**Construction Impacts**

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| ***SE, through its business infrastructure expenditure and other financial measures such as Regional Selective Assistance, provides support for construction and related infrastructure. The objective of doing this is to secure sustainable economic development so that this activity is a means to an end rather than an end in itself. SE’s practice in appraisals or evaluations is to report the economic impacts of this activity separately.*** |

**Why is it important?**

SE is not a construction or infrastructure company. However, it often funds either directly or indirectly construction and supports public realm works of various kinds. SE, however, does not support construction projects *per se*, but funds them as they are a way of securing other, more long lasting, downstream benefits, for example as companies occupy the space that SE has created or companies use buildings part funded by, for example, Regional Selective Assistance to undertake manufacturing. Thus construction is a means to an end, this being sustainable economic development.

Given this, it is important to show the totality of the impact of any interventions. These projects do create jobs and GVA both directly and indirectly and are often a very visible sign that something is being done, with the associated positive publicity for SE and other partners. Accordingly in any appraisal or evaluation that involves SE supporting construction or related activity, the economic impact of this needs to be reported. However, this should be reported separately from the overall impact calculated for the intervention and reported in gross rather than net terms. The reasons for this are:-

* The economic impacts of construction activity are essentially a by-product of the intervention: useful to have but not the main purpose;
* The impacts are temporary, lasting only as long as the construction works take. Thus to combine them with impacts that are likely to be profiled over a longer time period is misleading;
* Those employed, especially on specialist works, may not be resident in Scotland so that the benefits may leak out of the Scottish economy; and
* Displacement (both labour and product market) may be high for SE supported projects. For example, skilled labour may move to take advantage of SE supported opportunities perhaps for higher wages or just for a change. This may then have an adverse impact on the contract they leave so that GVA may be reduced or delayed. Similarly if the competing companies for a contract are Scottish then there may be considerable product market displacement, with one Scottish company winning the work at the expense of another.

**Estimating Construction impacts**

To estimate the impact of construction activity the key data needs are:-

* The construction cost of the development;
* The time that it will take to be built; and
* Turnover and GVA per employee in the relevant part of the construction sector.

The first two factors should be provided by the project manager.

The turnover and GVA data can be sourced from the Scottish Annual Business Statistics 2011, published in August 2013[[1]](#footnote-1), [[2]](#footnote-2). The report provides data for 3 categories of construction activity:-

* Standard Industrial Classification (SIC)[[3]](#footnote-3) 41, Construction of Buildings;
* SIC 42, Civil Engineering; and
* SIC 43 Specialised Construction Activities.

The one judged to be most relevant to the specific activity should be selected.

Data is provided for the four year period 2008 to 2011. Given that there can be annual “one-off” changes caused by events that are unlikely to be repeated, the data should be averaged over the four years to remove these fluctuations.

As an example, if the figures for SIC 41 are taken[[4]](#footnote-4) then:-

* Total employment in the sector over the four years was 139,500[[5]](#footnote-5);
* Total turnover over the same period was £25,268.2 million;
* Dividing the one into the other gives an average turnover per employee of £181,000 each year;
* Total gross GVA per employee (over four years) is £260,000 giving average GVA per employee per year of £65,000.

These figures can now be used in a simple worked example. If it is assumed that SE is to:-

* Spend £10 million on property;
* The project will take two years to complete. It is assumed that spend will take place equally over this period.

Using the figures above:-

Total employment created will be:-

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£10,000,000 (development cost) / £181,000 (turnover per employee) = 55 (person years to construct the development)

Jobs supported in each year of construction:-

55 (person years to construct the development) / 2 (years to construct the development) = 28 (jobs supported in each of the 2 years)

Gross GVA created in each year of construction is:-

28 (jobs supported in each of the 2 years) x £65,000 (GVA per employee) = £1,820,000 (annual GVA impact of the development)

It can therefore be reported that the gross impact of SE’s £10 million of construction spend is to create:-

* 28 jobs lasting for two years;
* £1.82 million of gross GVA each year: £3.64 million over the two year construction period.

If needed the appropriate Type II multipliers[[6]](#footnote-6), [[7]](#footnote-7)could be applied to these figures. The latest ones relate to 2009 and were published in May 2013. For example:-

* The employment multiplier is 2.8 so the total impact on employment per year is to support 78 jobs (28 x 2.8); and
* GVA has a multiplier of 2.4 so the annual GVA impact is £4.4 million (£1.82 x 2.4), giving a total two year impact of £8.8 million.

These are the gross impacts (making no allowance for the additionality factors outlined above) and derived from sector averages that, although the latest available data, are now several years old.

**Need more help?**

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1. <http://www.scotland.gov.uk/Resource/0043/00439641.pdf> [↑](#footnote-ref-1)
2. The data will be next updated in August 2014. [↑](#footnote-ref-2)
3. The Standard Industrial Classification is an international system for classifying business establishments according to the type of economic activity they are involved in. It is periodically revised, with the most recent revision being completed in 2007. Details are available at:-

   <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html> [↑](#footnote-ref-3)
4. The data is sourced from the Table “Scotland by Division 2008-2011” at:-

   <http://www.scotland.gov.uk/Resource/0043/00439641.pdf> [↑](#footnote-ref-4)
5. The data distinguishes between total employment and total employees. Employees do not include those who are self employed nor worker owners who are not paid through the PAYE system. The employment figures cover employees and worker owners. [↑](#footnote-ref-5)
6. <http://www.scotland.gov.uk/Resource/0042/00425586.pdf> [↑](#footnote-ref-6)
7. The Type II multiplier measures the “knock on impacts” of economic activity, in terms of the supply chain and the spend of wages. [↑](#footnote-ref-7)