

SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE

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Topic of submission:	Scotland's Construction Sector Inquiry

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ECONOMY, ENERGY, AND FAIR WORK COMMITTEE

SCOTLAND'S CONSTRUCTION SECTOR INQUIRY

SUBMISSION FROM HOMES FOR SCOTLAND

Homes for Scotland (HFS) is the voice of the home building industry in Scotland, with a membership of some 200 organisations together providing 95% of all new homes built for sale across the country including a significant proportion of affordable housing.

Whilst the home building industry shares many close links with the wider construction industry, it is important to note that home building sector forms a significant sub-set of the wider construction industry, with its own distinct business models, parameters and challenges. As such our response will focus solely on the impact of the home building industry in Scotland.

We therefore welcome the opportunity to provide evidence to the Economy, Energy, Jobs & Fair Work Committee on the inquiry into Construction and Scotland's Economy as Scotland's home building industry is a key driver of economic growth, and plays a vital role in Scotland's physical, economic and social wellbeing.

Economic impact of the 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.

The home building industry (a sub-set of the construction sector) in Scotland plays a central role in the physical, economic and social fabric of Scotland. Given the current shortfall of 80,000 new homes amassed over the last decade; to make Scotland a better place in which to live, work and invest it is crucial that we have an increased steady supply of new homes of all tenures in the right locations to meet the diverse needs of the Scottish population. According to independent analysis commissioned and published by HFS from Nathaniel Lichfield & Partners in 2015¹, a total of 15,562 new homes were built in Scotland in 2014 which generated the following benefits:

- £730m invested in land and buildings for homes
- £614m spent on suppliers
- £3.2bn direct, indirect and induced GVA
- Jobs for 63,260 people through direct, indirect and induced employment.

However, the scale of benefits and value that can be achieved is being constrained by under-delivery. Increasing new housing supply in Scotland to pre-recession levels of 25,000 homes per annum would support the delivery of a higher level of affordable housing and stimulate improved economic performance as well as the following benefits:

- £1.17bn in net capital expenditure
- A total £5.1bn in economic output
- Jobs for 101,630 people through direct, indirect and induced employment
- An increase of £93.7 million tax revenue through LBTT, Corporation Tax, NI and PAYE Contributions and Council Tax to local government
- £50.7 million of additional developer contributions to local infrastructure including school places, community facilities, public open space and affordable housing developments.

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

Reduction in SME Home Builders:

The number of small private home building companies has diminished in numbers. The number of active home building companies that build less than 50 homes a year for sale has decreased from 782 in 2007/8 to 465 in 2017/18, representing a drop of nearly 40%. The number of homes for sale being delivered pre-recession by these companies was 4,846 per annum. The SME builders that have remained active are currently building over 2,700 units for sale each year. If we were able to return to the number of active builders prior to the financial crash, there would be the

¹ Nathaniel Lichfield & Partners for Homes for Scotland (2015) "The Economic and Social Benefits of Home Building in Scotland" – see <http://bit.ly/2iKfx4K>

potential to deliver an additional 1,800 units each year. Not only would this have a significant impact on housing delivery in Scotland, it would generate a large boost to economic output, especially in the more rural areas where small scale home builders tend to operate.

Consents Process

The process of obtaining all the consents which are necessary to deliver housing sites is lengthy, complex and often unpredictable. Once a site has been identified as suitable for development, by allocation in a Local Development Plan, there is still a long process to go through. Developers must obtain planning consent, agreeing levels of planning gain thereafter. They must then proceed to secure road construction consents and building warrants as well as other approvals with infrastructure providers such as Scottish Water.

The latest official planning performance statistics reported that it was taking an average of 37 weeks to decide major housing applications in the first half of 2018/19, significantly higher than the 16 weeks required by legislation. It is important to note that this timescale excludes the negotiation of Section 75 Agreements and the other consents required before building can actually take place, meaning the overall time to get through the consenting process is significantly longer.

Support for Home Building

One of the key challenges to increasing the productivity in the industry is the low receptiveness to home building at local authority level. Whilst the need for new homes is recognised by the Scottish Government, the culture, perception and practice are all issues at the local level that have a significant bearing over the ability to deliver the new homes that people across Scotland need and aspire to. The Scottish Government has the ability to reinforce the message to local authorities that they must meet their housing supply targets. Scotland, compared to the rest of the UK continues to face a constant challenge gaining cross sector acceptance and recognition that the undersupply of new homes is a consequence of public policy, rather than home builder behaviour.

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

No comments.

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

Skills:

In the wake of the downturn of 2008, it is estimated that half the industry's workforce was lost to other sectors, emigration or permanent retiral, this is further compounded due to an ageing Scottish population resulting in an ageing workforce within the industry. The home building industry is particularly labour intensive and although many Scottish businesses are investing in new technologies and off-site production to reduce costs and increase productivity, the reduced supply of a skilled workforce is still one of the binding constrictions on increasing housing output in Scotland.

With the ongoing political uncertainty regarding whether the UK leaves the EU through a 'hard' or 'soft' Brexit, any potential reduction in the availability of a skilled workforce as a result of direct migration out of the UK or indirectly to the South East of England to fill skills gaps will clearly have a detrimental impact on increasing housing output in Scotland.

Timber Frame Imports:

The Construction Products Association estimates that approximately 20% of all construction products (by value) used in the UK are imported, while EU imports comprise 60% of all building material imports to the UK. Within the Scottish housebuilding sector there is a particular dependence on timber imported from the EU; there is a much greater share of timber frame new build in Scotland (around 80% compared with around 10% in England), and around 60% of all sawn wood used in the UK is sourced from the EU. The natural properties of this material means that it cannot be stockpiled, so any supply challenges will be felt almost immediately.

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?

No comments.

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.

Generally, there is a broad lack of understanding about the how the home building industry operates its specific business models and how financial viability impacts on profits and appetite for risk. This is further compounded by the frequently associated myths unfounded in evidence such as “land banking”.

In order for home building companies to function as viable businesses they require an assured supply of land to build homes and must therefore hold enough land to sustain their businesses. In this light, land is a home builders most important raw material. In financial terms home builders are motivated to build rather than ‘bank’ land. Larger home builder companies are evaluated by their investors on the basis of their return on capital employed (ROCE), so once a site has been paid for and all relevant consents granted there is a very strong commercial driver to earn a return as soon as possible by building and selling homes. Further many home builders will be judged by investors on the land that is already available to them, if a home builder seeking investment has a limited amount of land under its control, they would be unlikely to attract the investment required to finance the business.

Impact of constrained lending on SME Builders:

The continued constraints on bank lending to small scale home builders continues to be a major problem. This issue has seriously impacted on the industry’s overall ability to increase housing output and support a growing population. The role of planning for small developments, with a complex application process and with the conditions often attached, can also have an impact on development viability. The costs associated with unlocking smaller sites, especially in relation to fees, pre-consent reports and contributions; all required up-front, restricts a small home builders ability to attract finance on fair and equitable terms.

Lenders risk appetite correlates directly to the risk and uncertainty of the development process. Most small builders are reliant on project finance agreed on a site-by-site basis. This approach to finance is inefficient, bringing with it additional disproportionate arrangement fees and legal costs which are reflected in interest rates and ultimately affect the viability of the project. Where builders are seeking to develop in rural areas, where the market is less confident, the risk and consequent interest rate goes up further to reflect the return on capital employed by the lender in funding the development. Additional factors such as the availability of road bonds seem to be stacked in the favour of building at scale, with few lenders or insurers operating in the market to support smaller companies with this facility.

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

No comments.

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

No comments.

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?

As mentioned earlier in the response, one of the key challenges facing the home building industry is addressing the skills shortage as a result of the 2008 financial crash and ageing workforce. Crucial to this, is the ability of the industry to draw in younger skilled people entering work and attracting those re-training from other industries. We must make a concerted and combined effort to highlight the wide range of career pathways available to everyone, explaining the array of roles available from practical, technical and managerial positions, while further stressing the longevity and flexible career paths to progress professionally within the industry.

It is vital the Scottish Government continues to collaborate with the wider construction skills sector to maximise the reach and benefits an increased, skilled workforce can bring to the capacity of the housing sector to deliver more homes.

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

The home building industry in Scotland is committed to the training and development of employees, in particular young people. Research undertaken by Nathaniel Lichfield & Partners identified that in 2014 the home building

industry in Scotland supported around 380 apprenticeships, 200 graduate roles, and the employment of over 1,000 16 to 24 year olds. As home builder firms are estimated to employ approximately 7,500 workers in the home building industry (with the remainder employed by sub-contractors / self-employed), this indicates that 5% of their employees are in apprentice positions.

House building, as a subset of the wider construction industry has a diverse workforce at present, although more could be done to promote the industry to all and to increase the diversity of certain aspects of it, such as construction site staff, where women are under-represented. There are several clear routes in from modern and graduate apprenticeships to professional graduate opportunities. The industry has resources at its disposal to promote careers, such as the CITB 'GoConstruct' website, and many individual companies have programmes in place to promote and recruit new people. However more could be done to highlight examples of employees from minority groups on the basis that 'you can't be what you can't see', and it may not be obvious that this industry is welcoming, well paid and rewarding.

To address the current and predicted shortfall of skilled workers within the industry; one of the most effective solutions to this will be to increase of the number of apprenticeships within the sector. However, the industry needs a clear future pipeline of development, free from regulatory delays, that enables all those in the supply chain to have confidence to invest. This guaranteed long term demand and supply balance will allow more firms to invest in apprentices and re-training for staff.

Procurement

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

No comments.

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

No comments.

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?

We welcome the advent of the Infrastructure Commission for Scotland and the appointment of our Homes for Scotland Chair, Ken Gillespie, as one of the ten Commissioners.

Infrastructure funding and delivery is one of the biggest barriers to the delivery of new homes and can also make it harder for existing communities to welcome new development. When new homes are created, they must be serviced by new roads, schools, health care facilities, all of which require capital funding. Currently the planning system provides the most convenient structure for linking the development of homes to the delivery of the infrastructure needed to serve the growing population. Problems arise however when the cost of the infrastructure needed to support development is very high, for example, expensive one-off items such as secondary schools, road networks or railway stations. This granular level of infrastructure requirement is not joined up with the national infrastructure construction pipeline, and therefore not properly costed, resourced or planned in a systemic, strategic way.

Scotland's Infrastructure Investment Plan and the September 2018 Project and Programme Pipeline Updates gives only a limited picture of the infrastructure needed to support the delivery of enough new homes across all sectors. There are no national mechanisms in place to manage the planning, programming, funding or delivery of the infrastructure need to support the new homes required in Scotland. Homes themselves are not formally acknowledged as 'infrastructure', despite being an absolute and under-provided requirement for each of Scotland's households.

Scotland's Infrastructure Investment Plan identifies two programmes directly relevant to housing delivery: One is the Scottish Government target to deliver 50,000 new affordable homes. The other is "Raising housing delivery across the sectors". There is no target for the latter. The 2018 Programme Pipeline Update shows the 50,000 affordable homes being deliverable by the end of March 2021. For the 'raising housing delivery across the sectors' programme it doesn't pin down how many new homes will be delivered (or are hoped for) by the end of March 2021. Between them the Major Capital Projects Update and Project Pipeline Update only make one reference to unlocking housing: the Aberdeen to Inverness Improvement Project is identified as a housing catalyst, but with no detail on whether the former is stimulating the latter.

To enable their development plans to be adopted, councils are being forced to take big risks and promises. The City of Edinburgh Council is a case in point as [correspondence](#) from the Minister the council in November 2016 highlights. After the examination of their LDP the council committed to carry the risk of the required infrastructure provision and to ensure this did not delay development.

Innovation

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

The appetite for wholesale transformation and innovation is influenced by many factors. This includes the risks that change poses to businesses or customers, the availability of skills or readiness to adapt traditional skills/roles/professions to deliver modernisation, the perceptions of wider stakeholders involved in the delivery of new homes (e.g. network operators, lenders, legal professions, warranty providers), or the lack of certainty and consistency in the regulatory environment (i.e. timescales and challenges to achieve consents, inconsistency in application, or the lack of a clear route map for the future). For many, the environment simply doesn't provide enough consistency or confidence for businesses to mainstream wholesale innovation.

That said, were the conditions right, there is an opportunity for the sector as a whole to embed a culture of innovation and take advantage of innovative practices, technologies and more modern methods of construction. In that context, Homes for Scotland welcomed the establishment of the Construction Scotland Innovation Centre. As a resource that links industry with academia, funding and technologies, it is a fantastic asset to have in Scotland. Whilst HFS is aware of some member companies fully engaging with this resource and of positive workstreams stemming from the centre we are, unfortunately, unsure that it has lived up to the expectations of industry to date. We would like to see the centre provide greater focus on many of the macro issues that face the sector and use its position to more widely support the sector. Furthermore, it would be helpful if the centre also linked up with Scotland's colleges which play a crucial role in the development of not just traditional but the new skills that stem from mainstreaming new technologies.

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

The home building sector already utilises offsite construction to varying degrees. Use of panelised systems, alongside many pre-manufactured components is becoming more commonplace in mainstream house building in Scotland. However, in an environment where there is little certainty it remains challenging for house builders and RSLs to provide commitment, in terms of volume delivery, and subsequently for supply chains to operate at a capacity that reduces production overheads and ultimately system costs.

The Scottish Government has an opportunity to support growth of a "home grown" offsite industry in Scotland, that can export products as well as knowledge and expertise internationally, by providing the confidence the sector requires in terms of the volumes committed to through the Affordable Housing Supply Programme. There has been a significant exploration of offsite construction in England in recent years which has been built upon a commitment to increase the delivery of homes across all tenures including support for the volume of homes coming through Build to Rent. This support for housing growth appears to have brought confidence and diversity to supply chains in England which poses a risk to the opportunity for growth in the sector in Scotland. If Scotland is to capitalise on these opportunities the Government must act now. For a start, clear all tenure housing targets that go beyond political cycles would send out a clear message.

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

It is difficult to assess how technological change will impact the sector. In many instances we can only presume the hypothetical impact of change from a range of pre-defined factors, however technological change will bring both opportunity and challenges of its own.

Use of Building Information Modelling (BIM) is growing across the UK, and in particular across many home builders in England due to the scale of development and growing awareness of the benefits of using such technologies throughout the lifecycle of a project. Uptake from the sector has historically been slow due to significant capital costs for licences and IT systems, but also the training that is required to maximise the benefits of such systems. There have been prominent programmes to promote use and knowledge of BIM in Scotland undertaken by SFT and CSIC.

As previously noted the sector is already using and exploring the opportunities related to offsite construction and manufacturing. Supporting the sector and its supply chains mainstream use of existing and new technologies (from close-panel to cross-laminated timber volumetric systems) would help create opportunity for growth and diversity in the supply chain.

Robotics and automation could have a positive impact on the sector in terms of improving productivity as well as improving health & safety. However, until such a time where the application of such technology is proven and cost-effective it will not be mainstreamed by industry.

Technological change could potentially change fundamental aspects of the construction industry, in particular around the way the industry is skilled. Greater use of premanufactured components and / or greater levels of automation of robotics will likely require new technological skill sets, and make traditional roles redundant on new sites over time. It is likely this will create conflict within the sector as this would be seen to be down-skilling (as a lower level of skill is required to assemble a premanufactured component) by some stakeholders and to others progression. Carefully balancing these aspects is necessary to both conserve the traditional skills base the sector has as well as take advantage of future technological innovation.