

Conclusions of the National Audit Office

Research and development in the real estate and construction cluster

The real estate and construction cluster is hugely important to the Finnish economy; it accounts for about two thirds of our national wealth and one quarter of our gross domestic product. The audit covered the manner in which central government steers and manages research, development and innovation (RDI) in the real estate and construction cluster. The aim was to determine whether the steering of RDI in the real estate and construction cluster is on a proper basis. In the state budget, funding for RDI in the cluster amounts to no more than between 20 and 30 million euros. According to the classification used by Statistics Finland, research and development funding for the objective "Housing and Communities" totalled about 12 million euros in the 2014 state budget. However, central government funding for the cluster is substantially higher because there are also real estate and construction cluster activities under other objectives, such as those involving energy. According to earlier reports, Tekes (prime source of funding) has granted the cluster between 8 and 17 million euros and the Academy of Finland about three million in research funding each year.

There is wide acceptance of the main points of Finland's national innovation strategy. The conclusion in the audit was that the measures used by the central government for steering and managing RDI in the real estate and construction cluster are poorly coordinated. In principle, RDI plays a central role in Finland's national development strategy. A large number of development programmes, statements, opinions and assessments that concern innovation have been produced. However, Finland still lacks a comprehensive RDI operating policy for intangible assets.

Even though there is no shortage of steering instruments, we do not have actors or a network of actors that would have overall responsibility for the management of research, development and innovation in the real estate and construction cluster. The lack of overall management was already highlighted in 2008 in the international evaluation of the Finnish innovation system and the evaluation conducted by the Research and Innovation Council in 2014.

Central and local government have a broad range of instruments for steering the real estate and construction cluster. The state and municipalities are major players in the sector because they are responsible for most of the transport infrastructure projects and a large proportion of building construction. At the same time, central and local government also regulate the sector by means of legislation, land use planning and building codes. The regulation also covers areas outside the real estate and construction cluster, such as more efficient energy use. The state and municipalities are also major landowners, which is of great importance in matters concerning land use. There are extensive support schemes for construction and housing, such as tax deductibility of mortgage interest payments, housing allowances, subsidies for the construction of low-cost housing and energy-efficiency improvements. As central and local government have a large number of different roles, they sometimes find themselves in conflicting situations. For this reason, it is essential that research, development and innovation can also be used for minimising the occurrence of these conflicts.

Relative to its overall economic importance, the real estate and construction cluster spends substantially less money on RDI than other

clusters. The percentage of employees with university education is also lower than in other clusters. When asked about their expectations concerning added revenue generated by intangible assets, companies in the real estate and construction cluster have been more pessimistic than operators in other sectors. Thus, it is not surprising that productivity growth in the real estate and construction cluster has been weaker than in any other industry. Finland is not alone with this problem as the real estate and construction sector in other countries is also in the same situation.

The way in which the sector has evolved is a major cause for its low research, development and innovation inputs: The sector is long-established and has adopted a conservative approach to its operations. Even though we cannot change the things that have already happened there are nevertheless factors that we can influence. Strong price competition and the related fact that in large projects, a substantial proportion of the purchases are made by central and local government actors are preventing innovation in the sector. In public procurement legislation and especially in its interpretations, great weight is given to pricing.

For RDI, the fact that there is little researcher training in the cluster is also a problem. Moreover, as the research is practically oriented, most of it takes place at universities of applied sciences. However, the Academy of Finland and Tekes, the most important providers of research funding, do not play any role in their funding. The funding is also divided between central government and the private sector. The fragmented nature of the funding is also reflected in the fact that there is no overall policy steering research, development and innovation in the real estate and construction cluster. This may have led to a situation where the funding is not properly allocated. Already Professor Matti Kokkala drew attention to the problem in his proposal for an overhaul of the research and development activities in the real estate and construction cluster and their funding.

An overall strategy and operating model would also help to encourage the cluster to invest more in research. In that case the benefits accruing from research could be seen in a wider context and programmes based on solving individual problems and development needs would no longer be required. We need a strategy that provides the state with additional instruments for encouraging private actors to invest more in RDI.

Recommendations of the National Audit Office

1. The Government should set out a comprehensive research, development and innovation operating policy for the intangible assets of the real estate and construction cluster.
2. The operating policy should lay out the roles, tasks and responsibilities of the public sector actors more clearly and in a more comprehensive manner than the current documents. The state and municipalities have a broad range of different roles in the real estate and construction cluster: They pass laws, enforce regulation, operate in the markets, provide funding and subsidies and produce information. Acting in different roles gives rise to conflicts and requires better coordination of the overall situation.
3. In the operating policy for the real estate and construction cluster, the aim should be to find ways to increase research inputs in the cluster.