



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 5 February 2019

Session 5



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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	1
CONSTRUCTION AND SCOTLAND'S ECONOMY	2

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

5th Meeting 2019, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Angela Constance (Almond Valley) (SNP)

*Jamie Halcro Johnston (Highlands and Islands) (Con)

Dean Lockhart (Mid Scotland and Fife) (Con)

Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Steven Dillon (Unite the Union)

Hew Edgar (Royal Institution of Chartered Surveyors in Scotland)

Dr Stuart McIntyre (Fraser of Allander Institute)

John McLaren (Scottish Trends)

Simon Rawlinson (Construction Leadership Council)

Ian Rogers (Scottish Decorators Federation)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 5 February 2019

[The Convener opened the meeting at 09:45]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the fifth meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone in the public gallery to switch their devices to silent mode. We have received apologies from Dean Lockhart and Gordon MacDonald.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 3, 4 and 5 in private?

Members *indicated agreement.*

Construction and Scotland's Economy

09:46

The Convener: Agenda item 2 is our inquiry on construction and Scotland's economy. I welcome to the meeting our first four witnesses: Hew Edgar, interim head of United Kingdom policy, Royal Institution of Chartered Surveyors in Scotland; Ian Rogers, chief executive, Scottish Decorators Federation; Steven Dillon, regional co-ordinating officer, Unite construction, allied trades and technicians, Unite the union; and Simon Rawlinson, partner at Arcadis, who is representing the Construction Leadership Council.

Before we move to questions from committee members, I want to ask each of you for your views on the key strengths and—in light of recent events—the key weaknesses in Scotland's construction sector.

If you wish to speak, please indicate as much by raising your hand. The person at the sound desk will operate the microphones, so there is no need to press any buttons.

Who would like to start? I think that Hew Edgar has just volunteered.

Hew Edgar (Royal Institution of Chartered Surveyors in Scotland): The key strength of the Scottish construction sector is its resilience. From an economic point of view, the past 10 to 15 years have been particularly turbulent, and the construction industry still manages to struggle on.

For the construction sector to be vibrant and healthy, it needs confidence, which is a product of consistency, certainty and stability. Over the past 10 to 15 years, we have had the recession and numerous national elections and referendums—indeed, I think that we have had an election every year since 2012—all of which have contributed to slowing the making of investment decisions by foreign investors and internal companies.

However, the Scottish Government has a commendable record on infrastructure investment and construction and it recognises the benefits of a healthy construction sector to the economy. Indeed, that was best illustrated by our current First Minister, in her previous role as Deputy First Minister, when she stated in 2012 that we need to “build our way out of recession”.

That is probably why the Scottish construction sector continues to be an attractive arena for investment.

The Scottish Government regularly announces packages of measures to increase capital investment in order to create and, more important,

maintain jobs. A lot of construction sector activity and measures are based on creating new jobs, but—and I am sure that my colleagues on the panel share this view—it is equally important to maintain jobs.

One of the weaknesses in the sector is the lack of talent coming through the pipeline, and we are concerned about the stand-off in education with regard to attempts to encourage school leavers and graduates into the built environment professions. We are also facing an impending retirement cliff edge, with many professionals aged 50 or over and who are set to retire in the next five, 10 or 15 years.

The Convener: What can be done about that?

Hew Edgar: As I said, it is about trying to encourage more school and university students into the built environment professions as a means of replacing those who are leaving the sector, but that is difficult. We have been somewhat dependent on European Union migration, but we need to focus on the domestic pipeline.

Simon Rawlinson (Construction Leadership Council): I will bring some data to the conversation. On strengths, it is worth recognising that compared with the rest of the UK, Scotland probably has a higher proportion of public sector spending; about 30 to 40 per cent of expenditure in the Scottish construction sector is public. One would assume that that would be rather more stable than the situation in, for example, more cyclical sectors such as private house building and private commercial building.

I will highlight two potential weaknesses. One is that a particular characteristic of the Scottish construction industry is that certain locations in which the industry operates are very remote, which results in considerable premium costs. That was brought to light by a very fine submission by the contractor Robertson to the *Construction News* awards. The submission brought to light the challenges in building a primary school in North Uist and the tackling of them was both a credit to the industry and a recognition of how difficult it is to deliver in some locations.

The second potential weakness, which is probably more general, is the rate of growth. The forecast growth for the UK in 2019 is currently 1.3 per cent, but for Scotland it is 0.1 per cent; therefore, that it is an area of concern.

Ian Rogers (Scottish Decorators Federation): The industry's strengths include the fact that it has been very robust and has done well. It is true that there is a lot of reliance on the public sector. That spending in the public sector must be maintained, so that it levels and there are not peaks and troughs. That will ensure that the people flowing into the industry remain employed and that there is

not the on-off effect—it is not attractive for young people to enter the stop-go economy of the construction industry.

We have an enviable reputation for training good apprentices; Scotland's training of apprentices is gold standard. Research by Cardiff University has shown that Scotland's training is among the best in Europe. That can be seen in the European competitions and the skills Olympics, in which Scotland always does quite well and is up there in the top 10.

That is excellent, but we need to make construction a career of choice. How do we do that? We have to have a better raft of qualifications and link that to wages—I agree with Simon Rawlinson on that point. Careers teachers are not very conducive to students going into construction; it is not something that they would point their young people towards. However, construction is a great career for young people, who can be very well rewarded financially. For example, a salary of £30,000 per annum is not uncommon and is not bad for a tradesman starting off his career after doing his training.

The Convener: Thank you. I will bring Steven Dillon in now. I should say that not every panel member needs to respond to every question. Obviously, as we go through the evidence session, we will try to build a discussion.

Steven Dillon (Unite the Union): I will be brief, but I thank my brother with the brush for mentioning the painting. As Ian Rogers has mentioned, one of the strengths of Scotland's construction industry is the gold-plated apprenticeship scheme. We need to protect that, and Unite the Union will be protecting it at all costs. Recently, there was an attempt in some sectors to water down the scheme, but we need to protect the scheme at all costs because it is the future of the industry.

For many years, a weakness in the industry has been employment practice once people are through their apprenticeship. What happens to them then? How do we look after the people in the industry? We keep talking about the buildings, the materials and the design, but nobody ever talks about the people who work in the industry—that is who we need to look after. When they have finished their apprenticeships, most of them have to work as what we in the industry call the bogus self-employed. I will go on to discuss that later, convener.

The Convener: All right, thank you. We turn to a question from Angela Constance.

Angela Constance (Almond Valley) (SNP): I want to pick up on panel members' contributions on apprenticeships and schools. Research said that 33 per cent of employers and 48 per cent of

employees knew nothing about the apprenticeship levy. More than a third of British construction businesses admitted to offering no formal professional development for employees, despite 73 per cent of employees in the sector saying that quality training was an important factor in their deciding whether to leave a job. Will you share your views on that?

Ian Rogers: Which levy are we talking about? There are two.

Angela Constance: I am talking about the apprenticeship levy.

Ian Rogers: There are two levies: the Construction Industry Training Board levy of 0.5 per cent; and the Government one, which is set at 0.5 per cent for companies with an annual pay bill of over £3 million, and which will probably cascade much lower as time goes on.

Angela Constance: I was talking about the UK Government's apprenticeship levy, which was introduced about three or four years ago.

Ian Rogers: Our employers who were encompassed by that do not like it at all, because they cannot get funding from it, or can do so only by offering specific training, which retards the whole process. The levy is seen as being a Government tax. If employers do not offer the specific training, they do not get their money back. No more money has been given to the Scottish Government to fund that training, so it is now trying to fund it from its current budget.

Simon Rawlinson: It is worth recognising that the apprenticeship levy is a collaborative scheme that relies on employers, specialist skills sectors and the Government collaborating on delivering training. At the time of the scheme's launch in 2017, one challenge was that insufficient approved courses were available. Therefore it is absolutely correct that there is a hiatus in skills coming through, because the opportunities were not there.

The Construction Leadership Council has worked very hard with the CITB and the board that approves apprenticeships to put through 60 approved courses during 2018. Furthermore, in the budget in November 2018, there was an announcement that large employers—the ones that Ian Rogers described—would be able to cascade 25 per cent of their funding to their subcontractors. There is therefore some evidence of progress, but I certainly agree with Ian Rogers and other panel members that the scheme's implementation over its first 18 months has created a gap in skills in the short term.

Angela Constance: Thank you for that. I also want to pick up on the contributions of panel members who spoke about apprenticeships being gold plated. The strength of apprenticeships in

Scotland is that they offer employed status. Ian Rogers spoke about how we need to do more to make construction a career of choice. I am also picking up that perhaps there are diversity issues. Where are the women in construction?

Ian Rogers: Painting and decorating is probably the sector that is most successful in attracting women, but they still account for only 2 or 3 per cent, which is very low. Controversially—and anecdotally, from what apprentices have said in my conversations with them—it seems that females and males have different mindsets. Females use their qualifications to go off and further their careers. They have a longer-term view of their lives than do the young men who come into the industry, who seem to think mainly about getting out with their pals on Fridays. Girls think more about where their qualifications can take them, and many who come into our sector end up in interior design. They have qualifications in painting and decorating, which they can use to go to university and do interior design courses.

10:00

Angela Constance: I am a bit nervous about where you are going with this, Mr Rogers. Even I am conscious that a range of careers are available in the construction industry. Some are in interior design, some are more in the front line and hands on, requiring crafts and traditional trades, and there are also surveyors. Perhaps you could talk a bit more about—

Ian Rogers: On the craft side of it, my question is what would make it attractive for a young lady to come into the industry? That bit of research needs to be done. What are the barriers to them coming in—from their perspective, not just the employer perspective? Historically, it has been a male environment, and I am not sure that working on a building site is an attractive proposition for young girls coming into the industry. How do you stop that? How do you change that?

Angela Constance: Historically, politics has been a male environment.

Do other members of the panel have a view?

Steven Dillon: The industry is a poor place for women to work; there is no doubt about it. I have six sisters and I would not want them to work in the industry.

Some of the reasons are toilet conditions, for example—there are no sanitary products. At Unite the Union, we are running a campaign about period dignity on construction sites, so that female construction workers have somewhere to go.

I do not know if you have ever been in a male construction site toilet, but probably none of you in here would last a minute in it. Those are some of

the things that need to change in the industry. A woman would be scared going into that.

We are running a massive campaign across Britain to make sure construction companies and clients look at the toilet conditions—for men, but particularly for women, including the period dignity issue; and we all know about other period issues that are being raised across the country. It is a male-dominated industry. This year, we put in a pay claim to the Convention of Scottish Local Authorities to provide free sanitary products in all local authority buildings. Things of that kind prevent women from coming into the industry. There should be a lot more women in the industry. If we could get them in, it would be great. But we need to make sure that the conditions are right. Construction workers have lived in poor conditions for years. We are trying to make it good for everybody.

Simon Rawlinson: I totally agree with what Ian Rogers and Steven Dillon have described. I suggest, however, that the prospectus might be a little brighter than that.

The CITB has been doing a lot of research on future skills requirements. That is about the industry transforming itself. One of the areas where most development is expected is in off-site construction—construction in factory conditions. Groups such as this committee must emphasise and get the message out that the future of construction is not necessarily on a site; it might be in a factory, or it might involve using digital tools. That is still construction, and that is the future for everybody, not just women. The more that message is communicated externally, the more we change the brand of the industry and how we attract everybody.

Angela Constance: Okay.

The Convener: Hew Edgar wanted to come in.

Ian Rogers: There are opportunities out there for girls in construction. The demographics are changing, in that there are more single families nowadays in the great wide world out there. Lots of ladies who live on their own would prefer a female coming in to do work than a man in their house. A couple of our members are female and they get a lot of work in that way. Instead of trying to compete in the big environment, they compete in a specialist female market.

The Convener: Hew Edgar wanted to come in.

Hew Edgar: I agree with what the panellists have said on the issue so far. We have canvassed our members on diversification of the chartered surveying profession and RICS member employers are keen to diversify their workforce.

On an earlier point, apprenticeships are one way of doing that, coupled with innovative

recruitment processes. Many of our member firms are increasing their diversity. However, in Scotland the apprenticeship recruitment process is less able to utilise those innovative processes, due to the challenging nature of the application process. That is something that the committee might want to look at.

Angela Constance: Convener, I am conscious that there are other areas of questioning to move on to. However, would it be useful if, on behalf of their respective organisations, members of the panel provided the committee with written information on the issues of diversity and improving the gender balance in the industry?

The Convener: Yes, certainly. If, on any points that are raised, they wish to come back with more details that they do not have to hand, they should feel free to do so.

Jamie Halcro Johnston has a follow-up question.

Jamie Halcro Johnston (Highlands and Islands) (Con): I just wanted to tell Steven Dillon that I visited the site of the new hospital in Orkney. The men's loos were very clean, but I appreciate that politicians visiting might have had an impact on that.

I was going to talk about the changes in the construction industry, but Simon Rawlinson picked up on the fact that modern apprenticeships will play more of a role.

On how to encourage more women and people from different backgrounds into construction, do we go into schools early enough to promote it as a career? When I met a representative of the CITB, they said that the sector needs to go into schools earlier. How many school groups are taken around construction sites? The issue goes wider than just the construction sector, but is careers advice and promotion of the industry happening early enough?

Ian Rogers: The short answer is no. At a time when Scotland is becoming more devolved from Westminster, the CITB is becoming more centralised. It has announced a number of redundancies and more will come, and much of the work that the CITB will do will be done south of the border. That needs to change. We need a Scotland-run CITB that looks at Scotland's problems.

The CITB has retreated from doing work in schools, and that is now being left to others. As a federation, we are looking at getting funding to do such work. We want to get children out of school and into work experience, giving them some qualifications. We are working with Skills Development Scotland and the CITB on a funding package to do that.

Jamie Halcro Johnston: What age would that start at?

Ian Rogers: We are looking at a skills-to-work programme for the 14-to-16 age group. We will probably change it to something more meaningful and, we hope, get the industry to agree that any qualifications attained can be accredited to apprenticeships. That is a novel idea, and it will have to be discussed with the union to see whether it fits with what it is looking for.

That is what we are doing, but we need a training board with much more control in Scotland.

Simon Rawlinson: I will add some clarification. The CITB reforms are devolving the delivery of training locally. The identification of need is being brought into the centre, but the reform programme, which is fully supported by the Construction Leadership Council, is a three-year programme that is backed by the industry to devolve training to where it is delivered.

Arcadis supports Class of Your Own Ltd, which runs the design engineer construct programme and GCSE, so there is now a formal qualification in the construction industry that is increasingly available in schools. A formal qualification that applies to the construction and design disciplines will also be delivered at the new T level.

The final point to make on the CITB is that we are trying hard to create a single-entry portal to the industry. Having no clarity about who to go to is a problem for the industry—for example, as Steven Dillon and Ian Rogers indicated, it is not clear who the employers are. Having the single entry point of the go construct website will make it much easier for people to decide how to enter the industry, whether they are a decorator, a ground worker or an engineer.

Hew Edgar: RICS does a fair bit of engagement. We go into schools and we accredit university courses to help people along in their chartered surveyor careers.

Going back to a point that Ian Rogers made about the attractiveness of the construction sector, I note that the number of lay-offs that there were at the time of the recession—people lost their jobs and did not come back into the sector—does not look good to people who are starting to make life choices about their career path. We must try to find a way to end the cyclical nature of work in the construction sector and to level out the peaks and troughs in performance.

Ian Rogers: I am looking for a raft of qualifications for people as they progress into their careers, which would be linked to wages and conditions. That would be a helpful recruitment tool. If people knew that a career ladder existed—that they would not be just a journeyman but could

make progress in their career and financially—that might be more appealing for their parents and make entering the industry more attractive. We do not have that approach now.

Steven Dillon: Jamie Halcro Johnston mentioned visiting a construction site, which is a bit like how the Queen smells fresh paint everywhere she goes. We should have such a standard on every site, whether or not an MSP or the Health and Safety Executive visits it, because that will attract people into the industry.

One thing that does not attract females into the industry is the fact that the pension scheme is garbage—it is hopeless. None of you would join it. It is no good for male workers now and it will be no good for female workers and their families. There is also nothing about childcare in the industry. Nobody has ever looked at how young mothers go into and out of the industry, for example. The situation for females needs to be looked at on its own.

Ian Rogers: We seem to talk about construction as if it means only new builds, but the majority of construction work is repair and maintenance, which cannot be done off site, because the site is already there. Repair and maintenance is a big part of construction.

The Convener: What percentage of the sector does that form?

Ian Rogers: Repair and maintenance is huge—it is about 33 to 35 per cent of the sector.

Jackie Baillie (Dumbarton) (Lab): I will turn to money. I have argued for a while that there should be project bank accounts but, until last year, none had ever been used in Scotland. I am delighted that the Scottish Government has confirmed that it will consult in the spring on cash retentions for construction projects. Will you unpack how prevalent issues are with payment terms and payment behaviour?

Simon Rawlinson: I am happy to start. For the past year, the UK Parliament has been running an inquiry into payment and retention. The situation is extremely complicated. It has become clear from that inquiry that, however many people are against holding retentions, exactly the same number will want to hold them, for different reasons. A typical reason for not holding retentions is to ensure cash flow, and a reason for holding them is assurance about maintaining the quality of work.

A bigger question is about transparency in the industry—whether employers in the public sector or the private sector know what is going on in the supply chain. A project bank account might solve the problem for the immediate subcontractors, which sit under the main contractor, but it is no solution for the dozens or potentially hundreds of

suppliers that sit in the third and fourth tiers. Giving people the ability to demonstrate that they have been paid or, if people have not been paid, requiring a good reason for money to be retained might well be a solution.

On project bank accounts, the committee is probably aware of the very low levels of profitability among tier 1 contractors—main contractors—in the industry. I believe that the top 10 contractors in the UK made an average profit of 0.5 per cent in 2017-18, according to the latest audited figures. In cash-flow terms, the costs of a project bank account would more than exceed that profit level, so project costs would need to rise to finance that cash flow. There is no zero-sum game; such an approach would have implications for main contractors, clients and the lower tiers.

10:15

Jackie Baillie: But a project bank account potentially protects the interests of subcontractors—certainly at one level—which the Government then does not need to bail out if the company goes bust.

Simon Rawlinson: If I was going to make an observation about Carillion, for example—

Jackie Baillie: I am coming to Carillion. Do not pre-empt me.

Simon Rawlinson: Most of the organisations that were bailed out were not delivering projects; they were delivering what might be described as “services”, which would not be covered by a project bank account. You are right in saying that a project bank account would provide some protection to those organisations, but I emphasise that it would protect the second tier and not necessarily the third and fourth tiers.

Jackie Baillie: I suspect that Steven Dillon has a different view.

Steven Dillon: I do, funnily enough. Sometimes, it does not matter whether tier 1 contractors get a profit or not, because it is basically all about stocks and shares and how the business looks to the stock market—it is not really about the project itself. Some of those companies buy contracts even when they run at a loss. I am not really bothered about the major players in that context.

The issue is the medium to small companies, and I think that it is great that they can be guaranteed their money. If I go home to my missus and tell her, “By the way, I might hold some money back from you this week,” she will say no, and she will make sure that I get that cash out to her. Companies are no different. If people are supplying a service, they should be paid, and there should be a timescale for payment in the

details, so that the companies’ workers—and the subcontractors who are working for those companies—all get paid. That really needs to happen.

I do not need to tell you how the tier 1 companies operate. As I said, sometimes they are not really bothered about whether the company is actually making a profit. It is all about the stock market, in my view.

Ian Rogers: I agree with Steve Dillon. We need project bank accounts. We need a much more robust way of getting paid. It is not just about getting our retention money; it is about being paid normally and getting our valuations paid without the main contractors unfairly deducting sums.

Jackie Baillie: What sums do they deduct?

Ian Rogers: When a contractor makes a valuation, our colleagues in the RICS will have a look at that and might dispute the valuation, so the contractor will get much less than that throughout the project, leaving the bulk of the money to the last argument—at which point he cannot get his retention back. Many tier 1s use the retention as another main contractor’s discount, because subcontractors do not know when the practical completion of a project takes place, so they do not know when to apply for the retention.

Jackie Baillie: Mr Edgar, defend your profession.

Hew Edgar: We report the market; we do not steer it. A valuation is just taken at the time.

Let me pick up on the point about project bank accounts. Project bank accounts provide a vital cash flow for small and medium-sized enterprises. Without cash flow, an SME can go under—it is as simple as that. An SME can make a profit, but it is all about having the money come in and then go out to pay staff.

On a quarterly basis, we canvass our members who operate in the construction and infrastructure sectors. The most recent iteration of that survey came out in January, and, across the UK, 78 per cent of our members reported financial constraints as the most significant impediment to building activity. Financial constraints included access to bank finance and credit, along with cash flow and liquidity challenges. The matter is certainly on our radar and is very much a concern to our professional membership.

Ian Rogers: Jackie Baillie was going to ask about Carillion—

Jackie Baillie: Hold on: I get to ask you the questions and you get to answer them. I want to ask about procurement and the lessons that have been learned from Carillion, because I think that it was a shock to everyone that Carillion went under.

It was certainly a shock to us. The company was responsible for delivering on sizeable Government contracts, and it had a huge network of subcontractors, all of whom were adversely affected.

It strikes me that the context in which we meet today is pertinent. We have McGill & Co announcing 374 job losses and going into administration, which is a devastating blow for Dundee. However, to the outside world, things looked rosy. Until last year, people were reporting increased profits and rising turnover. I keep asking myself whether we have learned any lessons from Carillion. What does the situation at McGill tell us about what is going on in the construction industry? I would like you to answer first, Mr Rogers.

Ian Rogers: Has the construction industry learned anything from any of the companies going into administration? No—absolutely not. We still tender under the same principles, and we still have a hugely low profit margin. Some companies work to a profit margin of 1 or 2 per cent, which is not sustainable. There need not be a very long pause in their next contract before there is no money left and they are laying people off or going bust.

My question is this: has the Government learned anything about procurement? Are too many projects going to one main contractor instead of being spread through several main contractors? Is looking at the lowest tender the right thing for the Government to do? Is there another avenue to go down? Could we divest ourselves of the highest and lowest tender bids? The bid in the middle is probably correct.

Jackie Baillie: Procurement was reviewed in 2013. You are saying that procurement is just not working.

Ian Rogers: It is not working.

Steven Dillon: What has happened to McGill is really sad. I have been in the industry since I was a lad, and the number of companies that, as a union officer, I have seen go into administration in Scotland is shocking. The sad bit about that is that the Scottish taxpayer picks up the bill for redundancies, notice pay, any protected award and anything else that comes at a later date following an employment tribunal.

Some of those firms open up as a phoenix firm a couple of weeks later. Directors of companies need to be looked at. They can operate after a company goes into administration. They and their families should be barred from opening up another business—plain and simple.

What has happened in Dundee is devastating. Along with PACE—the partnership action for

continuing employment—for the Scottish Government, we are meeting families on Thursday evening.

Unite calls for the use of public procurement to embed direct employment and national collective agreements. Anyone who is subject to significant control, supervision or direction in relation to their work should be deemed to be employed for tax and employment rights purposes. The Government needs to take swift action to prevent employment intermediaries being used to disguise self-employment and exploitative labour practices. That action needs to cover payroll companies, for example.

The conclusions of the Cole report into the issues to do with the forced closure of Edinburgh schools due to defective construction processes led to Unite calling for a national inquiry to look at every building that was constructed under a private finance model, so that the public can be assured that those buildings are safe and fit for purpose. The Cole inquiry should have looked not only at safety but at whether the contracts that are being carried out under the Scottish Government's non-profit distributing model and the previous private finance initiative/public-private partnership models are delivering value for money.

One of the Cole report's recommendations highlights the need to examine payments being made to workers according to the amount of work done. That approach is rife in the construction industry. Checks and balances and improved monitoring need to be put in place by all public sector clients that are engaged in building vital infrastructure projects. That should include project management roles and clerks of works, so that the level of scrutiny of those projects ensures that all tasks are being carried out safely and to the highest specification.

It is important that clients show leadership by developing procurement policies for the selection of contractors that are welded to developing a fair construction economy. Unite sees the commitment to direct employment, apprenticeships and trade union recognition as indicators of that approach. There is also a need for clients to be able to disengage from contracts in which the successful tenderer is operating contrary to fair work principles including the recently updated best practice guidelines. That may require further change to the Public Contract Regulations 2015 exclusion definitions.

Scotland prides itself on being a nation that supports fair work. Rightly, therefore, the challenges of the construction industry should be a key priority. Unite is currently campaigning to ensure that all procuring authorities that are involved in the financing of major construction sector infrastructure projects sign up to the Unite

construction charter as the vehicle for delivering those aims.

Jackie Baillie: Before I bring Ian Rogers back in, I want to hear from Hew Edgar and Simon Rawlinson. Specifically, I want to know whether people know what happened at McGill. The last published accounts show increased turnover and increased profits, but now McGill has closed its doors. Does anybody know what happened?

Ian Rogers: Past performance is no—

The Convener: Jackie Baillie has asked to hear from Hew Edgar and Simon Rawlinson at this point.

Hew Edgar: I do not know what happened and I am not going to comment on that. We cannot comment on individual cases.

I think that there was one word missing from Steven Dillon's commentary: transparency. In procurement, you need transparency and there has been a lack of that for some time now. Most commentators will probably agree with me when I say that changes to procurement are needed. I know that the Crown Commercial Service and the Construction Leadership Council—which I am sure Simon Rawlinson can provide more insight on—are invoking the need for transparency and stating that procurement decisions need to be tied to both social value and payment practices.

Simon Rawlinson: Construction, like most other enterprises, is an entrepreneurial business. These are risk-taking businesses and we know that many sectors are under pressure.

It is absolutely correct—I agree with Steven Dillon and Ian Rogers on this—that in 2018, a large number of construction organisations, mostly very small, will have gone into administration.

The first lesson learned from Carillion, which is an important lesson for everybody around the table, is that as part of the procurement process, the public sector has a role in supporting organisations that are going through challenges. If one could name one or two other large national contractors on which the rumour mill has been working over the past 12 months, one could say that if they had not been given the opportunity to secure work via the public sector, they might well not be operating now. There is a partnership model there, which we need to remember.

The second lesson is that the Government, in the case of a collapse such as Carillion's, has an opportunity to mitigate some of the impacts. I believe that around 1,500 or 2,000 apprenticeships at Carillion were transferred to other organisations through the offices of the Department for Business, Energy and Industrial Strategy and other Government departments, in order to mitigate some of the impacts.

Rather than just sitting back and letting these things happen, you can do something to lessen the impacts. Those involved can be rightly proud of what they did.

Jackie Baillie: I understand that, but thousands more people lost their jobs and many lost their pension rights as well. Although that is a positive, there were significant negatives.

Simon Rawlinson: I absolutely agree with that point.

Jackie Baillie: I will wrap this up with one final question. What I am picking up from the witnesses is that there are four strands: transparency, the idea that small is beautiful, the need to consider not just cost but quality and cost, and the use of contracts to secure fairness in employment.

Taking all that into account, does the current approach in Scotland, which is about having framework agreements and hub companies, favour small firms or not?

Ian Rogers: Our federation has not found that hubs have had any success in cascading work down to smaller companies. The hubs have their preferred suppliers and contractors; they are used to working with them and they know how to work with them, and they are not interested in cascading work down.

Some of the smaller companies are not interested in working with main contractors. The payment terms and retentions do not make it attractive for them. In such circumstances, all that smaller companies are doing is using their meagre financial resources to underpin their work for the main contractor. You can only change that through payment terms, rather than the use of retentions and project bank accounts.

Steven Dillon: Most people I come across on the hubs are based under tier 1, so the small contractors are getting nothing. Ian Rogers is bang on—the small contractors are getting nothing out of it. They might get something further down the line, because sometimes a contract is subcontracted five or six times before a person physically goes out to do the job. We need to work from the bottom up rather than from the top down.

Hew Edgar: Scottish small and medium-sized enterprises are being squeezed out of the hub approach—it is as simple as that. It is slightly flawed, because it favours large companies that are not necessarily Scotland based or based in the hub's region. That can be concerning for local businesses.

Jackie Baillie: SMEs are the overwhelming proportion of construction firms, are they not?

Hew Edgar: Yes, they are.

10:30

Simon Rawlinson: There is a difficult balance to achieve between what might be described as continuity of workload—which applies to organisations that are large enough to undertake sufficient workload with a hub, in order to create consistency of delivery and efficiencies through process—and the desire to cascade work down to a larger number of small organisations.

There is likely to be a trend towards increased capitalisation of construction businesses, such as through investment in off-site manufacturing, which will make it harder for small undercapitalised organisations to compete. On the other hand, that should create better employment conditions, because organisations will have more support and investment, and so will be able to provide better working conditions in factories, for example.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I turn to the Scottish Government's policy to build 50,000 affordable homes by 2021. How capable is the sector to meet Scotland's infrastructure needs and to drive growth as per the investment strand of the economic strategy?

Ian Rogers: Most house developers—we call them house builders, but they are actually developers who rely on the supply chain to build the houses—have land banks, and they wait for them to increase in value before they build houses. If the Government is looking for the private sector to build 50,000 more houses, which is a massive amount, it may wait for some time. It may be better to look at the other model, which is to build affordable homes through local authorities and housing associations.

Colin Beattie: Is your view that the private sector is not able to support the Government's policy on housing?

Ian Rogers: It can support it, but where are the houses going to be built? Developers need to get the land from somewhere. Who has the land?

Colin Beattie: When you talk about developers land banking in anticipation of an increase in price, it did not sound like support.

Ian Rogers: That is how developers develop. They generally do not buy a piece of land and then build on it right away. They build big land banks—any of the big house builders will have massive land banks. Even now, they are not building houses until they sell them. In the boom times of house building, they built a whole estate and then tried to sell it, but those days have gone. They build as required; it is a slower pace of development of a piece of land or property.

Colin Beattie: Are you saying that the private sector's point of view is that those 50,000 homes are not achievable?

Ian Rogers: They are probably not, unless Government pressure is put on.

Steven Dillon: I think that the target should be achievable. If people are banking land and the rest of it, the Government should use its powers and take it back off them. If it needs to build houses, it is that simple.

One of our biggest problems for building houses will be the labour market. A lot of major projects are starting in England, such as high speed 2 and Hinkley Point, which will drain the Scottish economy of craftspeople. That should be a major concern for this committee. We will have a skills shortage when those projects take off; we need to look at the number of Scottish workers who have moved down to Hinkley Point, for example. We might have to boost apprentice numbers, for example, in order to build the houses.

Colin Beattie: Are Scottish workers already moving to take on projects down south?

Steven Dillon: Yes, plenty of Scottish workers are moving down. Two of Scotland's biggest projects were the Queensferry bridge and the Aberdeen bypass; at the moment, the biggest project is the dualling of the A9.

All the people who were working on the road at Aberdeen are heading to Hinkley Point. That includes the craftspeople, such as brickies and joiners, who we require to build the houses. As well as building the houses, we need to boost apprenticeship numbers.

Colin Beattie: Will boosting apprenticeship numbers be adequate, in itself, to allow us to meet the target?

Steven Dillon: It will depend. We need to ensure that we have the land, the finance and the go-ahead to build the houses. At the end of the day, we will still need workers. They are critical no matter what we do—without them, nothing will happen. We have talked about 3D technology, but the houses will not be built with a computer.

The Convener: Let us hear what Simon Rawlinson and Hew Edgar have to say on those points.

Simon Rawlinson: It is important that the committee recognises that the supply chain and labour force that are involved in the delivery of housing are almost completely different from the supply chain and labour force that are involved in the delivery of large civil engineering projects.

Housing is a difficult area, but it is worth recognising that the volume of housing that has been delivered across the UK over the past five

years has increased by 30 or 40 per cent. I am very happy to provide the numbers to you after the meeting. It is possible to increase output.

It is also worth recognising that, increasingly, large strategic land sites are being converted into housing, and such development takes a long time. The Letwin review, with which the committee might be familiar, recognised that the houses on some large sites took about 10 years to deliver. If too much housing is delivered into a market, there will not be sufficient demand. The Letwin review recommended a change in the tenure mix. Having a blend of private, affordable and social housing would mean that we could accelerate the absorption of housing into a local market. Assuming that delivering lots of housing will mean that people will come is the kind of mistake that has been made over the past five or 10 years in China, where there are cities that are waiting for people to come.

It is important to support the industry to increase its capacity. I hope that the committee is aware of the great success of Stewart Milne Homes in securing—in conjunction with Barratt Homes and London and Quadrant Housing Trust, a registered social landlord—a share of £6 million of funding to develop off-site manufacturing innovation. The funding was secured just before Christmas, and it is a great result for an innovative Scottish house builder and for the sector.

Colin Beattie: Technological changes are very important, and there is a question about whether we are doing enough in that regard. The projections indicate that a quarter of construction jobs could vanish as a result of changing technology, which would help to alleviate some of the labour shortages. How good are we at taking advantage of such technologies?

Ian Rogers: To build houses, we need enough planners, we need the infrastructure and we need houses to be connected to sewage systems—some areas of the country are moribund, because nothing more can be put into the sewage systems. A variety of problems slow down the process of house building. Having been a house builder many years ago, I know that initially it can be slow for work to be done on site. That needs to be looked at so that the process, particularly in the affordable market, can be speeded up in some way.

We are now looking at a potential no-deal Brexit, which would stop the inflow of labour, because workers in some areas would not meet the Government's criteria on minimum wages. If that happened, everyone would be fishing for apprentices in the same pond, and there would be fewer fish to come into construction. The hotel, motor and retail trades, as well as our trade, would be looking for apprentices and looking to bring in more young people.

Colin Beattie: Would anyone like to comment on the availability of finance for such projects?

Simon Rawlinson: There are some important developments in public sector finance. I will not be able to quote the exact fund, but I believe that between £10 billion and £15 billion has been provided for infrastructure investment. Dealing with some of the capacity, transport and utilities issues will enable housing infrastructure to be brought forward. Again, I am happy to provide references.

There is a real problem around finance for SME house builders. I am sure that Ian Rogers and Steven Dillon would agree that that is the one area where a hole in the market has emerged over the past nine or 10 years since the recession. That sector of house builders has disappeared in that time. Availability of SME funding, whether that is from banks or from the public sector, will help to increase the overall capacity for house building.

Hew Edgar: I have points to make in four areas in reaction to what has been said. The areas are infrastructure, homes, modern methods of construction and land banking.

On infrastructure, the entire UK has the problem of an infrastructure deficit. We have not built the roads or rails that we need or maintained the existing roads and rails, and housing is another example. The Queensferry crossing, which is a great piece of work, was what we could consider to be a megaproject. The problem is that, as Steven Dillon suggested, we do not have a megaproject to look forward to. The talent and the labour force that were attracted to Scotland to work on the project have now left to seek employment elsewhere—that is what people do. It would be prudent for the Scottish Government to ensure that there is a pipeline of megaprojects or large-scale projects that will entice talent to come to Scotland to work, and also to remain because there is a project for people to move on to.

On the affordable homes target, the £3 billion of investment over five years is a significant sum, and it is a commendable target. The drip-feed approach, with £800 million or thereabouts per budget—forgive me, that maths is terrible; that would be more than that, obviously—allows developers to plan their next steps. Ultimately, however, what is lacking—this goes back to what Simon Rawlinson said—is that we need to widen participation in the housing developer sector. It is as simple as that. We need to find ways to encourage SME builders, but there are also other approaches out there, such as self-build. There is a growing interest in that, with people wanting to build their own homes, but there is a lack of supply of land and a lack of know-how. That is a problem. If we encourage different tenures and different participants, we will increase tenure choice and

type and we will start building homes that people actually want to live in and which meet their requirements.

Modern methods of construction is not a new concept. It has been around for a while and it takes many forms, including off-site construction, prefab homes, modular build and the greater use of technology in general. It is a way to tackle the skills shortage, but let us recognise that it is not a panacea. It will contribute to coping with the skills shortage, but we cannot just build everything that we need in a factory. There will always be a need for a labour force to pull everything together. However, the main benefit of MMC is that it can tackle some of the issues that the construction sector has been struggling with, such as low productivity, variable quality, output lagging behind targets and slim margins for builders, which were mentioned earlier.

Finally, there is a fine line between land banking and a land supply pipeline. Ultimately, developers have to know what their next project is going to be—where and what they are going to build next—and one person's land banking could be another person's pipeline. We need to be careful about that. It might be prudent to look at planning permissions, investigating where they are and seeing what is in development plans and what is being held up where, and why.

John Mason (Glasgow Shettleston) (SNP): Can we look to the future a bit? Some things have been said already about changes that you would like to see in the future, but I would like to concentrate on that area. I will start with the Construction Scotland innovation centre, which I believe started in 2014. Is it being successful? Has it been successful? Will it be successful?

Ian Rogers: Strangely enough, I was on the original Construction Scotland committee. As far as the industry is concerned, Construction Scotland is an anonymous body. If you went and asked any of my members who Construction Scotland is, they would have difficulty in telling you.

John Mason: Specifically, then, is the innovation centre also not known about?

Ian Rogers: I am the chief executive of a federation and it is lost on me.

John Mason: Does anybody else have anything to say on that or shall we just write it off? I am sure that the committee will return to that point in the future.

The Convener: Hew Edgar has something to say.

Hew Edgar: I do not have a lot to say. I have an infographic that indicates that the Construction Scotland innovation centre has supported 206

projects to date, 150 of which have been completed. That information suggests that it is a good organisation, but not that many people are aware of it, as Ian Rogers has indicated. More could be done to advertise the centre, but I think that the work that it undertakes is good.

10:45

John Mason: Where does the innovation come from? Are people working together to innovate or is it left to individual businesses to do that? I have spoken to two active house builders in my constituency. One is very keen on off-site construction, although that does not seem to have taken off, and the other one, which is a reputable company, is quite sceptical about off-site construction. It said that it is not convinced that it is the way ahead. Is there any agreement in that area?

All the witnesses are shaking their heads.

Simon Rawlinson: I will make some observations from the perspective of the Construction Leadership Council and the sector deal that was published in July 2018, which applies UK-wide. There are certain clues in that sector deal. If the Scottish Government could follow those in setting its policy, that would create some momentum around common themes. There are three important themes to pick up on, most of which rely on collaboration. First, there is a collaborative innovation group called i3P—the infrastructure industry innovation platform—which brings together clients, contractors and designers to co-fund innovation. At the moment, it is working on understanding what those common opportunities might be. Potentially, that could bring together research and development funding that could amount to many tens of millions of pounds.

John Mason: Is that active in Scotland?

Simon Rawlinson: It is a national body.

John Mason: When I say “national”, I think of Scotland.

Simon Rawlinson: It is a UK-wide body on which UK-wide organisations are represented, so there will be parties from Scotland involved.

Secondly, the UK Government is taking action on the development of common ways of delivering off-site-manufactured buildings. In the 2017 UK budget, there was an announcement about a presumption in favour of the use of off-site manufacture by five Government departments, including the ministries of justice, transport, health and defence. The Scottish Government could follow up with a similar presumption on a similar way of delivering. The Infrastructure and Projects Authority is conducting an inquiry into product-based design for manufacture and assembly that

would create further common ways of working that would deliver greater productivity.

The only other area on which I would focus would be infrastructure and procurement. That picks up on the important point about the long-term pipeline. We could procure in a common way by using a balanced scorecard to emphasise lifetime value and the creation of skills and employment or by using different techniques, such as off-site manufacturing. That would create a common approach in which people could invest. One of the messages that Mr Mason's two house builders demonstrated is their lack of confidence in there being one solution into which they should put their money. The more confidence the public sector provides by asking a consistent question, the more investment one is likely to get in that solution.

John Mason: Are you saying that the public sector—housing associations and so on—should dictate to builders whether they want the houses to be built off site or on site?

Simon Rawlinson: Currently, there is no presumption for housing associations, for example, to do that. However, RSLs are increasingly very significant players in housing development. They work at volume and at speed, so they could work together to create greater consistency. A publication that we put out that was covered in the press in August or September last year described how RSLs could join together to procure jointly on off-site manufacture.

John Mason: Today, we are trying to get an introduction to issues that we will spend more time on in the future, but I would be interested to hear what the key arguments for and against off-site construction are. We have heard a bit about the fact that off-site construction might be a little safer and might be more attractive to people, because there might be better working conditions. However, does off-site construction result in a better product? Is that product as solid? Do such buildings stand up to the weather? I do not know.

Hew Edgar: On the point about quality, the buildings are put up very quickly, but if you have ever been inside one, you will know that it feels just like you are inside a normal house that was built on site. That is my experience. Everyone is different, of course—the two house builders that you mentioned might have had different experiences that led them to hold different views.

Simon Rawlinson talked about Government support for the roll-out of MMC. We have to recognise that we cannot simply introduce a presumption in favour of MMC in public contracts without upskilling the workforce.

John Mason: Is there a problem with upskilling the workforce because so many of the workers are self-employed?

Hew Edgar: I do not know.

John Mason: Okay.

Hew Edgar: It would also be good if regulators became a little more familiar with MMC products. I can expand on those two issues further in my written evidence.

Ian Rogers: When I was a house builder, in a past life, we did off-site construction and conventional construction. Both were useful in different ways. At times when houses were not selling quickly, we would go for conventional construction, which is slower than off-site construction. Off-site construction needed an extremely high level of quality assurance through on-site inspection. If the following trades ripped the vapour barriers, they were ripping the heart out of the home and letting condensation into the insulation and the wooden structure itself. There needs to be better quality control on site.

John Mason: That goes back to Mr Edgar's point about the skill set of the workforce.

Ian Rogers: It is a question of the skill not only of the construction worker but of the plumber. If he is putting a hole through the vapour barrier, that has to be sealed properly—he cannot just slash it and put a pipe in.

John Mason: So different skills are required; I get that.

Ian Rogers: It is to do with the man's knowledge of what he is doing and the implications of his actions.

Steven Dillon: Unite is not opposed to any innovation, automation or digitalisation of the sector per se. Our position is that the benefits of automation need to be harnessed to ensure positive benefits for workers across all sectors, including construction.

I have been in some off-site construction facilities that are basically like big aircraft hangars with people building sections of houses. There is one up in Inverness. They build the sections there and deliver the house to the site. The ground works are already done at the site and the house just clicks together like a big Lego kit.

The good thing about that way of doing it is that it is safer—that has been proved. As you say, the working conditions are better and the health and safety conditions are better. More than 50 construction workers are killed in Great Britain every year, so if off-site construction can help with that, that would be great. Another good thing about it is that there is no downtime—the house-

building sector here is plagued by downtime, because Scotland does not have the best climate.

We are willing to harness all that stuff, and the Scottish Government should be willing to do so, too. Technologies are available in the sector, and funding should be put into that—I do not know whether that is happening, but the committee should look at that. Anything that makes life easier for construction workers and their families is a good thing.

John Mason: On the skills issue, building something off site and putting it together on site obviously involves a different skill set from the skill set that is involved in the work of traditional bricklayers and so on. Who do you think should be responsible for upskilling the workforce or getting people to adapt their skills? Should the individual companies do that?

Steven Dillon: I do not think that a different skill set is required. Let us be clear about this. Unite will protect those craft skills. They were introduced when they were building the pyramids and all the rest of it—that is how far back it all goes—and we will protect that to the death. A bricklayer will still need to lay the bricks and a joiner will still need to put on the doors; the only difference is that they will be doing that in a better environment. They will be building the units in good accommodation instead of being out in the snow, the cold and the driving rain. We will still need the craftspeople. We need to guard against people trying to water down those skills by saying, “Oh, you can just fit the doors. You don’t need to be a joiner; you’re a door fitter now.” The union will protect those craft skills until we die.

John Mason: Okay. I will leave it at that.

Simon Rawlinson: The CITB has published research into the specific skill sets that are needed to support the development of the off-site industry. As Ian Rogers pointed out, the supervisory skills are important. The main contractors need to understand how the process has changed in order to get the productivity gains, and supervisory skills are important when it comes to how to operate a factory to achieve maximum productivity. One of the things that is encouraging with regard to the trades that Steven Dillon represents is the encouragement of greater multiskilling, so that, rather than someone doing only one thing, they can do many things, which, of course, makes a job richer and potentially more productive.

John Mason: We could debate that point further, but we should come back to it another time.

The Convener: Andy Wightman will ask the next question.

Andy Wightman (Lothian) (Green): Thanks—

Ian Rogers: If you are interested in off-site construction—

John Mason: Sorry; Mr Wightman is speaking now.

Andy Wightman: In 2016, “The Farmer Review of the UK Construction Labour Model: Modernise or Die” was published. It identified a lot of problems in the construction sector, such as low productivity, low predictability, structural fragmentation, poor industry image, workforce size and demographics. I know that the Construction Leadership Council is doing a bit of work on those issues. What impact has that report had in Scotland, and are its lessons being learned by the industry here?

I see that no one wants to comment. I assume that no lessons are being learned.

Ian Rogers: With regard to our craft, there is modernisation in terms of materials, but the skills are the same—you still need someone to put the paint on the walls. There are only three different ways of doing that at present, so how do you modernise that?

Andy Wightman: Fair enough; I do not know how you modernise that.

Simon Rawlinson: I might be able to make one positive contribution. The committee might be aware of Heathrow airport’s proposal to establish a logistics hub in Scotland. Rather than taking place in the crowded south-east of England, the construction associated with the expansion of Heathrow, which I believe has a value of £36 billion over 10 years, will take place across the United Kingdom, with the components being placed in containers and taken down to the south-east of England for assembly. That is as good an articulation as you will get of large clients thinking about the Farmer principles of how to deal with the skill-shortage challenge; how to spread the distribution of skills around the UK to areas where there is unemployment; and how to use the advantages that are provided by improved logistics and smart thinking about how we can construct things. That is a really positive story for Scotland. If Heathrow can make that approach work, the expansion will become a watchword for other projects being delivered where the skills are, rather than in situ. As Steven Dillon and Ian Rogers clearly articulated, those skills are in Scotland.

Andy Wightman: Are you saying that that was a response to the Farmer review, rather than to the need to get Scottish National Party votes in Westminster to support the Heathrow expansion?

11:00

Simon Rawlinson: Heathrow is an active member of project 13. It has been active in probably every industry-reform agenda over the past 10 or 15 years. Andrew Wolstenholme, the ex-chair of the CLC who has been closely involved with Heathrow, wrote a report entitled, "Never Waste a Good Crisis." Heathrow has been at the forefront of construction innovation over an extended period of time. I do not disagree that, in terms of lobbying interests, the ability to spread contracts around the UK is powerful, but I would also say that Heathrow is a leading light in changing the way in which we deliver construction.

Andy Wightman: I turn to the big political topic of the day: Brexit. There is obviously quite a lot of uncertainty around Brexit, but what are the key challenges that it poses to the construction sector in Scotland, as far as we know today?

Hew Edgar: More than anything, the political uncertainty is beginning to take its toll on commercial and industrial activity in Scotland. The protracted uncertainty that has been caused by the stalemate is becoming ever more important in relation to workloads in commercial and industrial sectors. Many things are grinding to a halt across the UK. This is a UK-wide issue; it does not necessarily focus just on Scotland.

I have heard anecdotally that some of our professional members have started seeing Brexit qualifications attached to tender returns stating that, should the UK leave with no deal on 29 March, the contractor reserves the right to renegotiate the tender and the programme. Our members are getting a little bit on edge as we approach leave day.

Ian Rogers: It is difficult to predict what will happen with regard to investment. However, the uncertainty is slowing down all investment. It could impact on materials coming into the country—it could slow the process down or result in our not getting any materials at all. That could provide construction companies with an opportunity to go into different areas.

Labour is another important factor. Historically, the construction sector has got labour from abroad when it has faced skills shortages. We will have to find somewhere else to get that labour.

Andy Wightman: On the labour question, do you think that the UK's immigration policy in relation to qualifications and salary—the £35,000 issue—will adversely affect your sector?

Ian Rogers: It is a barrier to construction.

Simon Rawlinson: The threshold in the immigration white paper is £30,000.

The barrier is more to do with the employment model, and specifically the issue of self-employment, which has been raised already. There is the skilled route and there is the temporary route. The temporary route could work very well for overseas construction workers, most of whom do not spend more than a year in the UK. However, that route relies on there being a sponsor. Currently, the model typically involves self-employed people who are employed through an agency, and that approach will not work with the proposed model. This committee could relay to the Migration Advisory Committee or Westminster our concerns about the white paper, because it does not offer a solution for construction.

The CLC ran a conference in London two weeks ago. In addition to skills, which we have covered, we highlighted some other areas. One is the flow of goods. Because the industry is so fragmented, it is difficult to understand which goods might get stuck in which bit of the supply chain. With a building such as the Scottish Parliament, it is very easy to look at the external curtain wall and say, "Yes, we can order that in advance and ensure that it arrives on time." However, we might not know when some of the products that go into the insulation would be delivered or where they would come from. That lack of transparency is a challenge.

Another potential problem concerns cash flow for importers. In a no-deal situation, VAT would have to be paid at the border whereas, at the moment, it is paid only when products are sold.

The final issue concerns product regulation, which is potentially a significant issue for exporters because, when we leave the EU, UK-manufactured products will no longer be certified for use in the EU, which means that they will have to be certified twice: once in the UK and once elsewhere. That becomes a barrier for our exporting manufacturers, as well as those who import products.

Steven Dillon: Our view is that the scenes in Westminster over the past few weeks in relation to Brexit have been embarrassing for politics in this country. Construction workers have had enough of this floundering around, and they understand that other pressing issues are being shelved because of the uncertainty, and that they face issues with their job security, as we have seen with McGill & Co in Dundee.

By way of context, let me be clear about the position that our union has taken on this matter, which is extremely serious for the economies of the UK and Scotland. Unite's policies are set democratically by its members at its conference, and, in 2016, it set out a position accepting the result of the referendum on the UK's membership of the EU. Our priorities for dealing with the

process of Brexit are paramount with regard to any future UK economy outside the boundaries of the European Union. Unite's priorities are clear: defending the employment rights, terms and conditions and regulatory standards that exist by virtue of agreement through the democratic structures of the EU, and opposing the dog-whistle racism that has accompanied the rise of the far right and which has been unleashed against workers who have come to work in the UK and who make invaluable contributions to our society and our wealth.

Hew Edgar: I would like to make a couple of quick points on the impacts of Brexit. One of the issues that has not been brought up is that of the European Investment Bank and how much infrastructure it supports in the UK. If we leave the EU—with or without a deal—the chances are that we will lose access to that vital funding stream, and, at present, I do not think that the UK Government has plans to introduce any funding mechanism to replace it. In Scotland, we have the national investment bank and its precursor, the building Scotland fund. I am still not entirely clear how the funding mechanisms work in that regard, but they could be used to support infrastructure projects and the mega-projects that I talked about earlier.

My second point concerns procurement. The EU procurement rules are stringent, which is good, because they prevent any mishaps or bad deeds in the procurement process. However, with the UK departing from that process, we have the opportunity to set up our own one. I am not saying that we should do so, but, if we did, we could place an emphasis on the use of local trades and local materials, which, at present, we are not allowed to do. That is an opportunity that is afforded by Brexit.

The Convener: Steven Dillon wants to come back on a point that you have just raised. I will allow him to do that.

Steven Dillon: We have not really spoken about the practice in the industry of employing people through umbrella companies. I want to tell you something that a Unite member who works for an umbrella company said to us—it is critical that we listen to it. He said:

"I wait for a text every Friday to see if I will be working the following week. If I book a holiday and go away with my family there's a real chance that my place at work will be taken by another worker and I'll have no work. If I take a day off I might be replaced, if I call in sick I might be replaced, if I don't work every shift I'm offered, no matter how short noticed, I might be replaced.

I pay an umbrella company up to £100 a week to get my own wages. I have no holiday pay, no sick pay, no unpaid holiday pay. I can't work anywhere else if there is no work for a few weeks. In the rail industry I can only have 1 sponsor. My 'holiday pay' it's actually a % of my net income

that's taken off, then when I get it back it's at gross, so is taxed twice. I also pay both employers and employees NI contributions."

That is one of the practices in this industry. I will finish on that.

The Convener: Thank you. That is a completely new point. I see that Ian Rogers wants to bring in yet another new point, so I will close the discussion now, as we have run over our time.

I thank our witnesses for attending.

11:09

Meeting suspended.

11:13

On resuming—

The Convener: I welcome the two witnesses on our second panel. One of our scheduled witnesses, Matt Lancashire, has had to give us his apologies. With us are Dr Stuart McIntyre from the Fraser of Allander institute, and John McLaren of Scottish Trends. We will start with questions from Jackie Baillie.

Jackie Baillie: I want to explore with you the impact of the construction sector on Scotland's gross domestic product, and the changes in methodology. How important is the construction sector to Scotland's GDP performance?

Dr Stuart McIntyre (Fraser of Allander Institute): There have been concerns about how we measure activity in the construction sector. We raised a number of methodological concerns. The Scottish Government responded to that and changed the methodology to something better, which I will say more about in a moment. That has changed our understanding of the past four or five years' worth of economic growth in Scotland. The methodology is not perfect, but progress has been made on measurement. There is still work to be done and there is, feasibly, scope for further progress, especially as we move to greater use of VAT data.

One of the issues that we raised was that, when we looked at activity in the construction sector over the previous four years, it seemed to bear little relation to what we knew activity in the construction sector—employment, for example—to have been. A big part of that came down to how construction sector data that the Office for National Statistics produced was incorporated into the Scottish GDP figures. That issue was, to a degree, addressed by work that was undertaken by Scottish Government statisticians. The previous methodology relied on orders data, with regional apportionment of the data that the ONS was collecting monthly about construction sector

turnover. The primary input to the Scottish Government's construction series came from the ONS's monthly construction survey and information on turnover in the construction sector, with data on new orders then being used to apportion that across regions.

As I said, there were problems with that approach. In particular, we saw almost an explosion in what it suggested construction sector growth had been in 2014-15. If there had been such an increase in construction GDP, we would have expected to see a reflection of that in employment in the sector, but we did not.

The Scottish Government has now moved to a different methodology that is based on use of ONS data on overall turnover in the construction sector. It is apportioning that in a different way in order to get a series that it believes more closely matches activity in the construction sector.

I am sorry—that was a really long answer.

Jackie Baillie: It was. There is a dramatic difference between minus 12 per cent, which was the figure at one point, and the current 4 per cent, but you think that that is a much more accurate indication of what is actually going on.

Dr McIntyre: There are a number of problems with using the orders data. I will use an offshore wind development as an example: it is the one that the Scottish Government has used. If the order is lodged with a company that is headquartered elsewhere in the UK, we might get a different picture, when we regionalise the Great Britain data on the basis of orders placed, from the one that we would get if the order was lodged with a company that was headquartered in Scotland. The headquarters are where the company is placed, but the supply chain might be elsewhere.

As I said, the move to using the VAT data will improve GDP measurement in general, but it will also help with short-term measurement of construction output in particular.

Jackie Baillie: Okay. Rather than ask John McLaren about the specifics of the change, I will ask him a general question. Somebody always used to say to me, "If construction is booming, the economy is booming, too." Is that correct?

John McLaren (Scottish Trends): That is a good indicator that the economy is doing well. The construction data series is an erratic one, however. When it goes down, it tends to go down more than others. In 2009, it went down almost 15 per cent from 2008, whereas the economy as a whole went down by only 2 per cent. When construction booms, it goes up by more than other sectors, as we have seen in recent years. That erratic quality, together with the difficulty in

collecting the data, makes it difficult to have much faith in the series.

At one point, before the GDP was revised, it looked as though construction output had increased by 33 per cent in real terms in two years. Clearly it had not. The industry itself was saying "We're in the doldrums. We don't know where this is coming from". Now the figure has been revised back to 10 per cent or 12 per cent, which is still a lot.

That said, the ONS has not revised its figures. Its regional figures still show that enormous rise, with infrastructure doubling, so that it now looks to be by far the biggest sector. There are still some issues. The Scottish Government says that the ONS counts as construction things that are actually engineering, or that relate to energy and offshore or onshore wind machines. There is a problem in defining whether it is measuring construction or something else.

GDP is an important weather vane for how well the economy is doing, but it is not a particularly reliable one. If an industry goes up by 33 per cent, the Government might say "Bloody hell! We should be doing something about that!" or it might think that the economy is overheating at UK level, with its associated macro powers. However, if that industry had actually gone up only by 12 per cent or less, the Government would probably make the wrong policy decision. It is important to keep an eye on the figure, but also not to put too much faith in what it shows.

Another factor is important but is rarely commented on. When construction output in Scotland was massively increasing, people were trying to think why the figures were wrong. It is now understood that it was to do with the energy industry. One theory that was probably true to some extent, was that a lot of the new infrastructure—in particular, the new Forth bridge—was being done by overseas firms. Therefore, although it looked as though there was a lot of extra activity, and output had apparently increased by 33 per cent, there was no increase in employment. People who were working on the bridge were coming from other parts of the UK or from abroad to do specialist work, and so were never counted as being in Scotland.

In the matter that we are discussing, gross national income is much more important than GDP, but we are still at the early stages of getting a GNI figure for Scotland. GNI is much more important for Scotland than it is for the UK, because it has a huge impact on the energy sector, much of its foreign-owned fish farming, North Sea oil and banking. Therefore, it is as important as GDP, if not more so. We just do not have a reliable data series for it. That is a tangential factor, but it is important in order that we

can understand the construction sector and how reliable or otherwise GDP is in that area.

Jackie Baillie: To follow that tangent, is it in the Scottish Government's gift to develop that series, or is there a blockage to that?

Dr McIntyre: That is in the Scottish Government's gift and it is developing that data series, but it is difficult to do, because you have to know the ownership of the company and how much of the profits are remitted. Overseas that is difficult but doable, but within the UK it is extremely difficult. What do you do with Tesco and other such companies? What do you do with the Royal Bank of Scotland, which is based in Scotland, but most of its profits come from England. It becomes very complicated and very costly to put enough statistical effort into getting reliable figures. The figures are being produced, but only at the level of Scotland as a whole. The work is still in its very early stages and is a very difficult ask.

Angela Constance: I am interested in productivity. McKinsey and Company is on record as saying that productivity has remained flat for UK construction workers since 1945, while manufacturing, retail and agriculture have grown by 1,500 per cent. According to Construction Scotland, productivity in the Scottish construction industry has remained flat since 1994, yet the economy as a whole has improved by about 30 per cent. What are the implications of that? Are the figures reliable? If so, what are the solutions for improving productivity in the sector?

John McLaren: I would not pay an awful lot of attention to any figure that goes back to 1945, or even to a figure that goes back to 1994. Although the figures for 1994 were in a Construction Scotland article, I think that they relate to the UK because—as far as I am aware—figures for Scotland go back only to 1998.

In the bigger picture, productivity is important, but it is traditionally low in the construction sector, because there is a lot of self-employment in the industry and it is mainly UK driven, whereas a lot of productivity gains come from having international influences coming in and improving productivity.

The Scottish figures that I have here, which go back to 1998—that is why I would not put too much weight on them—show that, in 2015, productivity in the construction sector increased by 27 per cent in terms of output per hour. That is complete and utter rubbish—technically, it is almost impossible to do that. What actually happened? Output went up a bit and employment went down.

To calculate productivity, there are two sides. We have already discussed the GDP side—the

numerator—which is dodgy and a bit unreliable. The denominator—employment—is even worse, because it shows almost no change over time. There are just little ups and downs—even in the past, when it went up 10 per cent. As I said, employment has been going down, which produces the big differences. The reason why employment is difficult to gauge is that there is a lot of self-employment. It is not easy to pick up on such workers and they might not register themselves. It is a difficult area to get a good handle on—not just in Scotland, but anywhere.

Productivity is extremely important, but we do not have a good handle on it, either, so you should not believe the productivity figures that are currently published. Unfortunately, a figure for productivity in the construction industry increasing by 27 per cent in one year feeds through to Scotland's alleged productivity as a whole: 6 per cent of 25 per cent of the economy is quite a lot, so it boosts apparent Scottish productivity. The whole area has to be looked at with care. It is probably one of the most important areas for improvement.

On improving productivity, we have low R and D and low innovation, especially in construction, and there might be an issue with skills, which we will probably come on to later. There are quite a lot of policy areas on which we could do more, including increasing exports.

Angela Constance: Before I turn to Dr McIntyre, Mr McLaren has provided an interesting deconstruction of the statistics and the reliability—or otherwise—of measuring productivity. What would help us to get a better handle on productivity in the construction industry? Is there something that we are not doing, or should we be taking a different approach?

John McLaren: You could go to the microdata level and look at it in terms of separate businesses. Construction is not one area: it includes public, housing, infrastructure, repairs and maintenance, commercial and industrial works, and they are all quite different.

People who deal with the infrastructure and housing sectors, for example, could ask big companies to look privately at their data and put the information together so that we can see the level of output compared not with the past year but with a previous period, in order to identify whether productivity is improving. There would be some issues with that because there are also a number of small and medium-sized enterprises involved in those sectors, but something could be done in that regard.

Bigger companies tend to have a much better productivity record than smaller companies, so if smaller companies dominate, we will not

necessarily get a true picture of how productivity has been moving.

11:30

Angela Constance: Without putting words in your mouth, I think that you are saying that there should be a more in-depth focus on real companies and businesses and that we should take a more granular, case-study approach.

John McLaren: Yes. If the statisticians or the economists in the Scottish Government had that understanding, we would never have said that GDP had increased by 33 per cent. I do not think that any economist or statistician ever believed that, but it was still published. If there had been that relationship with the companies, they would have said that the figure was not right and the data or the series could have been suspended or rethought before it was published.

Angela Constance: That is interesting.

Dr McIntyre: I can say something about that, as well as clarifying some points in relation to Jackie Baillie's questions.

A lot of the measurement issues with the construction sector do not relate to construction sector output in, for example, 2010, 2011 and 2012, which are much better benchmarked against supply and use tables. The annual business survey data and the firm-level microdata help Scottish Government statisticians to produce such tables, so that we have a better understanding of what is actually happening. The issue to do with the data and the numerator, which was mentioned, relates to the short-term past—the past few years—before we get the benchmark data. Although there is, of course, an issue with data quality—quite a lot of work has been done on that—it is much more acute in the immediate past, which is what gets the headlines. People want to know whether the level of construction is up or down in a certain quarter. It is worth bearing that in mind when we think about output in the construction sector.

Another couple of points are worth making. What we talk about as output in the construction sector is only a subset of construction output. A lot of what we think of intuitively as activity in construction takes place in other sectors. We focus on the construction sector, as defined in the national accounts, but that omits a lot of what we might think of as the product of construction. We need to be slightly careful about focusing very narrowly on the construction sector, as it is defined, and ignoring activity elsewhere. The sector includes buildings and civils, which involve relatively high value-added activity compared with other activities that people might think of intuitively as construction. We should not take the

construction sector as being construction—full stop. Within the sector, there are differences, including some importance differences in relation to productivity.

Angela Constance: That is useful. You have reminded us that we should always dig deep behind the headlines, particularly in relation to statistics or indicators.

What are your views on the establishment of the Construction Scotland innovation centre? Is it likely to help to achieve change on the ground in the real world?

Dr McIntyre: Two points are important, and they relate to your question about the drivers of productivity improvement.

First, the data that we have focused on so far has related to labour productivity, for example output per job and output per hour. There is evidence—it is somewhat dated, in that it is probably 10 or 12 years old—that, in contrast to many countries, the UK's capital intensity in construction is quite low. We use a lot of labour but not much capital compared with Germany, which I think was the example that was used.

The evidence that I have looked at for the UK suggests that, when we control for that additional input, our construction sector is not out of kilter with its international peers—or it certainly was not at that point—in its ability to take capital and labour and produce construction. However, if we have relatively higher labour inputs, our productivity will look worse than that of our international competitors. You asked what we can do with the data to get a better handle on what is happening with productivity in the construction sector. One thing is to go back and control for the capital that is used in production so that we have an idea of how productive the sector actually is.

It is just as well that the witnesses on the first panel are no longer here, because my second point is that one of the problems in the construction sector is management practice. The survey that the ONS did last year, which it will repeat shortly, placed management practice in the construction sector as being below average and among the worst in any sector, so that is a big challenge as well. The question is how we can better combine the inputs.

John McLaren: To be honest, I think that we are both quite good at discussing the data and the economics of the area but, because we are not construction experts, we—or certainly I—will struggle in knowing much about the Construction Scotland innovation centre and how effectively it and other such bodies are working, or even major policy changes that have been made in recent years. However, what the committee should be looking at is why these bodies were set up, whose

interests they are really looking after and what specific problems they are trying to solve.

The Construction Scotland innovation centre might be quite good for large companies in Scotland, but much of the sector is made up of SMEs, which do not have much time or money for training and other things, so will they be able to engage with it? Will the centre help as many people as it could? Those are all issues. If you ask Construction Scotland, it will say that it is doing those things, but you need somehow to get to the truth of how well it is working and whether it could be working better.

Angela Constance: I want to look at regional variations, which I am always interested in. Although Scotland is a small country, it has very different local economies, and I want to look at regional variations in the context of innovation.

The Scottish Parliament information centre paper contains statistics on the local authority areas that contribute most to GVA in construction, and the top ones are the big ones—Glasgow, Edinburgh and South Lanarkshire. That is probably not surprising, given their scale. We see a similar pattern when the paper talks about the top five local authority areas for construction employment, which are Glasgow, the Lanarkshires, Fife and Edinburgh. When we move on to the top five local authority areas for construction enterprise activity, we see Glasgow again but also Aberdeenshire and Highland. Do you have any views on how smaller local authorities can be leading the way as well?

John McLaren: Again, I do not have a great knowledge of the reliability of the regional data in this area, but it strikes me that it is important to break down the data by different types of construction. Housing is going to be heavily related to population size, as is suggested in the paper, but Highland might be doing well on infrastructure because of onshore and offshore energy construction, which can be quite big, and Aberdeen has construction relating to the North Sea. The central belt will be much more about business and industry construction.

We need to dig a little deeper into the figures to be able to see that, for example, South Ayrshire is anomalous in that it is not building many houses. Why is that happening? Is there a problem in that area or is it doing something else? Perhaps we should look at the areas in which the Government might have more interest and be able to make more of an impact, for example the provision of more public housing, rather than energy projects in the Highlands; there will be issues for the Government with such projects, including planning, infrastructure and access, but they are of a different ilk from housing issues.

That is as much as I can offer in that area.

The Convener: Dr McIntyre can sweep up one or two of those points if he wishes, but we will move on to questions from John Mason.

John Mason: Both witnesses have made me quite pessimistic, as it seems that we cannot measure anything very accurately, but how do we build on that? The evidence that you have given us so far has been very helpful. I do not know whether you heard the previous session, but one of the witnesses said that we should run a megaproject all the time, presumably to create specialist skills, jobs and so on.

Should we be putting money into construction? Is it definitely having a positive impact on the economy? We have always been told that building new houses will help people to get out of fuel poverty, help them to be healthier and help kids to study because they will have more space. There are all those positives. On the other hand, if we put money into construction, it might all go to men, because there are so few women in the sector, so women might lose out and the gender pay gap will get worse. Can you help me with those questions, or are things so uncertain that we cannot tell?

Dr McIntyre: In response to Angela Constance and Jackie Baillie's points, I tried to explain that the big-picture trends and data are probably reasonably reliable, certainly over the past two, three, four or five years. There is an issue with measuring GDP in the shorter term, which is being addressed. The committee should not get the impression that we cannot know anything or rely on anything in the data because the data is inherently problematic. It is a case of being aware of what is being captured when we look at the big-picture trends.

On Angela Constance's point, there is an issue with measuring employment at a more local level, because the confidence intervals around survey estimates get bigger. We should bear that in mind. On the gender pay gap, the annual survey of hours and earnings probably produces some of the best survey-based data that we have on earnings. It is not that the data is unreliable; it is just that there are confidence intervals, which are inherent in any survey. We can do things to improve the situation but, in the longer term, having access to VAT data on turnover and Her Majesty's Revenue and Customs data on earnings will provide us with more reliable indicators at a more local level and with more reliable estimates of the gender pay gap.

John Mason: I get the point that a lot of improvement needs to be done but, unfortunately, it is today that Parliament needs to decide how we spend next year's budget. Do we put the money into construction projects, or do we use it to

provide more nurses or social workers? Do we encourage young people into the construction sector or into nursing? Are you able to give us any guidance on those questions? Does a pound that is spent on construction work its way through the system, or is it not as simple as that?

Dr McIntyre: John McLaren and I can look and say that the multiplier effect on the economy of expenditure in the construction sector is whatever it is, and say what the expected effect would be if money was spent in a different sector. The broader issue, which goes back to the questions on the new institute, relates to what the aims are and what is supposed to be achieved. Presumably, the institute will have a variety of aims and not just the aim of boosting GDP. The question is how we design an evaluation process that allows us to conclude whether it has achieved those aims. In Scotland, we are not very good at doing that.

11:45

John Mason: Are we saying that it is more difficult in this sector than in other sectors, because of all the issues to do with self-employment and so on?

Dr McIntyre: It is not inherently more difficult if we have the data or design the evaluation in such a way that we can look at the effect on individual contracts or forms. If the activity that is being supported is heavily dominated by male employment, no one would be surprised to see those gender differences replicated when that is run through a standard economic model. If we take the view that we will fund new female apprenticeships in construction and the criterion for applying for those is that someone must be female, that will boost female employment in the construction sector. The question is at what level you want to look at it.

John McLaren: The idea of having a megaproject running all the time has some merits because, if it is a megaproject, it will involve big companies and there is a good chance that there will be a lot of overseas involvement, which could improve productivity, not just on the project but among all the suppliers in Scotland. That could have a long-term positive impact. Presumably the megaproject would be a good one that would have its own long-term positive impact on the Scottish economy, rather than being, for example, building a bridge to nowhere. That might sound like a silly example, but many countries do that sort of thing.

If we did something like that, there would be short-term complaints, such as, "There aren't many Scottish people or Scottish companies involved in it." That is because it would be at the cutting edge, which is where innovation and

productivity come from, and people would not yet see the long-term productivity benefits that would ripple through the wider economy.

On the other hand, we could ask whether a pound spent in construction is good for Scotland. At the moment, it is good for Scotland, because much of the construction sector is Scottish based, because there are so many small and medium-sized companies. That is good in the short term, but those companies are not very productive, so it would not necessarily do so much good in the long term. All those things have to be balanced out.

Another consideration is whether to pick certain areas in which Scotland is well placed and where we could build up a better knowledge base or sectoral specialisation, for example in green construction, which is a faster-growing area than most others, or pre-construction, where we build something and then move it elsewhere at the end. That is quite big in some continental countries.

John Mason: I will run out of time, but I want to press you on that point. From the discussion with the previous panel it was clear that, in practice, there is a wide view on building on or offsite and so on. From an economic point of view, does it make any difference or is it simply whether that is the more productive way in which to do it?

John McLaren: From my point of view, the most important thing is that those are the fastest-growing areas of construction. If Scottish construction as a whole wants to get into the faster-growing areas, rather than the ones where not so much is happening, pre-construction and green construction are areas where there should be more focus. That might be helped by having training programmes and by easing planning permission so that such projects can come through. There are different ways of looking at those things. Those are the growth industries and, if we want the economy to grow faster, we should have more presence in the growth industries.

John Mason: I could ask you more, but I will leave it at that.

Colin Beattie: The Scottish Government has an ambition to build 50,000 houses by 2021. How capable is the sector of meeting Scotland's infrastructure needs to drive growth as per the investment strand of Scotland's economic strategy?

John McLaren: I will go first this time, to give Stuart McIntyre a bit of thinking time.

If the conditions are in place to allow those houses to be built, the target can be met. If they are not constructed by Scottish firms, somebody else, such as a UK firm, will come in.

There are conditions that must be met: that people will want to buy the houses and that their

income is sufficient to enable them to do so; that planning permission is available so that the houses can be built relatively easily; and that the companies will get a reasonable profit from selling them. Those are the more important elements in relation to meeting such a goal, especially on the private side.

On the public side, it is slightly different, as there are obviously budget concerns. The budget is tight now, and that situation is likely to continue, which puts more focus on having some sort of public-private partnership. That is a difficult area—some might say that it is a rat-infested area. It has had its problems in the past and it is still having its problems. It is a matter of how best to get the two sectors to work together, so that the funding pressure is taken off the public sector and the private sector produces what you want and of high enough quality, but I do not think that we have really sorted out how to do that.

That is probably not a particularly useful answer of the kind that you were hoping for. The basics consist of those two aspects. The issue is not about the ability of the construction sector to do it—if other things are in place, the housing will be built, although perhaps not by Scottish companies. On the other side, if the public sector does not have the money, the issue is how you get in the private sector to help out.

Colin Beattie: Members of the previous panel alarmed me by saying that meeting the target would not be possible. They seemed to say that that is because of land banking. Companies have banked a lot of land and there is a pipeline for the use of that land, so what the Scottish Government wants will not be achieved.

John McLaren: That goes back to my point about the other things needing to be in place. One of those conditions is that people's earnings are sufficient to allow them to buy a new house; the other is that the planning permissions and other such things are in place that would allow the houses to be built. The land banking issue comes up because companies might say, "We don't want to build there. You might want us to build there, but we don't want to build there. We will build there, but we won't build there until we're happy that we can get the right price for what we build, so we're going to land bank." There is a stalemate; that is a different condition.

The houses—or the roads or the hospitals—can always be built because the industry always has the capacity. That is different from asking whether we could feed ourselves using only our own agriculture.

Colin Beattie: Do you believe that the capacity is there? Members of the previous panel talked about shortages of workers in the industry, issues

to do with Brexit affecting the number of workers that are available and the ageing population in the industry. Perhaps the capacity is not there.

John McLaren: Brexit certainly has the potential to impact on the number of workers who can be involved, but I imagine that that will be a temporary issue. Ultimately, if the country and the construction industry are grinding to a halt, the Government will find a way. The workers might not come from eastern Europe, but they will come from somewhere to do the jobs.

Do I think that 50,000 houses will be built? There is a good chance that they will not be. Almost every target of the UK Government—or other Governments—is not met, because they do not address the underlying problems. They just say, "We want this to be built," but companies might not want to build in that place, at that price, or they might not want the development to have as much social housing in it. That is the issue. Companies might say, "Could we build them? Yes, we could build them, but not in the way that you want us to build them."

There is a good chance that the target will not be met, but not for capacity reasons, Brexit aside.

Dr McIntyre: There is a whole range of issues around the housing market and land more generally, as the committee is well aware. In Scotland, we are in a period of unprecedentedly low unemployment and youth unemployment in comparison with other parts of the UK, and certainly in comparison with Europe.

There is a question as to whether the sector is experiencing recruitment difficulties, or fears that it would face difficulties if there was a substantial increase in demand. Alongside that, however, a month does not go by without a construction firm in Scotland getting into trouble. To the extent that that results in workers being released back into the labour market, recruitment might be less of an issue. However, we need to hear the experience of the sector on that.

Colin Beattie: What about availability of finance? There is some evidence that the first-echelon lenders are less willing to lend into construction these days and that firms are having to go to more expensive second-echelon lenders.

John McLaren: Yes, I have seen some evidence that banks are less willing to lend to the construction sector, the thought being that, because that sector is more prone to boom and bust, it is not as safe a lending bet as other areas. Again, that is outside my area of expertise, but if it is the case—for which there seems to be some evidence—is it an area in which the Scottish Investment Bank could have a role? Does the SIB see a role for itself in that area or is it too specialised an area? Perhaps there are too many

small and medium-sized companies in construction—company size is an important issue here—so we might need a different type of public sector banking or financial assistance. It could just be that, because a lot of the companies are small and medium-sized, they do not have the financial expertise to know what the options are, whether those options involve Government grants, dealing with a bank or whatever. The problem might be self-inflicted in the sense that the companies do not have the expertise to avail themselves of the loans that they could get.

Andy Wightman: I want to ask about the historical roles of the public and private sectors in construction. Historically, the public sector led in building houses, roads, railways and energy infrastructure. Over the past 40 years, that has swung dramatically so that the private sector is more involved—not so much on the railways, but certainly in energy, housing and so on. What economic impact does that have? Is there an optimal balance when one is talking about projects that are fundamentally about assets with long lifespans?

John McLaren: There are a lot of big issues involved in that question. If we look at how the Government has spent money in the 21st century compared with how money was spent in the first half of the 20th century, or perhaps post the first world war, the shares might not be that different—they are a bit higher now than they were then—but what the money is being spent on is massively different. The balance between what was spent on things such as education and health versus defence infrastructure and so on has shifted.

Part of the reason for the squeeze on the public sector in the areas that you referred to is that the Government has decided to spend much more money on health and education—I guess that that is politically popular; otherwise, the Government would not be doing it—but that means that much less is available for other areas, which is why less money has been invested in public housing.

In addition, people have looked for a better way to get the private sector more involved in an area that used to be financed by the public sector. I guess that, in historical terms, we are still in the early days of that; we are still scrabbling around to find ways of ensuring that, in the schools that are built, it does not cost £150 to change a light bulb and that the tiling does not fall off after a couple of years and it is nobody's fault, or the firm has gone bust and we cannot get the money back.

We no longer have the money to spend on public infrastructure, unless the decision is taken to increase taxes, and the realpolitik—although this might not be your opinion or my opinion—is that anyone who goes into an election saying, “I'm going to increase income tax by 20p,” will lose the

election. If that is the case, money is not going to become available again to spend on public infrastructure and public housing. Therefore, the question is how we solve the problem of getting enough infrastructure—and infrastructure of a good standard. That is an extremely common problem. Most countries are probably dealing with the issue and scrabbling around to find a reliable way through it.

12:00

Andy Wightman: I am interested in what you are saying. My daughter went to a PPP high school, the design life of which is 40 years. She came from a primary school that had just celebrated its 125th anniversary, which will last another 125 years, with some maintenance and a lift bolted on to the outside, to improve accessibility.

You are saying that these are political choices. People want short-term rewards for their electoral choices, as opposed to taking the longer-term view that was perhaps inevitably taken in the past, because construction methodology was different and there was no choice but to build things that would last a long time, given that they were being built out of stone and steel.

John McLaren: There is that; there is also the fact that part of why a lot of schools—maybe not so much primary schools but certainly secondary schools—are torn down is because they are just not functional. Design and architecture have moved on, so there are ways of getting better flow around the building and preventing bullying and so on, which cannot be done in the old buildings.

I think that people almost build in obsolescence now—it is not quite as bad as it is with the Apple phone. People think that, given how things are going, a different style of school will probably be needed in 20, 30 or 40 years' time, so they should not spend too much on a school, because it will get ripped down after 40 years. That is a valid approach, but the issue then is how we ensure that the school is good enough in the 30 years of its existence, even if we know that it will come down.

It is interesting to compare what people thought should be in a school 30 years ago with what is in a school today. The school that I went to was probably not that different from the school that my dad went to, but the set-up in schools now is entirely different for kids from how it was when I was at school, and the new schools need a different structure.

I can understand that, but it makes it extremely challenging to decide what is the best approach. We could apply that to anything—airports, road systems and so on.

Dr McIntyre: University campuses struggle with exactly the same issue. At the University of Strathclyde and the University of Glasgow, lots of redevelopment is taking place, just to make old buildings fit for purpose for modern students.

I do not know what the design life of the Scottish Parliament building is—[*Laughter.*] I will not push that point, but it raises similar issues. I do not think that the issue is who delivers the project; it is more a question of what the commission for the project is and how much people are willing to spend to do it.

Andy Wightman: I was thinking more about the financing than the commissioning.

You talked briefly about Brexit—that perennial topic, which the committee has not talked about for a while. We are perhaps reaching the beginning of the end, or the end of the beginning. Over the past year, have new challenges appeared for the construction sector that might not have been apparent before?

John McLaren: I cannot think of anything new; there is just the old chestnut of the workforce. In relation to pressures in the construction industry, on the positive side—well, it is not positive—having less net migration to Scotland will mean that there is less pressure on the public sector and housing, and less need to expand infrastructure for new housing. People might see that as a short-term positive, but in the long term it is not necessarily good for Scotland.

I read somewhere that the migrant workers in the construction industry are almost all in London. It is hugely dependent on eastern European workers. Outside London, the number of migrants in the construction industry here is not that different from the numbers in other areas. I read that only once—I am not steeped in that area—and it would be interesting to see whether it is true.

Can we get workers from other places? That depends on what the final settlement is. A lot of people from the Indian subcontinent, for example, are in places such as Qatar. I imagine that coming to work here is slightly nicer than arriving in Qatar and waving goodbye to one's passport for a while.

Andy Wightman: Is it the case that the negotiations over the future relationship with the European Union are as important—if not more important—in respect of the economic impacts than the negotiations that have taken place to secure a withdrawal agreement?

John McLaren: My understanding is that there is an attempt to vote through a holding clause that has nothing in it about what the future economic arrangement will be. That is very dispiriting, but that agreement is all still to be negotiated. Most of

the negotiation is still to come. What can we pick from that, given that we have been trying to negotiate for two years, we seem to have got virtually nowhere, and we are going to negotiate the future economic arrangement in the next two years or whenever?

Dr McIntyre: One of the leading indicators for the GB construction sector was published yesterday. Its outlook is the weakest for 10 or 11 months.

There is a broader issue. For the past couple of years, there has been uncertainty, which has meant that people have been in wait-and-see mode for reasons that John McLaren touched on. This morning, I saw something that I had not fully appreciated. Some of the lead times for exports are more than six weeks, so people are now having to hold off on stuff that they would have delivered in six, seven or eight weeks because they simply do not know what customs arrangements they will face. Someone who was starting a construction project today would have to order inputs from Europe or elsewhere that would arrive in eight, nine or 10 weeks, so we can see that getting to this crunch point is potentially quite damaging for the sector.

The Convener: Can you give us a specific illustration of such an item?

Dr McIntyre: As John McLaren and I have said, we are not experts on the construction sector—I think that the committee knows that. I wanted to illustrate the broader point about getting close to the cut-off date and the effect on lead times. It is not difficult to think about goods that fall into that category.

The Convener: We could all discuss Brexit for quite a length of time, but I do not want to stress test the life expectancy of the Parliament building. We have slightly overrun how long our witnesses expected to be with us. Thank you very much for coming to the meeting.

12:08

Meeting continued in private until 12:51.

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