per cent in the third quarter of 2017<sup>1</sup> and the construction industry makes a sizeable financial contribution to its gross domestic product (GDP) by generating around £21.4 billion a year.

It employs over 170,000 people, delivers 10 per cent (£8.7 billion) of the country's gross value added (GVA)<sup>2</sup>, and for every £1 spent on construction output a further £2.94 is generated in the economy<sup>3</sup>.

Although predictions vary, with some forecasting slow growth due to a number of high-profile transport infrastructure projects coming to an end, in the quarter to August 2017 the value of underlying project starts in Scotland grew by 29 per cent – the biggest rise in any part of the UK<sup>4</sup>. Furthermore, levels of public sector construction spending remain high in Scotland compared to the rest of the UK.

While this is positive, the construction industry faces continuing pressure from a range of sources. The financial crisis of 2007-08, a lack of commercial development funding, the collapse of Carillion, as well as the UK's European Union membership referendum result and subsequent uncertainty surrounding the final Brexit deal, continue to have an effect.



## PRIVATE SECTOR, PUBLIC SECTOR AND AFFORDABLE HOMES

Scotland's housing crisis is set to get worse in the next decade, with a lack of supply pushing up both demand and prices. Some demographics are now completely excluded from the home ownership market, while the social rented or affordable housing sectors are often unable to meet demand. There are over 150,000 applicants for housing on local authority waiting lists.

Housebuilding continues to dominate the Scottish construction industry. In 2007, the government set out an ambitious target of building 35,000 new homes every year, with a commitment to building 50,000 affordable homes by 2021. In 2017 the Scottish government announced plans to increase its investment in housing by nearly £140 million<sup>5</sup>.

Newbuild activity is on the rise and there were 19,598 newbuild homes started across all sectors over the year ending June 2017, an increase of 13 per cent, or 2,188 homes, on the previous year<sup>6</sup>. However, there were 17,178 all-sector newbuild completions in the 12 months to end June 2017, a decrease of 186 homes on the 17,364 completions in the previous year. Private-led newbuilds increased by 59 homes and local authority newbuilds increased by 94 homes, while housing association newbuilds decreased by 339 homes<sup>7</sup>.

Figures also show that affordable housing supply is increasing, with more than 70,000 affordable homes delivered in Scotland since 2007 – a total of 48,813 homes for social

rent, including 8,819 council homes, as well as 4,936 for affordable rent and 17,112 for affordable home ownership<sup>8</sup>.

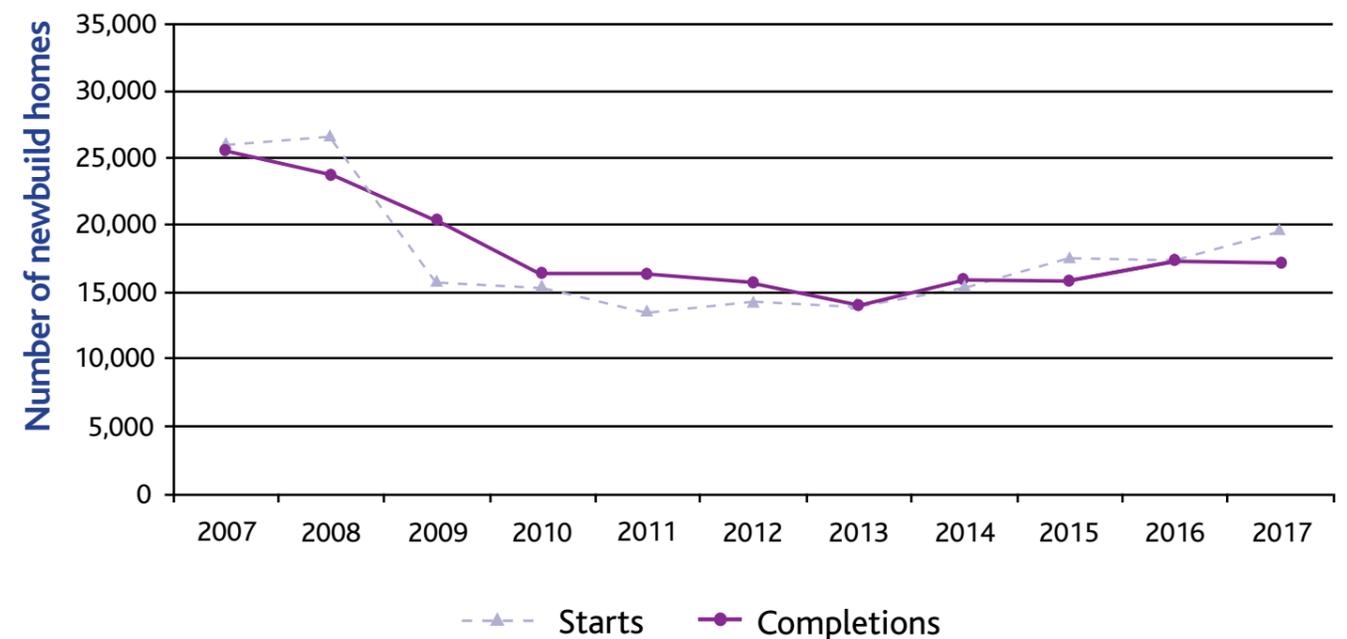
Housing and infrastructure delivery are key priorities for the Scottish government and

### £140m: THE ADDITIONAL INVESTMENT IN HOUSING ANNOUNCED BY THE SCOTTISH GOVERNMENT IN 2017

it believes that there is far too much debate around housing land and proposals. Greater clarity and certainty are desired and will be addressed at a national level within National Planning Framework (NPF) and Scottish Planning Policy (SPP).

In Scotland – particularly outside urban areas – housebuilding projects can often face challenges due to remote locations, large geographic spread and inclement weather. Off-site manufacture and prefabrication are becoming increasingly popular and, as well as leading to faster and more accurate construction, are helping to improve standards across the industry.

### Annual all-sector newbuild starts and completions, years to end June, 2007 to 2017



Source: National Statistics for Scotland



## OFFICE, RETAIL AND INDUSTRIAL

Scotland accounts for just over seven per cent (£46 billion) of the value of commercial property in the UK, just below its share of gross domestic product<sup>9</sup>.

Occupancy rates are high and prime rents are rising for office space. In Glasgow, for example, there is currently significant demand for high-quality premises, while supply in Edinburgh is at its lowest level since 2010, with much under-construction office space already acquired. This is pushing rents up and businesses are often unable to expand or move within Scotland's two biggest cities due to lack of availability.

There is relatively lower availability of high-quality office space in Scotland compared to other parts of the UK – something that highlights the importance of the commercial sector to the country. This suggests that there is scope for further development, which is promising for the construction industry and, therefore, the electrical contracting sector, from both newbuild and refurbishment activity.

Industrial premises represent 22 per cent of the total stock of commercial property in Scotland<sup>10</sup>. Meanwhile, the country's industrial property market is attracting increasing investor and developer interest, as the current supply is insufficient for a market of this size.

With monthly wage increases remaining behind inflation, a lack of disposable income for a significant percentage of the population continues to have a negative effect on retailers. There is still high demand for prime locations in major Scottish cities but the weak pound has fuelled an increase in tourism that has, in turn, had a positive effect on retail operations.

**THERE IS RELATIVELY LOWER AVAILABILITY OF HIGH-QUALITY OFFICE SPACE IN SCOTLAND COMPARED TO OTHER PARTS OF THE UK – SOMETHING THAT HIGHLIGHTS THE IMPORTANCE OF THE COMMERCIAL SECTOR**



## SCHOOLS AND HOSPITAL

Annual Scottish public sector construction expenditure is around £4 billion<sup>11</sup> and there is a higher prevalence of contracts in the medical, healthcare and education sectors compared to the wider UK market.

There has been significant public sector activity in the construction of new schools, through the government's £1.8 billion Schools for the Future programme. The programme, launched in 2009, is seeing the construction or refurbishment of 116 schools by March 2020, benefiting over 60,000 pupils and creating an estimated 11,000 construction jobs and 230 apprenticeships<sup>12</sup>.

Spend on the Scottish education infrastructure is set to get even higher following the 'crumbling schools scandal', which has led to

the closure of 17 schools in Edinburgh and numerous incidents at schools across the country<sup>13</sup>.

Within the healthcare sector, Frameworks Scotland 2 builds on the success of Frameworks Scotland, which saw 60 completed NHS facilities with a value of £462 million delivered. This national framework is an agreement with five principal supply chain partners (PSCPs) selected via an Official Journal of the European Union (OJEU) tender process for capital investment construction schemes across Scotland up to 2019. An NHS health or social care client may select a PSCP for a project they wish to undertake without having to go through OJEU procurement.

**THERE HAS BEEN SIGNIFICANT PUBLIC SECTOR ACTIVITY IN THE CONSTRUCTION OF NEW SCHOOLS, THROUGH THE GOVERNMENT'S £1.8 BILLION SCHOOLS FOR THE FUTURE PROGRAMME**





**T**here is £3 billion worth of retentions outstanding in the UK construction industry at any one time – something that impacts both the private and public sectors<sup>14</sup>. By retaining a percentage of the value of the works from payments, developers protect against late completion and defects arising during the rectification period. Similarly, main contractors then retain a percentage from each payment due to their subcontractors again, to be released when works have been completed and when the subcontractor has made good any defects.

It has transpired that thousands of subcontractors are still owed retention payments following the collapse of Carillion in January 2018. The problem goes much wider though and over a three-year period the industry has lost £700 million worth of retention monies because of upstream insolvencies. This works out at almost £20 million per month, £4.5 million per week and £900,000 per working day<sup>15</sup>.

The Construction (Retention Deposit Schemes) Bill has the support of MPs from across the political

spectrum, including the Scottish Nationalist Party. In Scotland, the government has been operating a project bank account regime for government contracts since 2017, where payments are held in trust by the government and main contractors.

**£3bn:**  
THE AMOUNT OF  
MONEY TIED UP IN  
RETENTIONS IN THE  
UK CONSTRUCTION  
SECTOR



**S**cotland must adapt to the inevitable consequences of climate change and the construction industry's role in reducing its impact is vital. Around 50 per cent of all carbon emissions are derived from the built environment and sustainable design and build is now often a prerequisite. Yet millions of pounds are lost through poor integration and not learning from past mistakes. It is estimated that 30 per cent of the construction process is rework, 60 per cent of the labour effort is wasted and 10 per cent of loss is due to squandered materials<sup>16</sup>.

Building information modelling (BIM) is the process of generating and managing information about a building during its entire lifecycle, through the digital representation of physical and functional characteristics. It provides a virtual environment where all aspects of the building design – architecture, structure and all building services – come together in a coordinated and visualised platform. It allows any aspect of a design's performance to be simulated and assessed before construction commences with systems, components, assemblies and sequences shown in relative scale to each other.

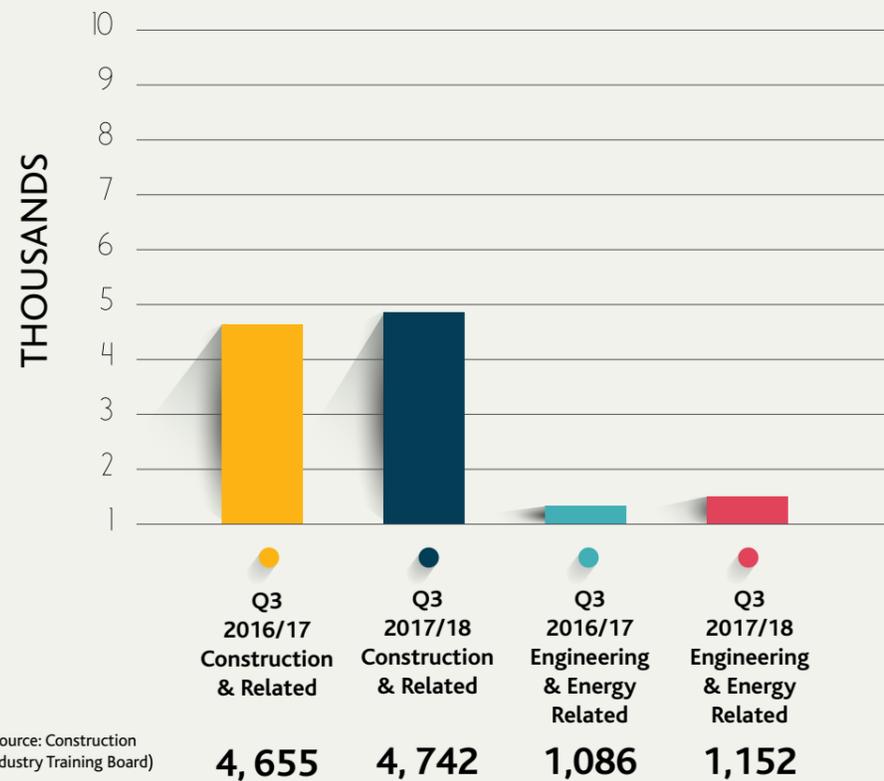
The Scottish government has published a Scottish Procurement Policy Note 1/17 (SPPN) on the implementation of BIM within construction projects, setting out how it should be adopted within

**30%:** THE  
AMOUNT OF THE  
CONSTRUCTION  
PROCESS THAT IS  
REWORK

public sector procurement. It contains wide encouragement for public sector clients to use BIM on projects and relevant bodies must also assess projects above £2 million for BIM using the BIM grading tool, which provides a project specific assessment of when BIM should be used and the level to which it should be applied.

In addition to using BIM, electrical contractors are at the forefront in helping to achieve greater environmental awareness and this, in turn, means there are business opportunities to be had. Those already familiar with renewable technologies such as solar photovoltaic (PV) and ground source heat pumps are likely to benefit commercially.

## NUMBER OF CONSTRUCTION STARTS IN MODERN APPRENTICESHIPS PROGRAMME



The Scottish construction industry is facing a skills shortage and the shortfall in the workforce is holding back projects. Almost two-thirds of surveyors said a lack of skilled workers is a key factor limiting building activity<sup>17</sup>.

Although the number of job opportunities is rising, the number of suitable candidates isn't and more than 36,000 new workers a year will be needed to cover current demand<sup>18</sup>. Companies are particularly struggling to recruit bricklayers and carpenters, while demand for electrical contractors is also outstripping supply.

As a result, wages are rising sharply for those with the requisite skills but, combined with an increase in the cost of materials, this is having a negative impact on

**A TYPICAL SCOTTISH HOMEOWNER WOULD SPEND £31,000 ON MAJOR HOME IMPROVEMENT PROJECTS OVER THE NEXT FIVE YEARS IF THEY KNEW THEY WOULD BE DEALING WITH AN HONEST BUILDER**

construction companies. Furthermore, around 45 per cent of the UK's 270,653 migrant construction workers are from European Union countries<sup>19</sup>, so Brexit could have a significant impact upon available labour and cause greater pressure in terms of skills shortages.

Construction apprenticeship starts are at a record high with numbers increasing from 19,973 in 2014 to 24,899 in 2016<sup>20</sup>. In Scotland, numbers are rising too; construction accounted for 25 per cent of starts in the government's Modern Apprenticeships programme up to the end of the third quarter of 2017, with 4,742 starts, compared to 4,655 for the same period the previous year. More must be done to promote the benefits of working in the construction sector though, as 66 per cent of teachers and careers advisors hold negative views of the construction industry as a route for their students to pursue and 73 per cent of parents wouldn't want their children to even consider a career in the industry<sup>21</sup>.

The reputation of the construction industry among the general public is also cause for concern. A typical Scottish homeowner would spend £31,000 on major home improvement projects over the next five years if they knew they would be dealing with an honest builder<sup>22</sup>. This has led to calls for the government to consider a mandatory licensing system for builders so that homeowners can be confident that all building firms will have the appropriate skills – something that could also provide a boost to the Scottish economy through increased building work.



With the Scottish government reiterating its commitment to developing the country's infrastructure, solving the housing crisis and reducing carbon emissions, the construction industry's role in boosting Scotland's economy and enhancing the standard of living of its citizens is vital. However, in order to maximise its potential, more needs to be done to enable

projects to run smoothly by removing the burden of retentions, while the industry must become more attractive as a career opportunity, increase its competitiveness, and be as productive and collaborative as possible.

**MORE NEEDS TO BE DONE TO ENABLE PROJECTS TO RUN SMOOTHLY BY REMOVING THE BURDEN OF RETENTIONS, WHILE THE INDUSTRY MUST BECOME MORE ATTRACTIVE AS A CAREER OPPORTUNITY, INCREASE ITS COMPETITIVENESS, AND BE AS PRODUCTIVE AND COLLABORATIVE AS POSSIBLE**



1. Scottish Government
2. Scottish Enterprise
3. Royal Institute of Chartered Surveyors (RICS)
4. Construction Scotland
5. Inside Housing
6. Scottish Government
7. Scottish Government
8. Scottish Government
9. Scottish Property Federation
10. Scottish Business Insider
11. Specialist Engineering Contractors' (SEC) Group Scotland
12. Scottish Government
13. The Times
14. Specialist Engineering Contractors' (SEC) Group
15. Labour Front Bench Business Team
16. UK Government Department for Business, Innovation & Skills
17. Royal Institute of Chartered Surveyors (RICS)
18. Construction Industry Training Board (CITB)
19. Construction Industry Training Board (CITB)
20. Construction Industry Training Board (CITB)
21. Kier Group
22. The Federation of Master Builders (FMB) Scotland

