

Where now for construction in Scotland

As the construction sector looks set to gradually emerge from the shutdown (although will be subject to new ways of working to ensure the health and safety of employees), this short paper considers some of the issues which may impact on the future of the construction sector in Scotland.

A sector snapshot

Construction has been a key component of the Scottish economy for many years. According to Skills Development Scotland (SDS)¹ the sector employed over 170,000 people in 2018 - 10% of all Scottish employment - in 45,000 businesses.

In 2018 the construction sector generated around £9 billion in Gross Value Added (GVA) for the Scottish economy.

However, while all parts of Scotland have construction employment, some areas are more reliant than others on jobs in the sector – Lanarkshire (17%) and Glasgow (13%)² comprise the largest proportionate share of employment.

The structure of the sector is also distinctive and includes high numbers of self-employed (60,000) and micro businesses (91%). It also has a diverse range of occupations and skills – managerial, professional, supervisory, skilled trades and unskilled trades, and in 2019 it supported 21% of all apprentices in Scotland³.

The sector also supports a range of “non-construction jobs” in areas such as marketing, finance, legal, and IT and while the majority of the workforce work directly in the construction sector, many work in non-construction sectors such as retail, energy and health care.

Finally and crucially, the sector is a key input which supports wider national agendas including climate change, housing, infrastructure and transport – without the construction sector many of our national priorities could not be delivered.

¹ <https://www.myworldofwork.co.uk/my-career-options/construction>

² Source: ONS/BRES

³ Source: Skills Development Scotland

Covid-19

Like most of the economy, construction has been severely impacted by the current pandemic, although it was not always clear how the industry was supposed to act. In particular, some activity continued for a short time – essential construction work was allowed to continue (subject of course to a range of health and safety measures) although as usual there are challenges around definitions and how these are interpreted.

Since the lockdown began, the industry (in its widest sense) has been working with government, trade unions, employers and trade bodies to develop an approach to return to work. In particular, the sector (through the Industry Leadership Group) has developed an approach⁴ to support a “phased return” to business.

Alongside this there has been a range of UK and Scottish Government initiatives to support employers and employees over the short-medium term (e.g. bounce back loans and the Coronavirus Job Retention Scheme).

ONS data has shown that over 80% of construction businesses have either temporarily closed or paused trading, and over 96% of businesses have temporarily furloughed their staff (equating to 32% of the workforce)⁵.

Almost 50% of construction companies were either “not confident” or “not sure” if they would be able to continue to operate throughout COVID-19⁶.

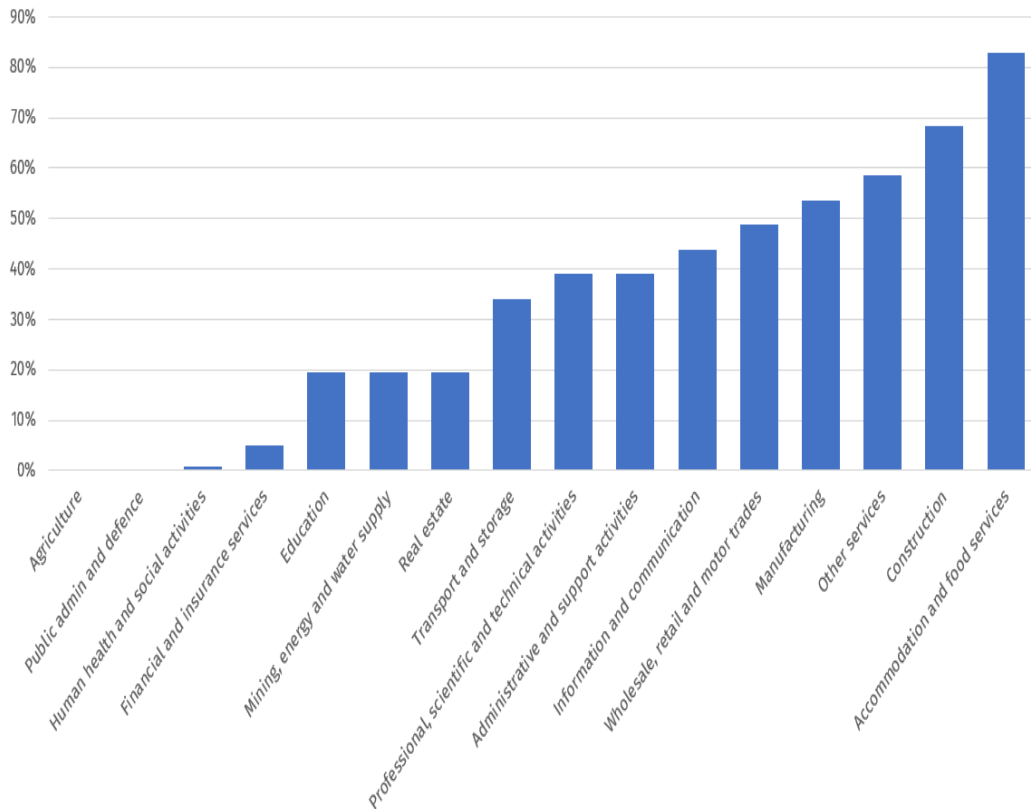
According to Construction Products Association research, “*the falls in output in April varied across sectors and nations – with an estimated 83% of work in Scotland lost because of more stringent lockdown measures and where all non-essential construction work has been banned. Housebuilding was the worst affected sector with 85% of work gone while residential repair, maintenance and improvement work was down by 60%.*”

⁴ <https://www.gov.scot/publications/coronavirus-covid-19-letter-to-construction-leadership-group/>

⁵ <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsontheuk/23april2020#business-confidence>

⁶ Ibid

Figure 1: Estimated percentage of workers furloughed or jobs lost in Scotland



Notes: IPPR analysis. Estimated number of job losses and furloughs in each sector are divided by the total number of people working in each sector.

Source: IPPR Scotland

As shown in **Figure 1**, the construction sector has been the second worst affected in terms of the proportionate share of the workforce that have either lost their job or been furloughed.

Therefore, like many key sectors construction has been severely impacted by the current crisis with the effects likely to be felt for many years to come.

What might the future look like?

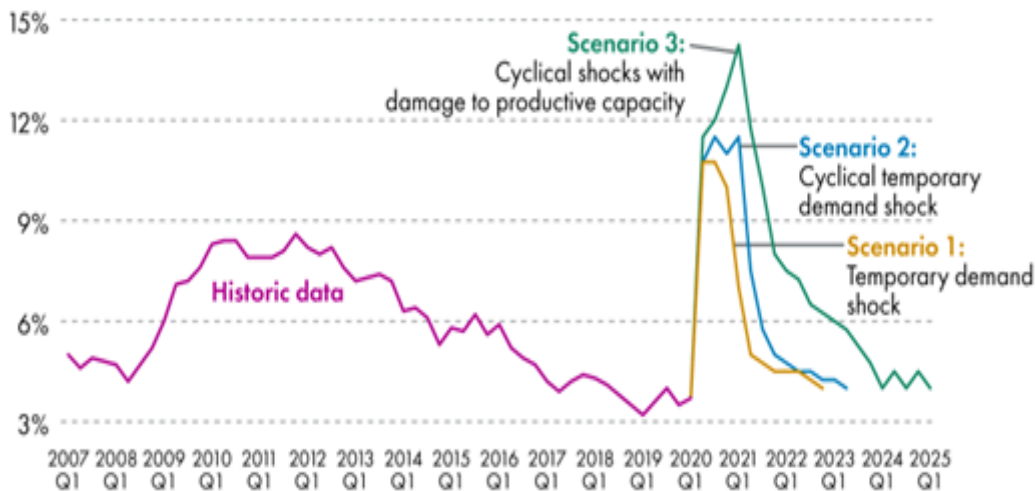
While we can be reasonably sure that the sector will continue in the future, the exact nature and scale of this remains highly uncertain. Site Operating Procedures will mean fewer people on site at any one time – so potentially reduced productivity – although in the longer-term innovation may balance this out.

The Scottish Government’s ‘State of the Economy’ publication from April 2020 shows that “national GDP could fall by around 33% during the current period of social distancing with no clear view on longer term growth prospects”⁷.

Specifically, the construction sector (alongside the retail and wholesale sector) is identified as being most exposed to domestic demand and labour market disruption.

The ‘State of the Economy’ report also sets out three possible paths for unemployment in Scotland during the pandemic, depending on the severity of the economic shock caused by the pandemic.

Figure 2: What might happen to Unemployment because of COVID-19



Source: The Scottish Parliament Information Centre

The most optimistic scenario sees a huge increase in unemployment, which peaks in Q2 and Q3 2020, before declining rapidly towards four per cent (see over). Even in the most optimistic scenario, unemployment reaches a level in excess of any previous peak in the ONS series which goes back to 1992.

⁷ Ibid

The more pessimistic scenarios expect a similar trend for the initial rise in unemployment, but the steady recovery is interrupted by supply side shocks (driven by sudden changes in commodity prices or wages) which result in further increases, and delays to the recovery.

If the productive capacity of the economy is weakened and secondary supply side shocks occur, then unemployment could peak at over 14 per cent. However, even in the most pessimistic scenario the rate of unemployment recovers to a more normal level within three years – considerably quicker than the eight years it took for unemployment to recover after the 2008 financial crisis.

Recent Headlines

Some recent headlines from think tanks, industry bodies and the news media regarding the state of the construction sector are presented - none of this makes for cheerful reading:

- The construction industry in Scotland, currently at a standstill while work continues in England, could see 80,000 workers furloughed, and 20,000 job losses, totaling 69 per cent of all jobs in the sector – IPPR Scotland.
- Construction companies are more pessimistic about the prospects for the year ahead than at any time since October 2008, at the height of the global financial crisis. This pessimism was “almost exclusively attributed to the economic impact of the Covid-19 pandemic” - CIP Scotland.
- Construction job losses on ‘frightening scale’ as activity and optimism plummet amid coronavirus crisis – Herald Scotland.

Longer-term trends and issues

While no one can offer any certainty, it is clear that the industry in its widest sense is already well into planning for the future.

The following issues are viewed by EKOS as some of the key aspects of a future construction sector in Scotland.

First, there is likely to be a short and medium-term effect as current contracts which had been shut down look to start up again and sites reopen, although there may be attempts to renegotiate some contracts which could change the outlook. Regardless, social distancing and wider health and safety measures will apply, and managers and workers will need to implement acceptable working practices.

How long this will last is anyone's guess but will depend on the longer-term exit from the virus. Businesses may have to develop different delivery and business models, which in turn may have implications for skills – catalysing a new health and safety regime across the sector?

There are three issues of critical importance that need to be at the forefront of supporting the recovery of the construction sector: **innovation, skills, and low carbon** and the **green economy**.

Innovation to drive productivity has been a key focus of the industry (and wider Scottish Government policy) for some time and this is likely to accelerate in the future. Organisations like the Construction Scotland Innovation Centre will likely have an important role in supporting the innovative capacity of the sector.

There are already emerging green shoots as to the opportunities that innovation could support:

“The pandemic could see a brighter future for innovation and cutting-edge technology in the industry such as drone technology, communication tools, offsite manufacturing, augmented reality (AR), virtual reality (VR), building information modelling (BIM) etc. These technologies actively encourage health and safety in the industry whilst helping employees meet social distancing requirements. These technologies are set to stay and develop further long after COVID-19 vanishes”. Global Construction May 2020⁸.

One of the biggest challenges remains how to engage the majority of the sector who are micro or small businesses and have never engaged with the innovation (or skills) support architecture.

The second issue is **skills**. It is likely that some current employees will leave the sector never to return, albeit they may use their skills in other areas of the economy. This happened, for example, following the financial crisis in 2008. Attracting future talent and skills will remain a key challenge.

In a wider sense, it is likely that we will have a significant number of employees who will become (or are already) unemployed, and engaging and reintegrating them into the economy will be a key challenge. As highlighted earlier, it is likely that the effects will be most severely felt in some areas of Scotland (such as Lanarkshire and Glasgow where construction accounts for a notable proportion of the employment base).

⁸ <https://www.constructionglobal.com/equipment-and-it/future-construction-and-aec-post-covid-19-world>

The third issue is **low carbon** and the **green economy**. As we emerge from the lockdown period, the calls for more environmentally sustainable ways of working, travelling and living are getting louder. Investment in infrastructure is a tried and tested mechanism for economic stimulus and low carbon incentives are likely to feature.

In particular, there is a need for infrastructure and investment to support active and low carbon travel, green energy, and more efficient homes and workplaces. The construction industry has an obvious and central role to play in this so long as it can harness the necessary innovation and skills.