



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 19 March 2019

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

10th 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:

Willie Coffey (Kilmarnock and Irvine Valley) (SNP) (Committee Substitute)
Bruce Dickson (BAM Construct UK)
Cara Hilton (Civil Engineering Contractors Association Scotland)
Tom Mason (North East Scotland) (Con) (Committee Substitute)
Gordon Nelson (Federation of Master Builders Scotland)
Jim Young (Institution of Civil Engineers Scotland)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 19 March 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 10th meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone to turn their electrical devices to silent. We have received apologies from Gordon MacDonald, and Willie Coffey is here in his stead. Dean Lockhart has also sent his apologies, and Tom Mason is standing in for him.

Item 1 is a decision on whether to take items 4 and 5 in private. Is that agreed?

Members indicated agreement.

Construction and Scotland's Economy

09:45

The Convener: We turn to our inquiry into construction and Scotland's economy. I invite Tom Mason to declare an interest.

Tom Mason (North East Scotland) (Con): I am a member of the Institution of Civil Engineers Scotland, which is relevant to the questioning of one of the witnesses, Jim Young.

The Convener: Committee members will try to keep their questions short, so could the witnesses keep their answers focused on the points that they wish to make to the committee.

I will introduce our witnesses. They are Gordon Nelson, director, Federation of Master Builders Scotland; Bruce Dickson, regional director, BAM Construct UK; Cara Hilton, policy and public affairs manager, Civil Engineering Contractors Association Scotland; and Jim Young, chair, Institution of Civil Engineers Scotland.

I will start with a question for the panel. The committee has heard evidence about the fairly fragmented nature of the construction industry in Scotland, and the impression seems to be that it is slow to embrace change. I understand that there are more than 120 trade bodies and professional organisations. What is your view on the industry's ability to adapt to and welcome change to improve building techniques, construction and how you go about things?

Cara Hilton (Civil Engineering Contractors Association Scotland): One of the issues is that the sector is fragmented, but I think that we are united in the common issues that we face. One of the key challenges in the construction sector is the very low margins that a lot of our members operate on—1 or 2 per cent at the most. It is difficult to focus on embracing change and innovation when the top priority often has to be the day-to-day running of the company and ensuring a sustainable future for the organisation and the workforce.

We are agreed that one of the main problems is the fact that the current procurement model is outdated. Our members are frustrated at the amount of time that they spend preparing bids and chasing payment, so we need to get the building blocks in place in terms of procurement and payment practice if we are going to see change in the industry. We certainly need to move away from the current focus on low price, towards quality and fairness. Only if we do that will we achieve effective collaboration throughout the whole project stage. We appreciate that politicians are

concerned about projects being delivered on time and on budget but, if we are going to have change in the industry, it needs to be about quality, sustainability and fairness for the people who are working in the sector.

Bruce Dickson (BAM Construct UK): I always find this argument quite interesting, because people do not talk about the information technology sector as being disparate and fragmented in the same way that they talk about the construction sector. In fact, we have a far better structure than that sector, in which a lot of people are self-employed and work from home.

We are disparate and fragmented in so far as we have a disparate and fragmented client base, who all want something different from the sector. Therefore, our sector is organised to respond to the needs of our clients and we are probably unique as a sector in that we are completely client driven, apart from in relation to house building, which I will put to one side. The commercial and public sector construction businesses do not sell products; they are sold products that they then, at every level, bid to build. When you are working with such a disparate and fragmented client base, it is very difficult to be anything other than disparate and fragmented.

People use that as evidence that the organisations have no joined-up ideas. I would make a distinction. I am a member of five of the 120 bodies, and a lot of our members are cross-sector. I chair a panel that is made up of representatives of most of those sectors, and we all share a vision for the future of the industry. As has just been explained, our industry's biggest problem is lowest-cost procurement. We are always the lowest common denominator, and that makes it very difficult to be anything other than disparate and fragmented and has caused the problems that we have in our sector.

Jim Young (Institution of Civil Engineers Scotland): The industry is reactive in nature; we react to the needs and demands of our clients. I echo my colleagues in saying that, unless clients are willing to invest in innovation and pay for that, there will not be innovation. We react to the demands of the market. Innovation starts with our clients and their demands.

Gordon Nelson (Federation of Master Builders Scotland): To echo previous comments, I say that the industry has a diverse range of clients; our member base works for a swathe of different clients. The majority are domestic clients, but we also have house builders, as well as commercial and public sector clients. The industry has about 45,000 businesses and 170,000 employees. As colleagues here indicated, we have to mirror the demands of the clients. They come to the industry and we have to adapt accordingly.

In our view, it is the client that has the key role; if the client's procurement enables our members and other contractors to win work profitably and at the right margin, they can reinvest in innovation, changing processes and becoming more efficient and productive businesses. However, so much of procurement focuses on lowest cost and lacks collaboration that it is problematic, with extremely narrow scope for many contractors to reinvest, embrace change and innovate. There may be 120 different bodies, but there is a lot of collaboration and sharing of knowledge between them. I spoke with colleagues on the panel before the committee meeting and have had various meetings with others, too. There is a huge passion to show leadership and embrace change for the better among the members I am most familiar with in our organisation, although that may be on a small level. However, that is happening within the straitjacket of a procurement model that does not allow the industry to adapt and invest to deliver a better result for its clients and its workforce.

The Convener: The Construction Scotland industry leadership group introduced a new strategy for the sector earlier this year. What do you think of that?

Bruce Dickson: I have to declare a conflict of interest on that, because I sit on the leadership group and had a hand in drafting the strategy. Therefore, my view is that it sets out very clearly the aims of industry. We simplified it down to six key headings, all of which are balanced between the needs that clients have from industry and the needs that we have from clients, particularly our public sector clients. Our top priority is to reform procurement. Again, I confess that I chair the Construction Scotland procurement working group, which is a cross-sector body that is made up of every leading Scottish contracting organisation and the Royal Incorporation of Architects in Scotland. We recently chaired three meetings to come up with the top themes and the biggest problems that face the industry. Lowest-cost procurement is regarded universally as the biggest challenge that our industry faces.

The Convener: What do you mean by that?

Bruce Dickson: If we look at the criteria that we have to meet, the vision is that our industry is procured on a balance of cost and quality. However, the RIAS did a fantastic bit of work two years ago that clearly demonstrated how the public sector always gives cost the highest score. Decisions that are based on anything up to a 70:30 split between quality and cost will always be based on lowest cost; for example, that would be the case in a 60:40 split between quality and cost.

Across all the sectors in our industry, procurement is done on lowest cost. At small and medium-sized enterprise level, there is a fantastic

little instrument called quick quote, through which contracts go out to the open market and, in effect, whoever puts in the lowest bid gets the job—there is no consideration of quality whatsoever. I have sat on many panels over the years, so I know that the justification for that approach is that it is taxpayers' money and that to use it wisely you have to get the cheapest price possible. The problem is that that does not reflect the damage that that approach does to the industry. We can be in denial on that for as long as we want, but lowest-cost procurement damages the industry—it keeps us where we are.

We talked about slowness to innovate. We are a tier 1 business, and we operate at the highest level. To be honest, I try to avoid clients that ask us to do projects that I consider to be SME-level projects, because I think that that is wrong. However, on technology, we have worked out that my business spends £350,000 a year in Scotland on building information modelling, or BIM. Because it is so immature, we have a full BIM modelling team in Glasgow, which is four people who just build models. We should not be doing that work, as it should be driven by designers, but very often with projects we do not get BIM models. Every one of our staff out on site has an iPad with this wonderful thing called BIM 360 Field, which costs £30 a month. On our current economic model of lowest cost, I cannot see how SME businesses could possibly make that level of investment because, to be honest, we struggle with it, and we are seriously considering why we are doing it.

The Convener: We have heard evidence that the lowest price does not necessarily equal delivery for that price by a contractor. What are you doing to persuade those who offer work to the industry that, in fact, they should not just go for the lowest monetary cost?

Bruce Dickson: In about 2013, when I spoke at a Scotland Excel conference and explained what a suicide bid was, there was genuine amazement that that could happen, but my line was that clients encourage that. In construction, we do not have a stable outlook or see a pipeline of work. I run a business that aims to turn over roughly £150 million a year in Scotland. I know roughly what I am doing this year, and I know what I will be doing for six months of next year. That is deemed to be a good position in construction, and we are asked to invest in that model.

Suicide bidding is when contractors cannot see work ahead, so they have to win something. The problem is that, in construction, you can win a contract by bidding below cost. It is quite simple: you get all your supply chain quotes in, you look at them and think that you will be able to buy them for anywhere between 10 and 20 per cent

cheaper, so you knock that off your bid, and you stick it in. You then have two options. The first is that you basically fight a war against your client in claims and disputes. The second is that you try to buy at rock-bottom prices from your supply chain. Either of those is damaging to the industry, because you are not innovating or looking at quality; you are looking at survival. Because of the nature of the way in which you won the work, you are on a survival footing from day 1. I have spent the majority of my career trying to avoid that style of procurement model.

The Convener: Would any of the other panel members like to comment on the industry leadership group, before we move to questions from John Mason? As Bruce Dickson said, he has an interest in that group.

Jim Young: Leadership is a key point. Unless senior figures in the industry show leadership and promote change, it will not happen. The United Kingdom-wide infrastructure client group has been looking at the issue, because clients have realised that their major projects have not been working and have not provided what they really want. With facilitation from the Institution of Civil Engineers, the group has introduced project 13, which we refer to in our submission. That is a new concept of procurement that involves taking a more collaborative approach to procuring major infrastructure projects. The idea of collaboration has been kicked about for years, and we are sitting here today discussing it, but it is still not happening. Project 13 is about trying to change the roles, so that we think of it not as a product to be bought and more as an enterprise to be delivered. It is about trying to take a much more collaborative approach to procurement. Project 13 is still at an embryonic stage. Some major clients in the UK are using it, and reports are available—we have referred to that in our submission.

Major leaders in the industry have been trying to develop a culture of collaboration for years, but we still have a long way to go on that.

10:00

Cara Hilton: CECA Scotland should declare an interest in respect of the Construction Scotland industry leadership group, as our chief executive is a member.

We are particularly pleased to see the focus of the strategy and its emphasis on procurement, because that is the key issue that needs to be sorted out. Bruce Dickson highlighted the point that construction companies cannot see a clear pipeline of work. That is one of the huge challenges that the industry faces.

CECA Scotland carries out a workload trends survey every quarter, and the most recent one has

revealed not just that the industry is in recession but that it has been in decline for the past five quarters in a row. That is in contrast with the rest of the UK, where there is a clearer pipeline of work. That needs to be a focus if we want a bright future for the industry in Scotland.

Gordon Nelson: We in the FMB support the strategy that has been produced by the industry leadership group. Construction Scotland is a good listening body for the industry. It has been good to get together with Construction Scotland to discuss things through the inaugural industry bodies representative forum in which different groups get together around the table and discuss common issues.

We support the strategy. As indicated, there are six priorities but, as has been mentioned a few times this morning, number 1 is procurement and the drive to overcome the emphasis on the lowest cost and the implications of that for the construction industry and the various actors within it.

John Mason (Glasgow Shettleston) (SNP): I would like to hear about some of your thinking on apprenticeships. We have had varied evidence on the subject. Some people have said that the system in Scotland is quite good compared with elsewhere, but we have also heard suggestions that some of the college-based learning is not matching up to what people need when they get on site. There is a suggestion that the apprenticeship model is too inflexible to meet the rapidly changing technological nature of the construction sector, and there is a suggestion that the Scottish vocational qualification—SVQ—level 3 might be diluted in some way. I would be interested to hear your thoughts on that to start with.

Gordon Nelson: The rise in apprenticeship starts in Scotland over the past six or seven years, particularly in the craft trades—according to statistics from the Construction Industry Training Board—is a good thing. We are always encouraging our members to take on more apprentices if the work is there and if they are confident about winning work profitably and investing in their business. That is not just about innovation, technology and change; it is also about recruiting and training apprentices.

We need to be careful when we consider the range of different apprenticeships, a few of which are under the modern apprenticeship umbrella. This is perhaps a personal view, but I think that that we are starting to see a change in attitudes among the wider public to vocational careers, rather than university or academic education, which was viewed as a panacea for many years. If that is going to change—it hopefully will—and if more influencers, parents, teachers and education

professionals are saying that there is huge value in apprenticeships, let us not try to change that by diluting or downgrading the quality of construction craft apprenticeships in particular.

John Mason: I agree with you that we should be emphasising trades as well as university. Do you see evidence that that is happening and that things are changing?

Gordon Nelson: We put out indicative surveys as part of our market research last year across the UK, asking parents for their views about vocational versus academic education. Although the sample bases were not huge, the surveys indicated a shift from our previous in-house evidence base. Although it was a tiny sample size, the indications are at least encouraging. Our Scotland board wants to protect the integrity and the all-round transferability of the skills that construction craft apprenticeships embolden among apprentices. We do not want to be set in our ways for ever, but we must recognise the all-round quality of our apprenticeships.

I have been comparing our data with some of the feedback from members in England, who view the four-year construction craft apprenticeship model as the gold standard. Many employers in England envy that and the quality that it produces consistently. There is pressure in England to move towards three-year or two-year apprenticeships. People there are saying that Scotland should not try to emulate what is happening there and that we should stick to the four-year apprenticeship, with its quality and the all-round skills transferability.

John Mason: Who is pushing for two or three years instead of four? Is somebody pushing for that?

Gordon Nelson: It is different actors in different parts of the industry. There has been feedback from colleagues in England that there are some consequences from the UK-wide apprenticeship levy. Many employers who are struggling to win procurement on more profitable terms say that there are ways to reinvest in the business by using that apprenticeship levy and taking on more apprentices. How do they do that? By having shorter and faster apprenticeships. Does that help quality in the longer term? No. That is probably where the pressure is coming from.

John Mason: That is helpful. Does anyone have anything to add to that?

Jim Young: I will answer with three hats on. I am here to represent the Institution of Civil Engineers, but I am also on the nation council of CITB and I work for an SME contractor who employs apprentices.

Through its branch structure, the ICE spends considerable time working with its members on

knowledge transfer within its branches and the industry. We also spend considerable time attending careers events in schools and elsewhere to promote the industry and attract new skills into it from all age ranges. We are heavily promoting graduate apprenticeships in schools, which are a joint work and academic route, rather than a purely academic route. In schools, we try to promote the industry heavily as a career.

You touched on whether the colleges are delivering what we want. Speaking with my SME and CITB hats on, in the area where I work in north-east Scotland, it is my experience that they are. I try to go into colleges as much as I can to see what the young apprentices—principally trades apprentices—are doing. I can speak only from my experience, but the colleges are doing what we want.

Cara Hilton: The Scottish Government's direction of travel on apprenticeships is welcome, especially the focus on foundation and graduate apprenticeships, as that will be the way to transform the industry in future. However, our members have concerns about the apprenticeship levy. We appreciate that it is not something that the Scottish Government chose to implement, but we are concerned that the funding is difficult to access. For example, in relation to the flexible workforce development fund, we have had a lot of feedback that the college courses on offer do not necessarily meet the needs of our members, and we would like the fund to be extended so that it can also be accessed by training groups. We are generally happy with the direction of travel, but there is a need to change mindsets, particularly of parents, and make apprenticeships a first-choice career route, because they certainly should be.

John Mason: Do the colleges ask for advice as to how they should be training the apprentices, or do they just do their own thing? What is the problem?

Cara Hilton: We certainly work closely with the colleges on the development of the graduate apprenticeships. The concern is in respect of the funding that our members can access as a result of paying the apprenticeship levy. They feel that the courses that colleges are delivering cover things such as IT in a way that does not meet the needs of the industry. Our members are paying the CITB levy and an apprenticeship levy, so it is a double tax, which has caused a bit of resentment in the industry.

Bruce Dickson: There are various threads here. The first is the Scottish apprenticeship system, which, in my view, is fantastic. The joined-up approach, with modern foundation apprenticeships leading to modern apprenticeships and, particularly, the development of the graduate-level apprenticeships, is

something that England does not have and was not clever enough to take. The apprenticeship levy is being used in a completely different way in England, but access to the money is easier. Effectively, employers create a pot that they can then draw on, but they have to build their own apprenticeship programme.

Up here, we developed the graduate-level apprenticeship programme. I chaired the technical expert group for the programme in construction and built environment. It was a brilliant experience to work with colleges to come up with a bespoke approach to training for construction managers of the future—primarily surveyors, probably, because the weakness of the scheme is that no construction management GLA is planned. There is, however, a very good construction GLA in civil engineering, which blurs the line. We are absolutely leading on that.

The difficulty that we have is the perception of apprenticeships. I would love to agree with Gordon Nelson, but I am not seeing the shift. Before I came here, I asked my senior members of staff what they think is happening.

One of them said, "My daughter is at a high school in Glasgow that offers a foundation apprenticeship in construction. She is a very clever girl and would quite like to follow her father into construction. We went to a careers evening and she expressed an interest in that apprenticeship, but she was told very firmly by the headmistress that that was not for her."

That is our challenge. Despite being an amazing industry, construction is not perceived as such. We sponsored four foundation apprentices in Glasgow, but we are now down to three. The parents of a young lady who was one of those apprentices took her off the course, because they did not see her future as being in construction.

John Mason: You have come on to my next point, which is about getting more women into construction. There might be a slight disagreement about how young people as a whole see construction, so let us focus on what we can do. I will be happy to hear from the other panellists, too. Can we do anything more? Should it be the industry, the Parliament or schools that encourage women in particular into the construction sector? I happened to visit Glasgow Caledonian University last week, which is doing a big publicity push to get more men into nursing. Has that been done already for women and construction?

Bruce Dickson: I will be honest and say that 75 per cent of our recruitment efforts are focused on improving the diversity balance, because a more diverse industry would categorically be a better industry.

As for professional trades, 50 per cent of our quantity surveyor intake apprentices are female. That has been a massive success, because, when I started in this industry, it was absolutely dominated by men. The challenge is with project-based and staff and trades-based construction. The industry is doing huge amounts of work on that.

There is a programme called inspiring construction, which was started by the Scottish Contractors Group, taken on by Construction Scotland and funded by CITB. It has had amazing results and it is very much about construction being a great career for everybody. The problem is that CITB will cut our budget in June this year so, after one year's huge effort in building the programme, it will die.

Another problem is that we pay a massive amount of money to CITB, but it does not listen to industry. Industry is making a huge effort, because it knows that it has to do something, but the resistance from schools and parents is still massive. I think that we would need five years—not one—of the inspiring construction programme to get over that and really start making inroads.

Cara Hilton: There is no doubt that gender diversity is totally lacking in the construction sector. The figures for engineering are slightly better than 1 per cent—I think that 6 per cent of engineering apprentices are women. That is disappointing, because girls outperform boys at all levels of the education system, including in science, technology, engineering and mathematics subjects. There is an issue with parental aspirations for kids, as Bruce Dickson said.

That is certainly a priority for us at CECA Scotland. We always look to promote women in the sector and, this year, our trainee civil engineers of the year are both women. However, it is about not just getting women into the sector but doing more to support them once they are in. One of the things that we are doing to support our members is to offer a train the trainer course in conjunction with West Lothian College, which is about supporting women apprentices in the workplace, breaking down the unconscious bias that is widespread in the construction industry, and making sure that they are properly supported and have networks.

That is important, too, because I saw the statistic that 73 per cent of the women who take STEM subjects at university do not pursue careers in the industry. We have to look at why that is. Tackling it could be about making workplaces more inclusive; ensuring that there is personal protective equipment designed for women; making construction sites better places to be and offering better on-site facilities, such as toilets; and opening up opportunities and creating more

pathways into the sector for women who are returning to their career after having children, so that we try to recruit not just young women but those who are returning to work.

There are many things that we can do and we are doing a lot. It will take a long time to filter through, but, if we want the industry to change, it is really important that we make leaps and bounds in increasing diversity in the sector.

John Mason: One business told us that if it sends two male apprentices down south, it can put them in the same Travelodge room, but if it sends a woman and a guy down, it has to pay for two rooms, so there is an extra cost. Can you think of an answer for dealing with that kind of thing?

10:15

Cara Hilton: Well, that is just ridiculous—it certainly does not support women in the industry.

We have to do more to support the wellbeing of all workers in the industry. There are people who are spending a lot of time away from home, and we need to improve on-site facilities and what they experience in their day-to-day working lives. Indeed, that is important when you look at the mental health issues in the construction sector; I know that that issue is not being covered in this inquiry, but mental wellbeing is certainly one of the main health and safety challenges facing the sector. It is a big, huge issue. After all, suicide kills more men working in construction than falls from height.

All these issues have to be looked at in the round. In addressing the barriers to women working in the sector, we will be addressing wider issues and matters that have to be improved in construction.

Jim Young: From my experience of going into schools to promote the industry, I think that there is a definite lack of understanding of and respect for construction and what we do. A complete societal change is needed on this matter, because I do not think that society and the clients really respect the industry in general or really understand what we do. Those of us in construction and civil engineering create the whole fabric of the life that we live; we design, build and maintain it. When you turn on the taps in the morning, what happens is a result of the efforts of the construction industry and what we do. As I said, there needs to be a complete societal change so that people understand and respect that.

John Mason: Is the situation different in other countries? We have had the impression that in France, for example, engineering and construction are more respected than they are here.

Jim Young: That is a fact, and it has been that way for a number of years. People in other countries respect those in construction and engineers far more than we do in the UK and Scotland. Why, I do not know.

More time must be spent on this matter. It will not happen just in a year, and it will probably not happen without a number of targeted interventions to promote such a change.

The Convener: Sadly, time is very limited. As a targeted intervention, I ask Colin Beattie to move to the next theme.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to explore a couple of comments by Mark Farmer, author of the Farmer review. He said that the industry has to innovate “or die”, and his report also said that the UK construction industry faced “inexorable decline” unless long-standing problems were addressed. Will the witnesses comment on those statements?

Bruce Dickson: The Simon report in 1944 said exactly the same thing, as did the Latham report in 1994 and the Egan report in 1998. The industry has been in inexorable decline since about 1860, primarily because the way in which it has been procured has not changed.

I will be honest: the industry changes very quickly when it has to. You would be astounded at how fast we can change to meet client demand. Just look at what we do: for most of us around the table, it is very rare that we will work on the same kind of project twice in a row. It is a completely different job every time. Is that the sign of an industry that cannot change or adapt?

The problem is that we are in a straitjacket with regard to the way in which we are procured and our client base. As Mark Farmer said, change has to start somewhere; however, it is very difficult for an industry that works the way that we do to change itself, because that would be called cartel behaviour. For change to happen, the person who employs us has to say, “I don’t want that any more. Can you give me something different?” If you were to say to the industry, “We’d like you to be different. What can you offer?”, you would get an answer instantly.

As for challenges, we were working on quite a major project and came up with an off-site factory-manufactured solution that was far easier and faster than building it on site and with potentially better life expectancy. However, it cost approximately 50 per cent more than building it on site with bricklayers, so guess what we are doing? In a client-driven decision, we are not manufacturing it in a factory; instead, we are going to build it on site. Those are the kind of challenges that we face.

Gordon Nelson: I was going to refer to the back catalogue of reports into the industry from years gone by, but Bruce Dickson has already covered those.

There are challenges in the Farmer review for the industry, but in the sections of work that the bulk of our members work on there will be a demand for construction for many years to come. In Scotland, 80 per cent of the homes that we need to occupy now are already built. Given the need to repair, refurbish and maintain those buildings, there will be a huge demand for work.

According to the Scottish house condition survey, 68 per cent of dwellings in Scotland—more than two thirds of homes—have some degree of disrepair and about 28 per cent of them, which is just over a quarter, needed urgent repair. Therefore, if we look purely at repairs, maintenance, improvements and refurbishment projects, we can see that there is a huge demand for work for many operators in the construction industry.

I am not talking about the many other projects that large contractors deliver or the new homes that are built. The question is how the work will be delivered—and how well it will be delivered—by businesses that can become sustainable and the workforce. That issue might be teased out in the Farmer review.

As Bruce Dickson said, the industry has been in “inexorable decline” since the mid-19th century. However, there will be demand from clients for types of construction work, be that on new builds or maintaining our existing building stock.

Colin Beattie: You gave examples of how you innovate with your clients. However, we heard the statement that, since 1945 there have been no productivity gains within the industry; I find that hard to believe, but that was stated. Responding to client demand by producing a different model of construction is one thing, but has basic, fundamental construction changed? Is there more innovation in your day-to-day construction?

Bruce Dickson: I have been in the industry for 31 years. When I started in 1988, we did not feel safe when we walked on to a construction site. The environment had probably changed very little, and that was on a tier 1, top-of-the-tree construction site. If you were to walk on to a modern construction site, you would find virtually a factory environment. Our health and safety practices are still not perfect, but when we compare today’s statistics to those from 30 years ago, we can see that we work in a different world.

Sometimes, it amazes me that we have changed so much the way in which we operate and the parameters within which we operate while staying anything like as productive as we were

when construction sites were like the wild west. It is stunning. If you Google photographs of construction sites in 1980 and in 2019, you will not see the same environment. We now work in a completely different environment. That is what gets missed.

That goes across SMEs and the vast majority of construction sites; a lot of it is driven by legislation and the fact that, uniquely in Europe, we have a very good Health and Safety Executive, which forces us to get better—or fines us out of existence. When it comes to the care that we have for people, the way that we work is radically different.

Colin Beattie: However, that has been driven from outside by changes in legislation that require better health and safety practices. Would the industry have moved naturally in that direction? Perhaps it would not have done so at the same pace.

Bruce Dickson: It is a 50:50 balance. The industry has moved massively; at many levels, it goes way beyond compliance. The HSE structure works; it forces us to get better and sometimes that is what is needed—in this and other areas of life. Was the industry already aware? I would not run a company that hurt people. That would be an incredibly depressing experience. We fixated on causing no harm to the people who work for us.

Colin Beattie: But again, the industry has been conforming to external pressures, such as legislation. What about genuine innovation that is driven internally by a desire to improve productivity and the product?

Bruce Dickson: When it comes to product delivery, some of the evidence is that the quality side is not great. When we cut costs, that is the problem. It is the third way—we fight with the client or the supply chain or we cut corners on construction. The evidence is there. I cannot deny to the committee that there are big quality issues with historic and not-so-historic buildings in the construction industry. However, that does not suit anybody, because the best way to deliver a profitable project is to get it right first time. The industry probably spends more on going back to fix defective construction than it makes in profit.

My company has invested massively in BIM to try to improve our delivery and quality on site and to get it right first time, because rebuilding is the biggest source of waste in the industry. We cannot sit here and say that we are ineffective and unproductive and that we do not want to be better. We look at all means within our control to become more productive, because in theory that goes straight to our bottom line. The industry is very aware of the bottom line, because it barely exists.

Colin Beattie: Given your responses, how would you define innovation in the construction industry?

Bruce Dickson: It involves doing new and better things.

Jim Young: During my 40 years in the industry, aside from the desperately needed health and safety improvements that were driven and delivered by legislation, we have innovated in design and moved on from drawing boards. The way in which we design now is massively different from how it was 40 years ago; there are fewer people and they use computers. The industry has moved on to use BIM, which has been a huge innovation.

The next step involves more changes and innovations, which have been touched on a couple of times today and in the reports. For a number of years, we have been messing around with off-site manufacture, especially in the house-building industry, which involves more repetitive production. Off-site manufacture is still being looked at, and there have been a number of changes. However, innovation does not come without investment, and the current procurement approach severely limits the ability of business to invest in innovation. For many years, the approach has been about lower prices. We will struggle with innovation until we take a more collaborative approach and understand that there is a real cost involved in what a product requires.

There is another restraint on investment in innovation in the construction industry. Much of what the industry delivers is designed before it is delivered. In the current model, clients get someone to design the product that they need and there is a contract with a price for delivery. Contractors are expected to deliver the end product for the lowest possible price.

That is why ICE is working with the project 13 approach and looking at how the client can change that model. The Egan and Latham reports tried to promote a more collaborative approach to how we deliver, but they have not improved the situation. That will not happen unless the clients grasp what is required. We represent everyone, from the people who sit down and design to the young graduate apprentices. However, unless clients, designers and suppliers work together to change the approach to how we procure and deliver projects and take them from concept to completion, innovation will be severely limited.

The Convener: We move to questions from Andy Wightman, which may follow on from the limitations that Jim Young just spoke about.

Andy Wightman (Lothian) (Green): Bruce Dickson and Jim Young talked about BIM, which I

understand is building information modelling. One submission to the committee said:

“the ... industry has remained in the stone age.”

That is a fairly inflammatory remark. The industry is not in the stone age, but I think that the comment alludes to the idea that it is slow to adopt new technologies.

Could you tell us a bit more about building information modelling and other technologies? How fast have they been adopted across the industry? What impact are they having? How do you see such technologies developing in future?

10:30

Jim Young: Building information modelling is a development whereby the product is taken into a digital model that can be accessed from the design stage right through to construction, with all the construction information being put into it, and ultimately given to the client so that they have the digital model of the building or piece of infrastructure. It has been adopted on major infrastructure and building projects. Gordon Nelson might be able to say more about that.

I will be quite open and say that BIM has got nowhere in the SME sector, which I work in, or on smaller projects, because it requires investment. For people to work and collaborate in BIM, they have to invest in people and software and spend time. It comes down to cost, and that is where it is held back in the SME sector.

Gordon Nelson: Jim Young makes valid points. I do not think that I have come across any of our members who have adopted integrated BIM, for the reasons that he outlined. The innovation that they carry out is about small-level process innovation and doing things smarter and better. For example, they are using apps that enable them to scan in their receipts and save money on accountant fees. They are not adopting BIM because, given their client base, their levels of investment and the understanding of their businesses, it is not seen as a necessity or a requirement. Our members understand that BIM exists and they are aware of it, but at present many of them see it as something that is useful for the tier 1s and they are waiting to see how it permeates across other parts of the industry. It is not being taken up by our member base at present, as far as I am aware.

Andy Wightman: Are new entrants to the industry becoming more digitally aware? Are you working with universities and colleges to improve their digital skills, or is that not relevant?

Jim Young: The younger generation are far more digitally aware than some of the older generation, such as me. However, the ways that

they use those skills in their day-to-day work in construction are probably limited. Businesses in the SME sector have embraced digital technology in how they communicate, how they handle information and how they process their economic assets, but in construction we still work in a physical world: we are out on sites creating things. At present, we are nowhere near looking at robot construction.

Bruce Dickson: The attraction of BIM is simple. In theory, it allows us to build projects virtually before we actually build them. As I said, one of the biggest sources of waste in the industry is design that is not co-ordinated and work having to be redone.

The first challenge that we have with BIM is a legal one because, as soon as somebody came up with the brilliant idea of all the different design disciplines getting together to build a model, everyone brought up the intellectual property rights issue. That means that we in the industry still struggle to get co-ordinated models from designers, which rather undoes half of the benefits of BIM.

When I started work, nothing had changed and designs were created with drawing boards and pencils. We then had the wonder of AutoCAD, which came in probably in the early 1990s, and suddenly everything went on to computer. The transition from two-dimensional to three-dimensional computing is phenomenal, but there are challenges. Universities have been slow. I was lecturing at a university and talking about the wonders of BIM and it did not even have a BIM class in place at the time. However, they are catching up, because it is generally accepted that BIM will be the future and that, in theory, it will be the future for everybody. Instead of looking at drawings on paper, people will look at three-dimensional drawings on computer screens.

The younger entrants who are coming into the business are absolutely more digitally aware than the old school. That makes things even more challenging when we consider our demographic, because 20 per cent of our workforce is aged 50 to 70, and those people are very resistant to change. It is difficult to drive adoption of the digital model given our turnover and the fact that there is a lot of resistance.

Andy Wightman: House building is an important part of the construction industry, but obviously the procurement model is not about clients, because most new-build is speculative; there are also the issues around land markets, which we have been exploring. What do you think are the reasons for the rate of new house building not meeting demand?

Gordon Nelson: One factor has been the fact that, over the past 20 or 30 years, there has been a significant dropping out of small house building companies that build fewer than 50 homes a year. I think that the statistics say that there has been a 40 per cent drop in the number of such companies.

In more recent times, that has been a legacy of the recession. According to the National House Building Council, in 2008, across the United Kingdom, there were nearly 5,500 house builders that each built up to 100 homes a year. By 2016, that figure had fallen to just over 1,900. Another statistic is that, in 1988, 66 per cent of all new homes were built by house building companies that would be considered to be small and medium-sized enterprises, but by 2016 that figure was only 23 per cent. There has been a huge drop in the capacity of the collective house building industry, particularly in SME house builders. That has been a significant factor, and the recession exacerbated that trend.

From speaking to some of our members who aspire to be house builders—those who work on repairs, maintenance, renovations, improvements and renovation projects—and those who build up to, say, six homes a year, I know that the next step for them involves accessing the right type of affordable and available finance. That is a barrier to entry for many of them. They know that we are not building anywhere near enough homes in the UK—that is hard to miss—and they see that as an opportunity.

Related to that is the world of planning barriers and constraints, and the up-front costs of planning barriers. All that prevents smaller house builders from upscaling their effort, and it thwarts the efforts of larger house builders, too. There are many aspects of the planning area that act as a barrier. Some of our members have reported that they are very much aware that the resources of planning departments and local authorities have been cut back over recent years, which means simply that there are no longer enough planners to help developers and builders get through the process. Those who remain are busy, which means that there is a lack of facilitation of and engagement in trying to deliver congruent development for the local area, for example.

There are many barriers. I have touched on just a few of them to get the ball rolling.

Jim Young: The Institution of Civil Engineers produces an annual “State of the Nation” report. Last year, we produced a Scotland-specific report that was about infrastructure, and the need to plan and invest in and, crucially, maintain infrastructure. This year, our report will be on housing. I cannot say a great deal about it at the moment, but the Institution of Civil Engineers recognises that

housing is an important part of infrastructure. We are considering those issues and our report will probably be out in November.

Andy Wightman: When we discussed the pipeline and the pressure on costs for contractors, I seem to remember that there was a suggestion that bringing in contractors at an earlier stage of the process—around procurement, design, build and the issuing of contracts—would be one way forward. Does anyone have any thoughts on that?

Cara Hilton: We agree that that would be the best way forward. Unfortunately, that is not what is happening with the current procurement model that public sector clients in Scotland are using. Along with the Construction Scotland leadership group, we are lobbying the Scottish Government for the establishment of a Scottish civils framework that would create opportunities for earlier collaboration that would be based on quality as well as cost and which would give Scotland-based SMEs a fighting chance of getting work. We want that to be established and we hope that the Scottish Government will take our view on board.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Before we rush away from the digital technology side of things, I have a question for Gordon Nelson and Bruce Dickson. Gordon Nelson said that a lot of SMEs do not embrace the new digital technologies, which are perhaps more of a focus for tier 1. Is that a problem of cost, or is it about applicability? What can we do to encourage or provide shared access to digital technologies, so that more parts of the sector can benefit from them?

Gordon Nelson: I said that it is BIM, specifically, that many medium-sized enterprises are not adopting. Enterprises are adopting digital technologies, but I guess that we are talking about small-level apps to help them to run their business systems.

You asked how we enable more uptake of BIM in the SME sector. If people understand that using BIM is a source of competitive advantage for their business and that working in collaboration with clients would help them, they will say yes. I am aware that there are training courses on BIM, but I do not think that they have permeated through the wider industry.

That might be something for us to explore with tier 1 contractors. We can say, “Okay. You have adopted BIM. What have you learned over the past two or three years, and what can we apply from that, albeit in a much smaller-scale business, working with different clients and industries? What use of BIM is applicable to an SME that is working in a local area?” It is about understanding that.

It is about the mindset of our members. They are the ones that talk to local schools, where they

see barriers of resistance or come across more enlightened school leaders, who see that construction is changing and is not just about muddy boots and bad weather—there are rich examples of the many different roles in industry and the technology that is available.

I think that the mindset is there in SMEs; it is about freeing up time for people who are busy running their businesses and lack the resource capacity to train beyond the requirements for compliance. That is a challenge, but the area needs to be explored. If we can show SMEs that technologies will be of benefit to their business and enable them to win work more profitably, they will see that investing in training is a way forward. We maybe need to collaborate more effectively with large contractors, to see what is applicable.

Bruce Dickson: We are in the process of upskilling our supply chain. Some 86 per cent of our suppliers in Scotland are local, central belt SMEs. There is no point in our being a digital-enabled business if our suppliers are not, because, in effect, they are us.

We host all digital projects on our system, to which our suppliers have access—unfortunately at the moment they have to use an iPad, because Autodesk has a deal with Apple, but that ends this year and suppliers will be able to access our system on any digital tablet device. We have had a big programme of training, because a technology does not work for us unless they adopt it, as well.

The SMEs that work for me probably are not the same as those that Gordon Nelson has working in the repair and maintenance and domestic sector. I think that they see the benefits. There are definitely advantages of having everyone on the system, particularly when it comes to driving through quality outputs.

Jackie Baillie (Dumbarton) (Lab): I want to open up a wider discussion about procurement, which some witnesses have touched on. I am keen to know how satisfied you are with current procurement approaches. Will each of you give me a couple of examples of what is wrong? I will start with Jim Young.

Jim Young: There are a multitude of different procurement methods in practice, all of which are variations on a theme. Clients in the public and private sectors come up with a project: it is designed and put out to the market, and it is then tied up with a contractor, in some form of contract, and delivered. The contract is generally awarded on lowest price, although—particularly in the public sector—a quality aspect will be tied in; the split might be 70:30 or 60:40. In general, price is the driving factor. Price is generally the factor in the client's mind.

That is a very transactional process. It is driven by cost, and the market is very competitive. Designers have to operate in the same way in bidding for work, so everyone is driven by cost. Because the market is so competitive, people are bidding on very, very low margins; when they win work, they must then try to establish how they can make at least some sort of margin—wondering how you are going to do that is not a particularly good way to start off a project.

10:45

Jackie Baillie: How do businesses decide which margins to trim?

Jim Young: You would need to ask specific businesses. Taking off my ICE hat and speaking with reference to my day job, I will say that it is about businesses working out how they will get the job and about sitting down—

Jackie Baillie: Businesses could reduce the quality of the materials or reduce salaries.

Jim Young: Not necessarily. It is about businesses ensuring that they can do the job as quickly as they can. In my business, we have a fair number of our own employees in the trades, but there is an element of subcontracting. Businesses could go out to the subcontract market and look for a more—

Jackie Baillie: You transfer the risk of the costs downwards to your subcontractors.

Jim Young: Risk transfer is a big issue. As Gordon Nelson touched on, businesses in the construction sector construct unique products every day in unique environments, which can be out in the open. There is huge risk in what we do.

I have touched on the forms of contract that are used. Back in the days of Latham and Egan, the new forms of contract that were being drawn up—such as new engineering contracts, which the Institution of Civil Engineers drew up—were meant to be more collaborative and about getting people to understand and share risk. Today in the construction industry, there should probably be two or three forms of contract: NECs, an original intermediate building contract, which is sometimes used—

Jackie Baillie: Before we get into that level of detail, I wanted an overview from witnesses about what they consider as the real constraints. I ask you to hold on to that level of detail for just now.

I turn to Cara Hilton. What are the problems in public sector contracting, in particular? Will you give us a couple of examples?

Cara Hilton: The current procurement model is broken. As Jim Young said, it is weighted towards cost rather than towards quality. A lot of the risk is

transferred to contractors, and that continues as we go down the supply chain. There are often fairly big supply chains, and that encourages a race to the bottom.

The hub approach and the framework approach are used widely for public contracts. A lot of our members feel that they do not have the chance to bid for such contracts, because their businesses are simply not big enough. They are based in their local communities, but they cannot bid for the work that is on their doorstep. It is a source of frustration for members when companies from down south, Spain or elsewhere in the European Union win contracts for the work. Such companies do not have the same stake in local communities that Scottish-based SMEs have. That is why we really need change.

At UK level, the situation is a bit worse. The collapse of Carillion should have been a wake-up call for the industry but, months later, the UK Government launched one of the biggest framework contracts in Europe for, potentially, all public sector work. Clearly, lessons have not been learned, which is disappointing. That is why we need to take a distinct Scottish approach, and I hope that that will be one of the outcomes from the committee's inquiry, so that progress can be made in that area.

We have a lot of positive procurement policy in Scotland, which we would like to be better enforced. The cross-party group on construction, of which we are a member, has called for the creation of a regulator of the construction sector. That will ensure that the policies on fair work and a living wage are not just in place, but enforced, which will prevent the race to the bottom and protect conditions across the supply chain.

Jackie Baillie: That is very interesting. I will pick up on some of those points. There was a Scottish public sector procurement in construction review in 2013. Did that not do the job? Is that why we are back here talking about the issue?

Cara Hilton: Indeed. That is extremely frustrating. At the beginning of the session, we talked about the industry being fragmented, but we are united in our view that we want the challenges with procurement to be tackled. The current system needs to change, and the Scottish Government needs to take action. We have the opportunity to use the powers in the Scottish Parliament to make a real difference to Scotland-based SMEs.

We should be supporting Scotland-based industries and I hope that we will do that. That is why one of the recommendations of the review was to introduce a Scottish construction regulator. That has not happened. We have not seen any

progress on that, but the time has come for that to happen and to drive change in the industry.

Gordon Nelson: From our experience, the key problem facing SMEs with regard to public procurement is the resource-intensive prequalification process. I mooted earlier that many SMEs do not have the time or capacity to engage in the prequalification process, but larger firms do. I am not saying that larger firms embrace the prequalification questionnaire, but it is a big factor in putting off many of our members from engaging in public procurement in the first place.

The consequences of much smaller contracts being bundled into much larger ones mean that SMEs are priced out of bidding because the contracts are too large. That was one reason for Carillion's demise: megacontracts were subcategorised across a dozen different small units and the risk spread to SMEs.

There is also the poor implementation of framework agreements. Our member base in Scotland has mixed views on the hub programme. There are those who do not want to engage because that is not their business model and there are those who are involved. It seems as though the risks of getting involved and the costs and delays mean that it is not the right fit.

As Cara Hilton mentioned, we have members in the north of Scotland who feel that they are being priced out of jobs that they are perfectly capable of delivering on, such as building a primary school, because the job has gone to the hub "by default"—that is the expression that I have heard. I am asked, "Who has pushed the hub button, Gordon?", but I do not know the answer. The hub programme may work well for much larger projects, but there is a bit of a mixed bag of evidence on other projects.

Jackie Baillie: That takes me to Bruce Dickson, who I have left until last deliberately, because BAM is a tier 1 contractor. How many hubcos is BAM a tier 1 contractor for?

Bruce Dickson: We are on three hubcos.

Jackie Baillie: That is three out of five hubcos, which means that you have a significant influence over public sector construction in Scotland. What do you make of the suggestion from Cara Hilton and Gordon Nelson that the hubcos and framework create challenges for smaller firms, such that work tends to go outwith Scotland?

Bruce Dickson: That is interesting: the work does not go outwith Scotland. There is a misunderstanding that tier 1 contractors are somehow not Scottish. Everyone who works for me lives, works and pays taxes in Scotland. We started off as a Scottish SME. We do not own any

of the hubcos—they are owned by the contractors, so we are the junior partners.

Hubcos do not deliver the majority of Scottish public sector work: they deliver a small element of it, the vast majority of which is revenue financed, because it is the only route to revenue finance.

All frameworks are like Marmite: if you are on them they are great and if you are not, they are not so good.

Jackie Baillie: We are hearing that the framework is not working for small companies.

Bruce Dickson: That is in a different sector. For the small companies in my supply chain the system is absolutely working, because they get the opportunity to work for us on projects that are more collaboratively procured. They are not one of 17 companies chasing the work, but one of four, because we can control the procurement model.

Jackie Baillie: You are saying that you have dedicated subcontractors with whom you work regularly. Your projects could be in any part of Scotland, so would you use those same subcontractors, who are not necessarily local to the project?

Bruce Dickson: No. We have local subcontractors. We are working down in the Borders at Jedburgh at the moment, and two of the biggest packages there are being done by local companies. An advantage of the hubco is that we are driven to use a local supply chain where possible.

The reality is, however, that the vast majority of the Scottish SME supply chain companies that work with tier 1 contractors are based in central Scotland. We can go up to Aberdeen and advertise for people to work for us, but those people already have work in the supply chain for local customers.

There is a skills shortage and not a huge number of people who are desperate for work. We frequently struggle to get four suppliers to bid for a project because the companies in our supply chain are busy because there is quite a lot of work going on at that level. There are not enough skilled people to go around, particularly in the brickwork trades.

Jackie Baillie: There is clearly a disconnect between what I am hearing from others who represent interests across the board and what I am hearing from you, as a tier 1 contractor. I might have missed something, but I thought that BAM was part of the Royal BAM Group, which is headquartered in the Netherlands.

Bruce Dickson: Royal BAM bought the business for which I worked—

Jackie Baillie: So, the headquarters are outwith Scotland. I take the point about people living and working in Scotland—nevertheless, the company is headquartered outside Scotland.

Bruce Dickson: We are owned by a Dutch company.

Jackie Baillie: That is fine. I just wanted to clarify that, in case there was any misunderstanding.

As a large company, does BAM feel that we have learned from the liquidation of Carillion? I had a quick look at your company's turnover. Up to the end of 2017 it was down by 10 per cent and the pre-tax profit was down by 26 per cent. That is not as bad as the situation of others in the industry, I have to say, but those are, nonetheless, worrying signs.

Bruce Dickson: We were deemed to have had a great year last year because we made a whopping 2 per cent. I am sure that our shareholders were delighted.

Jackie Baillie: That was in 2018. I was looking at 2017.

Bruce Dickson: We have learned absolutely nothing from Carillion. It is interesting that you mentioned the procurement review, because I sat on the consultation committee from 2013. I then chaired the implementation group for industry, working with the Scottish Government and Scottish Futures Trust for another two years, and nothing changed. In relation to Carillion, I have spent probably the past 10 years waiting for a major UK contractor to go bust, to prove that the model is broken.

Carillion went bust and the moment it happened we, in particular our client bases, blamed Carillion. We did not blame it on the fact that nobody could expect Carillion to deliver what it should deliver for the amount that it was bidding. That was totally missed. It was not just about the four guys at the top of Carillion—although, I admit that they did not run a very good business. They were trapped in a spiral; they were desperate to get out of the construction industry, because people cannot make money in it, so they diversified into public sector services and had to fund the acquisition. Therefore, they were chasing massive construction turnover just to service a debt, due to speculation in potentially more profitable sectors outside construction.

Jackie Baillie: Can I push you on the point, given that you are involved in the review and the implementation? Did the review arrive at the right conclusions, but the Scottish Government simply did not implement them?

Bruce Dickson: Yes.

Jackie Baillie: Thank you.

I will move on to finance and would like it to be quite rapid fire. We can start with Gordon Nelson, because I am conscious that Federation of Master Builders members have identified finance as an issue. What are your views about the challenges that face the industry as a result of the lack of finance?

Gordon Nelson: My experience, from speaking to contractors, is that there are a lot of what we could call discouraged borrowers, who lack confidence in accessing and finding the finance that is appropriate for their businesses. That is certainly a factor, and is why we published a guide last year, in conjunction with UK Finance, called "Guide to Development Finance for Small and Medium Size Housebuilders" to help mainly small house builders to understand more about accessing finance and what finance is available.

Finance is a huge barrier for our members who want to grow their businesses, and for businesses that want to diversify and become house builders, which I alluded to earlier. It is also an issue for businesses that are struggling to get through projects, when projects are delayed because of delays by the banks or loan refusals. There is still a legacy of the recession to deal with in the banking sector, in that regard.

There has in recent years possibly been a bit of improvement in access to finance, but that improvement is coming through challenger banks and the more specialist lenders. The challenge for us and others is to communicate what is available and information on the right affordable finance for SME contractors. At the moment, I am encouraged. We will see how the building Scotland fund and, next year, the Scottish national investment bank help small house builders to upscale their efforts, and attract more innovative industry, and how that will tie in with other key strategic deliverables that the Scottish Government wants Scotland plc to deliver. That is the thinking for now and the immediate future.

Jackie Baillie: What is BAM's perspective?

Bruce Dickson: From my perspective, the biggest worry is that the finance industry fell very dramatically out of love with construction during the recession. The greatest damage that I see is from banking institutions not supporting SMEs when they run into trouble: historically, they did. We are seeing the plug being pulled almost instantly—as soon as there is any threat of even a very profitable and well-run SME having a short cash-flow crisis. I could name several such businesses from the past year. They are denied finance, their overdraft is shut down and they are put out of business.

A friend of mine ran one such company. The moment he got a payment into the bank from his tier 1 contractor, and was in the black and was about to pay his suppliers, the bank pulled the plug on him. It froze his accounts, took the money, because the suppliers were owed nothing, and he was then in an absolute mess. That is happening more and more, because in the banking sector there is massive risk aversion to the construction industry. Even well run and long-standing companies are not getting financial support, which is damaging our supply chain. Everybody needs banking finance to survive—businesses need to be supported by their finance companies and we are just not seeing that.

11:00

Jackie Baillie: Would Cara Hilton or Jim Young like to comment?

Cara Hilton: I totally agree with Bruce Dickson. He summed up the situation perfectly well.

Jim Young: Construction is not an attractive investment for banks and other funders. We also have concerns about what might happen with Brexit—for example, whether we will have access to the European Investment Bank and so on.

Jackie Baillie: We managed to get to mid-morning before anyone mentioned Brexit.

Jim Young: Other funding deals are available—for example, the construction sector deal. I am not sure that it is widely known about, although it has been well promoted. Alternative sources of funding are available, but are perhaps not well enough known and need more promotion. However, in general, I agree with what has been said.

Jackie Baillie: It seems that there is encouragement to make banks less risk averse and more innovative in what they are doing in relation to construction.

I have a very quick final question. I used to pursue the issue of project bank accounts when the threshold was £4 million. The Government has since reduced it to £2 million. There is a suggestion that that might not be low enough. What are panel members' views?

Gordon Nelson: Our perspective is that the lower the threshold is, the better. However, the reduction is a good step in the right direction.

Jackie Baillie: Okay. Is that view generally agreed with?

Cara Hilton: We are very supportive of project bank accounts.

Jackie Baillie: Great. Thank you very much, convener.

The Convener: Tom Mason would like to come in.

Tom Mason: My question is also on money. This year, the Scottish Government will consult on use of cash retentions in the construction industry. What issues are likely to come up in that? Will they include payment terms and behaviours in the sector?

Cara Hilton: CECA Scotland welcomes the Scottish Government's action in that area, which is long overdue. We want an end to retentions. In the construction sector, profit margins are very low, so withholding cash can impact on a company's very survival. We would like to see retentions being scrapped, but if that does not happen we would support the introduction of a retentions deposit scheme, as we have done through our support of Peter Aldous's Construction (Retention Deposit Schemes) Bill at Westminster. We need to see action being taken—and quickly.

Bruce Dickson: I am an abolitionist. Earlier today we used the term "stone age". I consider that retentions truly merit that description. The trust fund will still keep the money from where it should be. Companies are not paid less than 100 per cent of their fees in other industries. There should be enough forms of guarantee in the construction business for clients not to need cash retentions.

Tom Mason: Does anyone else have a comment?

Gordon Nelson: The FMB supports abolition of retentions. Some of our members tell me that they spend a huge amount of time chasing retentions payments, which hampers their confidence to invest in and grow their businesses. The retentions system is a scourge in the industry and is holding it back.

Tom Mason: So, abolishing retentions would solve a problem and let us make progress.

Jim Young: The question on the retentions system is a financial one that I think the trade bodies might be better placed to answer. However, the whole matter could be wrapped up with the more collaborative and risk-sharing approach to construction procurement that we need.

The Convener: It seems that cash retentions are used to ensure that construction projects are delivered and completed. What is your alternative for clients who want to ensure that their jobs are done properly? Have I misunderstood something?

Bruce Dickson: I will answer that question. When I started in the industry, cash retention was the only major form of performance guarantee. Currently, almost every public sector project involves parent company guarantees,

performance bonds of a minimum of 10 per cent and cash retentions. My honest view is that if every other industry can figure out a way to work with its supply chain such that it does not have cash retentions, why should construction be different?

The fact that construction clients are absolutely wedded to retentions tells us that it is not necessarily the industry that is not adapting and changing. The attitude comes from the very top—from the people who employ us and who refuse to change. They cannot visualise a world in which construction work does not involve cash retentions. Therefore there is a chicken and egg situation, in which they say, "Your work is not good enough quality, so we need cash retentions as a stick to beat you with." They need to change that view and ask how we can get the construction industry to a place where we do not need that stick, and people are incentivised to come back.

The vast majority of my firm's work is with repeat clients. The incentive to go back to fix defects is that, if I do not, the clients will not give me more work. That is why I go back. That is also an incentive not to have defects in the first place.

A second point to make is that, to be absolutely honest, the vast majority of construction defects do not occur within the defects liability period, but are latent defects that occur long after construction. Given that, you could scratch your head and wonder what cash retentions actually do and what the people who keep all the cash do with it.

As at last week, I had almost £1 million of retentions outstanding from public sector organisations because of a dead tree that we could not replace until the planting season. That is a fact of life. My supply chain has been paid the retentions, because construction legislation says that we should do that. That is four months outside the period, but we had no defects in the building. There was just that dead tree. I have had the same thing happen in respect of a slightly flooded corner of a playing field that I could not re-seed; I had £400,000 in cash retentions held back for that.

There is a view that tier 1 contractors abuse retentions. I will be honest and say that some do that: some never pay them. That makes my firm uncompetitive, so I will be absolutely delighted to see the abolition of retentions. However, some of the bigger abusers of retentions are not tier 1 contractors.

Angela Constance (Almond Valley) (SNP): The panel will be aware that last year's programme for government referred to a step change in infrastructure investment and, in particular, to taking a longer-term view. There was a commitment to increasing investment in

infrastructure, over and above existing plans, by £7 billion by 2026. Is the construction sector able or well placed to meet Scotland's infrastructure needs? I do not mind who goes first—I see that Ms Hilton is volunteering.

Cara Hilton: Obviously, we welcome the Scottish Government's commitment to infrastructure investment, which I believe is central to a successful economy. Our members and the sector generally are well able to meet future infrastructure needs but, to enable us to do that, we need a pipeline of future work, and that simply does not exist just now. Apart from the A9 dualling project, there are not really any major infrastructure projects under way. As I said, we are extremely concerned about future workloads. We are also concerned that workers and companies might be pulled down south to the big projects that are happening there, such as Heathrow and Hinkley Point. There is also an issue with the uncertainty over EU nationals' ability to work in future.

We have to address the demographic time bomb, which was highlighted in the Farmer review. If we are going to meet Scotland's future infrastructure needs, we need to increase diversity in the sector and get a more diverse pool of labour. We need to increase the pathways into the construction sector from other sectors of the economy, and we need to retain valuable skills, and change and adapt as needs be. However, we are confident that we can deliver.

Angela Constance: Thank you for that overview—it is appreciated.

Jim Young: I referred to the report "State of the Nation Scotland 2018", which the Institution of Civil Engineers published last November. The Government's announcements tie in with our recommendation that there is a need to invest in infrastructure. As I said, infrastructure is the complete fabric of the daily lives that we live. The key is to have a planned approach so that work is fed out steadily into the market and is procured in a collaborative and planned manner. There is the capacity, talent and knowledge in the industry in Scotland to deliver that—there is no fear about that.

Angela Constance: Do the remaining panel members have anything to add that has not already been spoken about by Ms Hilton and Mr Young?

Gordon Nelson: I was going to mention the challenge of the ageing workforce, skills shortages and attracting more people into the industry. That is the pressing issue at the moment. As others have said, the industry has capacity and willingness, particularly in relation to new homes infrastructure.

Angela Constance: I will move on. Does anybody want to say anything about Brexit, or are you all just fair scunnered with it?

Cara Hilton: I would like to know what is happening, but that applies to all of us.

Angela Constance: It does indeed.

Jim Young: The industry is no different from every other business and every other individual in the country. We would like to know where it is going.

The Convener: We come finally to Jamie Halcro Johnston.

Jamie Halcro Johnston (Highlands and Islands) (Con): Skills shortages have been mentioned. Can the current skills system address the skills shortages without any modification, or are changes needed?

Gordon Nelson: We need a balanced approach. We need more uptake of construction craft apprenticeships. Speaking for our section of the construction industry, I think that we need some more new starts and more people achieving their apprenticeships, having started off as modern apprentices aged 16 and continuing up to age 20 or so. That will help but, as Cara Hilton said, we need to look at transferring skills from other areas and other industries, and training people—ex-military people, for example—appropriately.

As I said, that will help but, as alluded to earlier, the industry is ageing. The statistics show that, over the next decade, about 20 per cent of the current workforce in Scotland—nearly 31,000 people—will retire. Our members are ageing and business owners are making a huge effort to look at bringing in other career entrants as well as train the next generation of apprentices.

It is fair to say that although our focus has been—predominantly but not exclusively—on the craft trades, the shortage of other skills is another aspect to consider. I am thinking of estimators, surveyors, technicians, civil engineers and those who help to deliver construction projects, such as building standards officers and planning officials. In order to get projects built on time and safely, alongside the industry that delivers the projects, you need appropriately trained people in compliance and the client economy, otherwise, for all that we do, we will still struggle to deliver new homes and buildings on time and on budget.

Jamie Halcro Johnston: I am conscious of the time. Are there any thoughts from the other panellists on that?

Cara Hilton: We certainly think that there is room for improvement. We do not feel that the current skills planning model necessarily reflects

the needs of our sector and we would like to be more involved in developing the model.

Jim Young: Quite simply, a healthy and productive construction industry will attract more people. If the industry has businesses that are doing reasonably well, it will be attractive to people, who will want to work for those businesses. It is important that the workload is provided to us in a sensible, productive and collaborative manner, so that the industry is more attractive to people.

We have to go out and sell the industry to young people, to new entrants and to a diverse range of people; a healthy industry will be attractive to people.

Bruce Dickson: The biggest threat to the industry is recession. If we lose another generation, we will never recover. We have already lost one generation. The damage that the last recession did to industry was horrendous. If that is allowed to happen again, I cannot see the industry recovering.

Jamie Halcro Johnston: That leads nicely on to my next question, which is on the future of the industry. You have highlighted some of the concerns. How might modular construction and building in other areas impact on the regional aspect of construction? We have talked about tier 1 tending to be based in the central belt but if more is being built within the central belt or within certain large hubs of activity, how does that impact on more regional construction companies or even the smaller, local construction companies? Are we likely to see them struggle more in the future?

Bruce Dickson: As one of the central belt contractors, I think that it comes down to how work is procured. The industry has survived for a long time in quite a difficult procurement situation. The people procuring us should look at what the industry can deliver, where it can deliver it and who should be delivering it. I have said already that I try not to step on SMEs' toes. I will be honest—a lot of clients push us to do £1 million projects because it is easy; they say, "We want security of delivery." I think that that is fundamentally wrong,

The people allocating the work need to look carefully at what the industry can deliver. If we can get a more mature, collaborative procurement system whereby our clients feed us work more sensibly, the industry will survive and thrive everywhere.

Off-site manufacturing will be a very good answer to some of the more difficult projects. The most common thing that we hear is, "Why aren't you doing more work in the wilds of wherever? We need more contractors up there." Our answer is that we have done that, but it is incredibly difficult

to service those works, because the local contractors have tied up all the trades. It is horses for courses.

I genuinely think that there is a place for everybody for the industry. If the industry did not have to work on a lowest-cost basis, it would be healthier everywhere.

Gordon Nelson: On the point about off-site manufacturing and other methods of construction, I think that that is a solution for the industry and part of how it can grow, but equally, for many parts of the industry and across Scotland, it is not the right solution.

Bruce Dickson's remark that it is horses for courses is appropriate here. Our members in rural Scotland and up in the Highlands and Islands act very much as integrated firms, doing everything from the civil engineering and extraction right through the painting, decorating and finishing. From my perspective, that is quite different from business for many of our members in the central belt, where the focus is very much on single trades or general building. Our members have to be work smart and adapt to what will give their business locally a competitive advantage, and they will find a way of adapting to and improving things for the construction project in question.

Of course, clients—and I am thinking more of public sector clients—need to be aware of that and not adopt a one-size-fits-all approach. They need to adapt to the local contractor base, because what might be an appropriate solution in Shetland might not be appropriate in, say, the central belt or Stirling.

Jamie Halcro Johnston: Thank you. That was very helpful.

The Convener: I thank all our panellists. I suspend the meeting to allow them to leave.

11:16

Meeting suspended.

11:17

On resuming—

European Union (Withdrawal) Act 2018

Competitiveness of Enterprises and Small and Medium-Sized Enterprises (Revocation) (EU Exit) Regulations 2019

The Convener: Agenda item 3 is consideration of a notification from the Scottish Government in relation to the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (Revocation) (EU Exit) Regulations 2019.

The COSME programme is a European Union programme supporting small to medium-sized enterprises, and United Kingdom participation is focused mainly on access to finance and markets. After exit from the EU, the UK Government proposes to revoke what will be a redundant EU regulation on COSME. In the event of no-deal withdrawal, the chancellor has given a guarantee of Her Majesty's Treasury funding for UK projects that had been successful in securing EU funding before the exit date. Under that guarantee, the UK Government will be able to use existing domestic legislative powers to fund relevant projects that fall under COSME.

At its previous meeting, the committee agreed to seek further information on the regulations, and the response is contained in members' papers. Is the committee content for the issues to be dealt with by statutory instrument laid at Westminster?

Members *indicated agreement.*

The Convener: In that case, I will write to the cabinet secretary, notifying him of the committee's decision.

We now move into private session.

11:18

Meeting continued in private until 12:07.

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