

Post-Covid Recovery

Scottish Construction and Infrastructure

In April 2020, RICS partnered with other professional bodies in Scotland (RIAS and CIOB) [in writing to Government Ministers](#) outlining collective concerns in the construction sector, and proposing pragmatic solutions that can support industry in the immediacy, and post-pandemic.

In this correspondence, the joint institutes highlighted five stand out issues, concerns and opportunities:

- Opening of Construction Sites
- Elongated Recovery
- Role for the Scottish National Investment Bank
- VAT Rebate for repair, maintenance and improvement

There was a fifth proposal; namely, a Public Sector Maintenance Programme, which the [CICV Forum](#) have investigated further, and we endorse the policy, and outline the benefits later in this report.

Despite the issues surrounding covid continuing, RICS' position has not changed since making these previous representations; but the purpose of the forthcoming recommendations is not to focus on the long term solutions; but actions the Scottish Government can take to rebuild confidence in an industry that is central to economic recovery, and contribute to the aspirant V-shaped recovery.

Indeed, since then RICS has examined and assessed how covid-19, and the subsequent lockdown and Government measures (both UK and Scotland) have affected and impacted the construction sector in Scotland.

By engaging with senior RICS members in Scotland, we make the following recommendations which either strengthen or supplement the recommendations previously made.

Government Leadership

Covid-19 has exposed the limitations of the current construction industry framework. Having navigated the perilous circumstances that arose following the financial crash of 2007/08, the construction industry showed its resilience – housing completions increased (be it gradually), and infrastructure projects were completed. However, this resilience is not something that should be taken for granted; particularly when we consider the industry's well-documented contribution to the Scottish economy.

Given the intrinsic role the construction industry plays to the wider economy, the inevitable focus and support it will require as we emerge from the lockdown, and the need for a long-term review, we believe the sector would benefit from committed Government attention through a **dedicated Minister for Construction**.

In the immediacy and short term, the Minister will need to liaise with construction sector participants – collectively, and individually, and look to rebuild confidence in the construction industry and reactivation. Furthermore, the Minister should support the imminent return to work for construction operators – across its diverse workforce and professions to hear how Government can provide immediate support for the industry to counter the sudden pause in activity and an elongated recovery that could be devastating for the country as a whole.

To be clear; this is not a reflection on the performance of the Minister for Local Government, Housing and Planning, who's portfolio was widened to include construction during the lockdown.

This proposal is to ensure construction is given the focus, policy and, if necessary, budget and legislation, to support the sector through the forthcoming period of pressure and stress.

In the long term, the Minister would be charged with reviewing the *modus operandi* of the construction industry, with a view to modernise and eliminate inefficiencies in practice that are just one of the many harmful traits that damage the industry's reputation, and how it is perceived.

This project that will require cross-chamber support and buy-in; but a project that will improve industry operation; safeguard the sector's reputation; and, ultimately, enhance industry diversity.

Build Back Better

The foundation of the Government's post-covid approach to construction should be repair, maintenance and enhancement of existing property; in short, build back better.

The socio-economic benefits of this approach are well known, and the CICV Forum, through the Construction Scotland Innovation Centre, are looking to research a quantitative economic multiplier for investment in maintenance.

In addition, we understand they are also looking to initiate research into the economic impact of a VAT rebate fund.

The Scottish and UK Governments' support for businesses has come at great cost, but even as we begin to emerge from lockdown, we cannot estimate how much more lockdown measures will cost. More so than ever is the need to prevent use of cash-in-hand payments, and VAT has often been bypassed through the 'informal' economy. Indeed, cash-in-hand payments do not contribute to the Government's tax take, and this could negatively impact future spend.

RICS, like the majority of industry participants, eagerly await the publication of both these reports (due autumn 2020).

- **RICS recommends the Scottish Government consider the Maintenance Multiplier and VAT Rebate Fund reports and respond to their findings**

Supply Chain Management and Cash Flow

Cash flow has always been a problem for the industry; and discussions around changes to procurement, retentions and project bank accounts have been going on for a significant period of time. These are not new issues; but they do require consideration in the long term.

An unintended consequence of the furlough scheme is the return to work. Whilst the furlough scheme supports employers to pay employees whilst they do not work (as a means to limit redundancies), the support ends immediately when the employee starts to work again. This means construction companies have no income or assistance until the goods and services they provide are procured.

It is important that an uplift comes before the furlough scheme ends. Not doing so could result in insolvencies and redundancies that cannot be reversed, thus reducing the number of operators. This approaching menace will limit construction output.

We therefore make recommendations that look to support the construction supply chain and spark cash flow; particularly for SMEs.

Immediate and Short-Term measures

Outwith the need for a modernisation of construction industry operation; there are a number of short-term measures that the Government could introduce that can produce an immediate uplift in activity

The various furlough supporting schemes from both UK and Scottish governments have supported the workforce, but an unintended consequence is paralysis of supply chain; and this will continue as the lockdown is lifted. Indeed, many projects are in jeopardy, even at pre-construction phase, because the supply chain cannot submit quotes and prices. Any delay in project planning and procurement will cause projects to be cancelled, and it could prolong the recovery.

As the lockdown is lifted, productivity and turnover will be low, and this could add further debt to construction firms, increasing risk of redundancy or insolvency. This can, however, be stemmed by allowing industry to plan; an injection of cash flow; and advanced payments

Clear Pipeline

A clear pipeline of work will enable professionals to plan for the future and advise their supply chain(s) of their requirements.

This recommendation enhances supply chain management, enabling a higher proportion of industry participants to plan, order and manufacture supplies for the diverse construction sites in Scotland

The furloughing of many construction supply chain participants will likely mean that cost and time estimates for local authority and national government projects and programmes will need revised, and this should be undertaken as soon as feasibly possible. This revision would firm up the local, regional and national pipelines – outlining what infrastructure Scotland intends to deliver – and would create transparency and certainty; both of which would contribute to the stabilisation of market conditions that are important for sectoral confidence.

- **RICS recommends a refresh of the Scottish Infrastructure Investment Plan, including National Infrastructure Priorities**

Advanced Payments

RICS recommends the use of advance payment methods for public sector contracts as a means to reignite the supply chain and kickstart construction.

However, as mentioned previously, there will be numerous national and local Government projects and programmes that will need to have their costs and completion dates revisited in light of lockdown, and post-lockdown, circumstances.

In addition to the review of these projects and programmes, we call on government to consider the ring-fencing of investment for national infrastructure priorities, and the use advance payments to kick start the supply chain, and activity on these key projects and programmes.

This reignite activity through the reactivation of the supply chain that has seen extensive furloughing. Even when furloughed staff return, they will need time to manufacture and produce supplies for the construction sector. Unless they are supported up front, Scotland could see an elongated recovery in comparison to other parts of the UK.

This approach could provide certainty, a softer landing, and incentive construction supply teams a workforce to come back to work, and back on site.

- **Capital investment should be ring fenced for national infrastructure priorities, with advance payments offered to projects and programmes that form an extensive post-pandemic recovery (PPR) plan**

Public Sector Maintenance Programme

A key change since our joint written representation to the Housing Minister has be to the proposed Public Sector Maintenance Programme.

In May 2020, the Futures subgroup of the Construction Industry Covid (CICV) Forum published a [public sector maintenance programme](#)

The purpose of this policy is to set out the framework for a Government-led initiative to encourage a large-scale public sector programme of maintenance of its asset base.

This was developed in the view that the current lockdown situation imposed by the Covid-19 crisis meant that the majority of publicly owned buildings, such as schools, colleges, museums and libraries, are vacant, and will continue to be vacant for some time.

This period of inactivity not only increases potential risks that the buildings are being maintained and kept in a condition that is statutorily compliant, nor operating at an optimum level.

The establishment of a large-scale, public sector programme of maintenance would reap significant economic and societal benefits by:

- supporting many SME contractors across the construction industry;
- reducing potential public safety risks;
- saving public sector funds through economies of scale, and
- kickstarting the supply chain

These benefits, along with many others that have not been mentioned, would boost immediate economic output from the sector.

RICS formally endorses this policy.

- **The Scottish Government should establish a public sector maintenance programme**

The CICV Forum Futures subgroup, in conjunction with the Construction Scotland Innovation Centre (CS-IC), have applied for a research grant to calculate the economic benefit of maintenance and repair investment.

We eagerly await this research proposal, and commend the Forum for instigating this research.

Role for the Scottish National Investment Bank

Many of these recommendations are finance-based. This is because there are sectoral concerns as to whether companies will get financial help quickly enough, post-pandemic, and whether banks will be expensive or will ask for personal securities.

We believe there is a role for the Scottish National Investment Bank to:

- Provide guarantees, acting as a longer-term post-pandemic CBILS, that will encourage investment in Scotland's revised infrastructure programme.
- House the VAT Rebate Funding scheme
- Work with the Infrastructure Commission to develop and support post-pandemic recovery projects

The bank is not yet functioning, but given the important role it could play post-pandemic, we are keen to see the establishment founding of this bank

- **The Scottish Government should bring forward the establishment of the Scottish National Investment Bank**