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THE VALUE OF CONSTRUCTION: SCOTLAND

CONTENTS

INTRODUCTION	2
SCOTLAND IN FOCUS	4
KEY PROJECTS	5
RECOMMENDATIONS	9
FIND OUT MORE	11

Introduction

**The quality of our built environment affects every member of society.
It influences productivity and wellbeing at home and at work.**

The official figures suggest that in 2018 the construction industry accounted for approximately 6.1% of total gross value added (GVA) to the UK economy. At about £116 billion annually (at current prices), that is significant. But this figure grossly underestimates the true reach of the industry. Official figures only include 'on-site' construction activity, ignoring a significant chunk of industry work that is carried out 'off-site' such as design and consulting, planning, surveying, self-build, plant and equipment hire and the manufacturing of construction products.

The value added by most architects, engineering consultants, quantity surveyors and other professionals working directly within what we might think of as the construction sector is counted within services. And those making the materials and components comes under manufacturing.

This matters greatly because the scale and importance of the sector is often underestimated. A wider-view of the sector which incorporates these roles, and more, is estimated to contribute around 10-15% towards GVA.

Construction is in a unique position compared to other industries in that it continues to employ large numbers of skilled and semi-skilled workers, while employment in other non-service industries dwindles. For those who struggle with academic life or prefer a more 'hands on' job, construction truly provides a route to a solid career. Professional bodies, such as the CIOB, enable those in trade roles to progress through to professional status as Chartered Construction Managers.

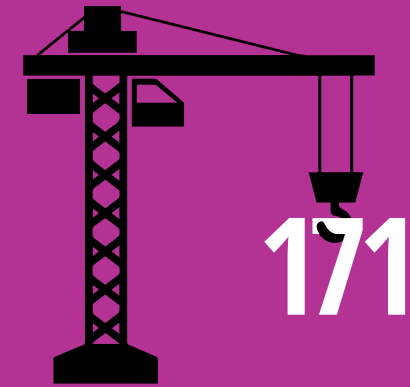
Innovative technologies are also transforming the construction sector, revolutionising daily tasks on-site and in the office. Companies increasingly need to recruit a new breed of worker, strong in digital and data management skills and able to collaborate across several technical disciplines. This rapidly modernising image presents a powerful opportunity to attract a more diverse workforce, bringing in expertise from other industries.

The challenge is ensuring that we have a construction industry that's fit for the future. The Construction Industry Training Board's (CITB) Construction Skills Network 2019-2023 report refers to this indicating that construction output is expected to grow by 1.3% over the next five years, with 168,500 jobs to be created.

To show just how important the sector is, we have provided a snapshot of its performance in Scotland, as well as detail of some key projects taking place in the region.

UK CONSTRUCTION FIGURES

**6.1% of total GVA
to the economy**

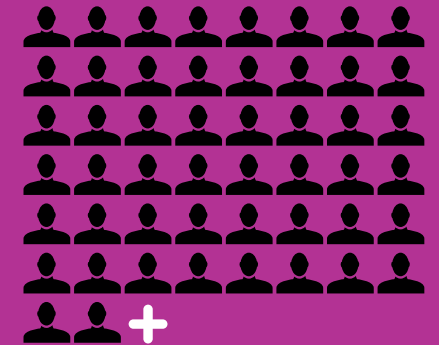


£171 billion of output



**2.3 million jobs
(6.5% of total employment)**

**Over 332,000 businesses
with 2,360 employing 50 or more**



£7 billion in PAYE

£6.2 billion in VAT

**£4.4 billion in
corporation tax**



Scotland in Focus

Scotland's construction sector emerged faster from recession than most of the UK. However, its path since 2015, along with its wider economy, has been less vibrant. There are signs of the sector flagging, with output falling.

This partly reflects the delayed effects changes in oil prices have on the nation's economy and the impact sharp oil price rise had in 2009 and 2010, followed by the subsequent plunge in 2014. In terms of construction output per head, Scotland ranks the highest after London of all the UK regions and developed nations. The Office for National Statistics (ONS) estimates suggest that over the past three years Scotland accounted for about 9% of GB construction output while it accounts for about 8.5% of the population.

Although the regionalised construction output figures paint a picture of a declining market, Scottish Government data on GVA by the sector suggest that work undertaken by construction firms in the nation is still expanding. This divergence may well be related to a changing mix in the workload.

In keeping with many parts of Britain, the expansion seems weighted towards new housing and infrastructure. These two sectors accounted for about 41% of Scotland's construction output, up from 36% in 2013.

The contribution of infrastructure to the construction sector over the past three years has been much higher in Scotland, at 20%, than the GB average of 12%. Over the next few years, infrastructure work looks set for a significant drop. Meanwhile, new housing, particularly in the public sector, is expected to grow along with housing repair, maintenance and improvement.

With growth in construction faster than the wider economy in Scotland, its share of national GVA has risen from 5.6% in 2013 to 6.1% in 2018, while the share of employment rose from 6.8% to 7.1% between 2013 and 2018.

Over the period 2019 to 2023, construction is expected to grow at a slower rate, around 0.5% a year. According to the CITB's Construction Skills Network 2019-2023 report, employment should expand slightly over the five years, recruiting to make up for this small expansion and those leaving the industry. The region is forecast to have an annual recruitment rate of 2,790 new workers each year, which amounts to approximately 12 new recruits for every 1,000 currently in the workforce. Migrant workers, as defined by nationality and not place of birth, accounted for about 3.9% of Scotland's construction workforce.

Looking at current rates of pay, the average male construction employee in Scotland at £30,400 earns about 2% less a year than the average across all industries. This is a turnaround on 10 years ago when median male full-time earnings in construction were 2% higher than across the board.

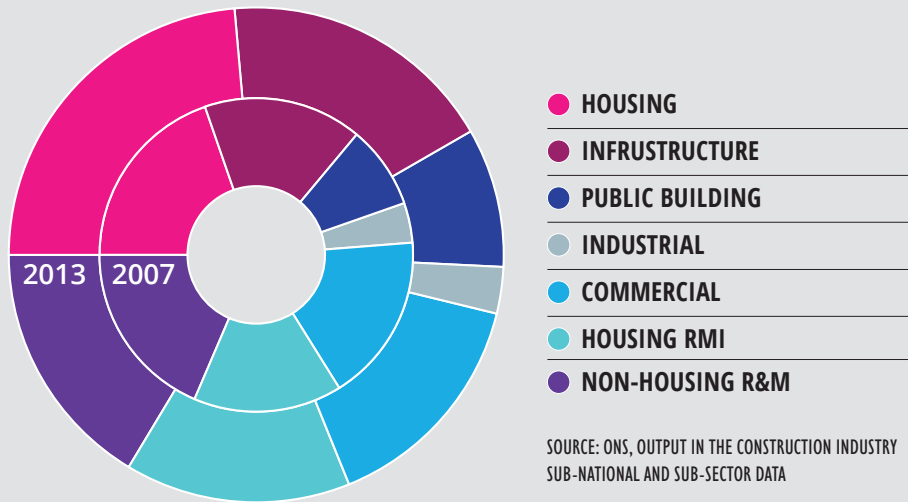
KEY PROJECTS

Selected projects pulled from the database of Barbour ABI highlight how construction is enhancing Scotland's economy. Scotland's potential for renewable energy is huge. Among the bigger projects planned or in progress are numerous wind farms, including those planned for the Moray Firth, which amount to almost £3 billion in investment. In Aberdeen, the £350 million harbour expansion is well under way and, onshore, the £333 million Aberdeen Event Complex is approaching completion. Work is starting on the £164 million Baird Family Hospital and ANCHOR Centre Project at the Foresterhill Health Campus with two buildings to be opened in 2021. Aberdeen City Council has also committed to a programme of building 2,000 new council homes across the city over the next five years. In Glasgow, more than 400 homes are due to be built on Strathclyde University's former Jordanhill Campus, in a project worth around £150 million and the £82 million Riverside Dalmarnock housing association scheme is well in progress.



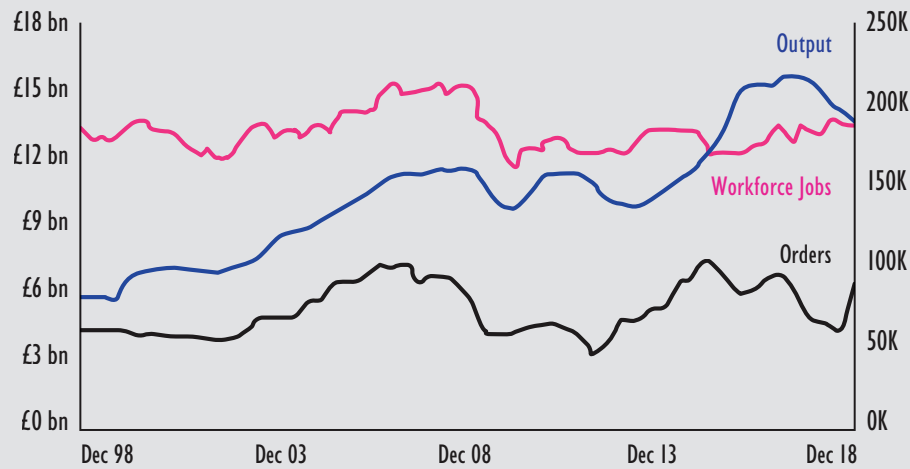
Key Projects (further details)

Construction output by sector



Regional construction orders, output & jobs

(orders & output, current prices, four quarter moving total)



ONS: CONSTRUCTION OUTPUT, NEW ORDERS FOR CONSTRUCTION, WORKFORCE JOS (VIA NOMIS)

Construction businesses

↓	2018
All	20,205
Micro (0 to 9)	18,325
Small (10 to 49)	1,600
Medium-sized (50 to 249)	240
Large (250+)	40

ONS: UK BUSINESS COUNTS (VIA NOMIS)

Stock of buildings

↓	2017
All non-residential	253,714
- Shops	53,723
- Offices	44,972
- Industrial and warehousing	54,316
- Other	100,703
Homes	2,623,145

VALUATION OFFICE AGENCY

Employment by sector

↓	2018	Share	2013	Share	Change
Agri., mining, energy & water	155,925	(6.0%)	131,375	(5.3%)	24,550
Manufacturing	204,500	(7.8%)	203,450	(8.2%)	1,050
Construction	185,900	(7.1%)	168,500	(6.8%)	17,400
Wholesale, retail, accomm. & food	493,525	(18.9%)	483,100	(19.6%)	10,425
Transport & communications	198,350	(7.6%)	191,950	(7.8%)	6,400
Finance & real estate	127,050	(4.9%)	120,050	(4.9%)	7,000
Professional & technical	162,000	(6.2%)	143,150	(5.8%)	18,850
Admin and support	120,450	(4.6%)	120,775	(4.9%)	-325
Public admin, education & health	806,650	(30.9%)	807,667	(32.7%)	-1,017
Other services	153,475	(5.9%)	139,000	(5.6%)	14,475

ANNUAL POPULATION SURVEY (LFS) (VIA NOMIS)

Key Projects (further details)

CITB's CSN forecast 2019 to 2023

↓	
Change in employment to 2023	700
Recruits needed annually	2,790
Employment growth 2019 to 2023	0.3%

CITB CONSTRUCTION SKILLS NETWORK, EXPERIAN

Annual earnings

↓	2018		2008		Change 2008 - 2018	
	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN
(Full-time male)						
Construction	35,093	30,440	31,896	26,856	10.0%	13.3%
All industries	37,710	31,106	31,527	26,276	19.6%	18.4%
Difference	-6.9%	-2.1%	1.2%	2.2%		

ONS: ASHE, ANNUAL PAY - GROSS (£) - FOR MALE FULL-TIME EMPLOYEE JOBS

Recommendations

Scotland specific

Moderating volatility in the Scottish construction industry: Scotland's economy, with a strong performance from oil and gas, and agriculture and forestry, is based more on resources than the rest of the UK. Resource-based economies are more prone to volatility caused by fluctuations in exchange rates and commodity prices. Indeed, economists refer to a resource curse. Volatility in the wider economy is amplified in construction with damaging effects. The impact of oil prices on construction is evident in Scotland, most clearly in house building around Aberdeen.

Research suggests strong economic and institutional regimes are helpful in mitigating detrimental impacts. One possible approach to reduce the impact of volatility might be to create a flexible investment fund for an agreed prioritised schedule of longer-term projects. The inflows and outflows to the fund could be arranged to smooth demand for construction. In effect, the fund would be topped up when activity and prices in the resources sectors are high and funds drawn when they are low. This would not only benefit the wider economy (retaining jobs in construction during downturns) but support effectiveness, confidence and innovation within the construction sector.

The aim would be to stimulate innovation, create greater opportunities for networking and sharing of ideas, and open up greater scope for collaboration. This would make regional firms more effective in their local market and more attractive in the wider-UK and overseas economies.

Broader industry

Construction innovation and excellence hubs: In key regions, like Scotland, the Government should seek to promote 'clusters' of construction-related businesses, each to act as a hub for excellence. Local Enterprise Partnerships (LEPs) could be a fundamental vehicle to achieve this.

These hubs would be strategically located near universities and educational institutions with a strong tradition in construction and engineering. They would operate in a similar way to existing science parks, helping to cluster a range of construction-related businesses, including architects, engineers, contractors, surveyors and other specialists. Close physical proximity through this would mean that training and support could be delivered more efficiently and effectively.

The aim would be to stimulate innovation, create greater opportunities for networking and sharing of ideas, and open up greater scope for collaboration. This would make regional firms more effective in their local market and more attractive in the wider-UK and overseas economies.

Recommendations

Broader industry (cont...)

Tie public investment to training and job creation: Investment made in the built environment should be geared to the long-term aim of developing skilled young people who will be retained by the industry. This means not just training, but high-level apprenticeship schemes and mentoring that is developed and/or accredited by professional bodies and top employers.

Better measures of construction to support better measures of construction

productivity: Construction, as defined statistically, covers just part of the process of delivering the built environment. This can lead to misunderstanding and consequently poor policy. Furthermore, if you cannot robustly measure progress, it is difficult to measure the impact of policy.

A more complete and consistent set of data measuring the entire delivery and maintenance of the built environment would provide significantly better understanding of how construction in its entirety delivers value. It would better capture the impact of the industry as a whole and enable more informed and holistic policy making.

We recommend that satellite accounts, similar to those that have been produced for tourism, are compiled by the ONS for the delivery and maintenance of the built environment. These would capture inputs from the construction-related professions, materials suppliers, plant and machinery suppliers, as well as other related sectors. This will not be an easy task and support would be needed from Government, the industry, its information providers, academia and the ONS itself.

Find out more

The Chartered Institute of Building – At the heart of a management career in construction

The CIOB is the world's largest and most influential professional body for construction management. We have over 45,000 members worldwide – two thirds of whom are based in the UK – drawn from a wide range of professional disciplines within the built environment, including clients, consultants, contractors and educationalists.

Our members have led, or taken senior positions, on some of the UK's most high-profile projects including The Shard, The Glasgow Commonwealth Games, The Olympic Park, Crossrail, Heathrow Terminal 2, as well as thousands of smaller commercial and residential schemes in both the public and private sectors.

Come talk to us about:

- ▶ How to maximise value from construction projects
- ▶ Improving quality in the built environment
- ▶ Our campaign to tackle modern slavery and improve ethical behaviour
- ▶ The changing nature of construction and ensuring we have the skills for the future



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