



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Energy and Fair Work Committee

**Tuesday 2 April 2019**

**Session 5**



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Pàrlamaid na h-Alba

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**Tuesday 2 April 2019**

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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**  
**12<sup>th</sup> 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:**

Ann Allen MBE (Construction Scotland Industry Leadership Group)

Ron Fraser (Construction Scotland Industry Leadership Group)

Ken Gillespie (Construction Scotland Industry Leadership Group)

Tom Mason (North East Scotland) (Con) (Committee Substitute)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 2 April 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 12th meeting in 2019 of the Economy, Energy and Fair Work Committee. I remind everyone to turn their electronic devices off or to silent. We have received apologies from committee members Gordon MacDonald and Angela Constance as well as Dean Lockhart, for whom Tom Mason will be standing in.

Agenda item 1 is a decision on taking business in private. Does the committee agree to take items 3 and 4 in private?

**Members** *indicated agreement.*

## Construction and Scotland's Economy

09:45

**The Convener:** Agenda item 2 is our inquiry into construction and Scotland's economy. I welcome to the meeting a number of witnesses from the Construction Scotland industry leadership group. Ken Gillespie is the chair, Ann Allen MBE is a member and Ron Fraser is the executive director. I should point out that the microphones are operated from the sound desk, so the witnesses do not need to press any buttons. Anyone who wants to come in to the discussion should indicate as much by raising their hand.

To start with, could one of you provide an overview of the group's role and structures?

**Ken Gillespie (Construction Scotland Industry Leadership Group):** Certainly, convener, but before I do, I would like to make a few opening remarks.

When we talk about construction, we immediately focus on the challenges and issues that the industry faces. No doubt we will discuss them this morning, but I will start by saying that construction is a great industry. It does fantastic things, and we deliver wonderful projects throughout Scotland.

Construction touches all our lives through the houses that we live in, the schools and hospitals that we use, and the roads and bridges that we need to access our daily activities. Construction is very much the foundation of everything that we do. Having spent my whole life in the industry, from when I left school at 17 to go into an apprenticeship, I am massively proud to be sitting here as chair of Construction Scotland to represent our industry. I wanted to make those opening remarks.

Construction Scotland was established by the Scottish Government and Scottish Enterprise as one of the sector industry leadership groups with the objective of providing a space and place for the construction industry to come together and communicate with its stakeholders—clients, the Government and the participants—so that we could establish a consensus across the industry. As I am sure that you have found in your meetings, the construction industry is very diverse in the various professions, trades and people who participate, and the main aim was to get consensus on positive steps that we could take to find solutions to some of the challenges that we face. We were also looking to provide growth for not just the industry but the Scottish economy as a whole.

Construction Scotland refreshed its strategy towards the end of last year—I hope that you have all at least received a copy of it. It represents 18 months' work, and we spent a considerable amount of that time carrying out a wide and deep consultation across industry and all our stakeholders, including our clients and Government. We wanted to land what key issues we needed to address to ensure that we could develop and support the growth of a more sustainable, productive, innovative, diverse and profitable industry.

The strategy that we published set out six key priorities and outcomes that the industry felt needed to be addressed: procurement; skills; quality and standards; planning and building regulations; growth; and productivity and innovation. We have established working groups for each of those priorities, and appointed group chairs to drive forward the recommendations from industry and to work with all our stakeholders to take the steps and deliver the actions that we as an industry consider to be necessary to further develop and improve what we do.

At either end of those six priorities, we have established two forums. At one end, we have a customer forum, which Ann Allen chairs. The concept is to take the work of Construction Scotland and test it against what our customers think and whether they support the initiatives or want to amend or alter them or feed back their perspective. At the other end, we have the industry representative bodies forum. That communicates and consults with the various trade bodies and federations in a similar way, to ensure that we have a real sense of whether we have consensus on the initiatives that we are pursuing and whether the wider industry supports them. The—

**The Convener:** Let me interrupt you there. You have got working groups for each priority, a customer forum and an industry representative forum. To return to my question, how do they fit in with how your structure is set up?

**Ken Gillespie:** The industry leadership group is as it says on the tin—it is drawn from leaders across the wider Scottish industry. Those leaders will chair and participate in some of the working groups, as Ann Allen does, and—

**The Convener:** Do you meet as a group in addition to that?

**Ken Gillespie:** Yes, the ILG meets at least four times a year formally, and—

**The Convener:** Do you keep minutes of the meetings?

**Ken Gillespie:** Yes, we do.

**The Convener:** Are they public?

**Ken Gillespie:** Yes, they are.

**The Convener:** Are they online?

**Ken Gillespie:** Yes, I believe that they are. I am hesitating because our website is down at the moment, but the intention is for them to be publicly available.

**The Convener:** Is your website down temporarily?

**Ken Gillespie:** Yes, it is a temporary issue.

**The Convener:** I think that Ron Fraser wants to come in.

**Ron Fraser (Construction Scotland Industry Leadership Group):** The minutes are produced and circulated to all the members and to observers, so they go to the Scottish Government, Scottish Enterprise, Skills Development Scotland and our various representative bodies. The intention has been to get them on the website, so that anybody can access them. We have been refreshing the website, but we will catch up with the previous three or four meetings and put them on the website, too. The minutes are public and they are available to anybody to get copies of.

**The Convener:** Do you have a means whereby you ensure that all industry interests are represented on your group, including sole traders and small and medium-sized enterprises?

**Ken Gillespie:** Yes. We have a maximum of 15 representatives, which we draw from the whole of the industry. We have structured the group to allow representation from SMEs, manufacturing, construction, the supply chain, tier 2, 3 and 4 companies, customers and industry trade bodies.

To return to the point about consensus, the objective is to try, as far as possible, to get true representation across the breadth of industry in terms of not only the size and scale of businesses, but the geography of Scotland, so we try to draw into the group industry leaders from other parts of Scotland.

**Andy Wightman (Lothian) (Green):** Your strategy, "The Scottish Construction Industry Strategy 2019-2022", is not your first strategy, is it?

**Ken Gillespie:** No, that is the second strategy.

**Andy Wightman:** How successful was the first one?

**Ken Gillespie:** In our second strategy, we published the successes that we think that we achieved the first time around. It would be fair to say that we have spent a lot of time driving the structure and the need to get consensus.

In the first part of our evolution, we have done lots of good work, but a lot of time and effort has

been spent on getting the organisation to be truly representative of industry and on getting an appropriate structure, to ensure that we can get consensus and do what we need to do. On page 5 of our strategy, you will find a summary of the positive difference that we think that we have made for the sector along the way. I do not know whether you want me to cover any of that.

**Andy Wightman:** The strategy states that you are

“representing the industry ... engaging in the industry ... leading the ... bid, developing”

and so on. Can you point to any practical examples to justify the existence of Construction Scotland? People often produce strategies to make it look like they are busy. I am not decrying your work, but what can you practically point to that is in the construction sector now that was not there previously?

**Ken Gillespie:** The establishment of the innovation centre is perhaps the main action that has had visible and tangible physical results. That was all about our productivity and innovation strategy on how to get the industry to innovate more freely. That is perhaps the main action that came out of the early years. The innovation centre is now established, and it has given evidence to the committee.

We have also been very active on planning and standards. We have consulted regularly with Government, planning authorities and building control to give the industry view on how that system has been developed. Equally, we have been active in engagement with Government on fire control, for reasons that everyone will understand. In a number of areas, we have been extremely active in providing industry views on the best way forward.

**Ron Fraser:** As a long-term member of the industry, I know that we have often been criticised for being very fragmented. That has been correct, given the number of different industry representative bodies. One of our successes over the past few years—this has been evidenced in some of the *Official Reports* that I have read of previous witnesses at the committee—has been the bringing together of so many industry representative bodies into one forum to debate issues of common concern to the industry, just as we are doing now around this table.

Just before Christmas, we had a meeting of our industry representative bodies group, at which 20 of the biggest organisations were round the table debating what the industry needs to do to change and very much agreeing with the strategy. For me, that is one of the biggest successes. At the end of the day, the main reason for having an organisation such as ours is to try to coalesce and

bring together what is a very disparate industry to give it a voice—it is almost like conducting an orchestra. We also now have a client forum in our midst, so we have the opportunity to bring together not only the various industry bodies but the industry and its customers to jointly discuss problems and how we solve them. In fact, that has been manifested in meetings with the Scottish Government at a senior level. To me, that is one of the major successes.

**Andy Wightman:** Your new strategy mentions “game-changers”. Can you point to one of your six strategic priorities and give me an example of a practical outcome—something tangible that we can look to—that you expect to have achieved by 2022?

**Ken Gillespie:** By far the biggest priority is the way that we do business in Scotland in the sector, and we put that under the heading of procurement. To go back to your earlier question, for a number of years, we have engaged in consultation on procurement reform. As an industry, we think that procurement reform has not gone nearly far enough.

To answer your question specifically, by 2022, I would like us not to be procuring in Scotland on a project-by-project basis at the lowest price. I would like Scotland to take a far more strategic approach to making capital investment in order to improve economic outcomes. I would like us to do that in a manner that is consistent with the industry’s ability to gear up to create sustainable factories and organisations, and with a real focus on reducing economic leakage. I would like that work to be presented in a way that satisfies how we are as a country, regionally and at scale, so that we can optimise and maximise our small and medium-sized enterprises’ opportunities to deliver on a regional basis and to make the best that we can out of every pound invested in capital in Scotland.

10:00

**Andy Wightman:** We will get to procurement a little bit later.

You also say in the strategy that the priorities will be addressed by an action plan. Is that in the public domain or is it still in progress?

**Ron Fraser:** The action plan is in draft because, although the ILG, with my assistance, could produce an action plan, which we have done, we felt that it was appropriate to get our working groups up and running and let the members of the individual working groups come up with action plans for their own areas. We have provided the draft action plan to our working group leads and told them that these are some of the ideas that we could implement in each area. Each working group is refining its thinking: the procurement group is

working on the issues that it wants to take to the table and the same applies to quality and so on.

Once we have coalesced those plans, we will be ready to publish the action plan—within the next few months.

**John Mason (Glasgow Shettleston) (SNP):** I want to move on to talk about the innovation centre that has already been mentioned. Perhaps someone could give us a bit of background on how the innovation centre came about. As I understand it, it came out of Construction Scotland and is now distinct, but I do not fully understand the relationship.

**Ken Gillespie:** The innovation centre came out of the work of Construction Scotland on identifying how the industry can improve. We led the submission to the Scottish Further and Higher Education Funding Council for the establishment of the innovation centre with the clear objective of improving innovation in the industry.

The innovation centre was formed as a separate Government organisation. It engages regularly with businesses to develop products, services and processes to improve the various parts of what the industry is doing. That is the organisation's function. It brings together the universities and industry to look at distinct projects in terms of how we can change, improve and develop what we are doing.

**John Mason:** Has it been a success?

**Ken Gillespie:** It has been successful within the context of what it does. It is stimulating innovation with those businesses. The challenge that we are giving it is that we would like to see it addressing some of the large-scale, strategic objectives that are set out in the strategy, and work on a pan-Scotland basis on how we might move some of our key priorities forward. That is the challenge that we are working on with the innovation centre.

**John Mason:** Is your relationship close and formal?

**Ken Gillespie:** Yes. The innovation centre participates in every meeting of the ILG and in our working groups. It has complete visibility of the strategic direction of the organisation and how the industry is thinking at any point in time. We have a close working relationship with the innovation centre.

**John Mason:** We have slightly conflicting evidence. On one hand, the innovation centre seems to be saying that there is a culture of open intellectual property and sharing of ideas. However, we have also heard from the witnesses that some of the work that is being done is commercial, which prevents dissemination of new ideas. Is there a bit of both?

**Ron Fraser:** There are no representatives of the innovation centre here to answer for it in detail. As I understand it, what happens depends on the contractual relationship into which the parties have entered. Depending on what is being researched, some companies, businesses and organisations might require confidentiality agreements to be signed, so it is not a matter of simply telling the industry what has been discovered. I can understand the reason for that, where intellectual property rights might arise.

In other circumstances, the initiators of research are happy for their findings to be made available and disseminated. I must acknowledge that about two weeks after I wrote the report, the innovation centre had an event about disseminating information on certain housing developments. I assume that that happened because the originators of the research were happy for it to be disseminated.

Our point is that sometimes the innovation centre's case studies are fairly light on information, usually because the information cannot be divulged, or cannot be divulged until a specified period of time has elapsed. Without looking at the specifics of individual contracts, it is difficult to know which ones would or would not allow information to be disseminated. It appears that some research can be released immediately, but in other cases intellectual property rights require that detailed information be held back for a period.

**John Mason:** Okay—that is fair enough.

I understand that Ann Allen is at the University of Glasgow, which I think is the only university that is a member of the leadership group. I am not sure what the relationship is between colleges and universities and the innovation centre, although you might not know that, either.

**Ann Allen MBE (Construction Scotland Industry Leadership Group):** A large number of universities partner with the innovation centre. How they develop their relationships is outwith my knowledge; our researchers deal with that. However, if you look at the information on the innovation centre, you will see that it mentions the large number of universities with which it partners.

**John Mason:** Are you on the leadership group to represent all universities and colleges or just the University of Glasgow?

**Ann Allen:** I sit on the leadership group because I am leading a large and complex construction project with spend of £1 billion over the next 10 years. We have tried to be innovative about procurement and we have tried to lead in respect of how construction can be managed and a good-quality product delivered. I am a member of the group in that capacity, rather than as a representative of the universities.

In pulling together the client forum that Ken Gillespie mentioned, I am trying—this is still very much a work in progress—to bring together a collective group that represents universities, healthcare and the private sector; I am trying to bring together all the people who engage with the construction industry. Given the diversity of the industry, there are challenges to do with who we bring into that group.

I sit on the leadership group as someone who is leading a construction project, as opposed to someone who is representing a university.

**John Mason:** Universities are doing quite a lot of construction, as far as I can see. Jackie Baillie will ask more about the procurement side of that.

Are the universities exemplars in innovation?

**Ann Allen:** I think that Glasgow university is. We spent a lot of time developing a strategy for how we would go out to the market: we spent a lot of time engaging with the market in order to understand what the industry regards as a good client, and what challenges would be presented for it if we went down certain procurement routes. It is fine to develop a strategy for how we will procure something, but if the industry cannot engage with that, what is the point? My having that understanding meant that I was happy to sit on the leadership group.

People in the university sector tend to exchange information and share knowledge, but we still all go out to the marketplace independently when we procure our buildings, our maintenance and all the aspects of work that hit the construction industry.

**John Mason:** For my final question, I will widen the subject out. I understand that the leadership group and the innovation centre are engaging with some of the big players, and that they are looking at new ways of doing things. However, the industry has many small players. Are they engaged with the leadership group, the innovation centre or both?

**Ken Gillespie:** Yes, the small players are engaged with both, for different reasons. We are very keen to have SME participation. At the moment, we have a construction model in which the large—tier 1—contractors sit underneath clients, then there are tiers 2, 3 and 4. That is the model today; it might not be the model tomorrow.

We must engage with all those tiers and bring them into the process of construction. From our perspective, that is absolutely critical to the outcomes for procurement. That might be brought about by designing a procurement that is very specific about how we want construction to be delivered and wanting SMEs to participate. At the moment, that is not the case, so it is left mainly to the principal contractor to decide on how to do

that. We have an opportunity to see whether there is a better way to do it.

On progress, since the publication of our strategy we have agreed to hold formal engagement meetings with the Scottish Government, which are led by the procurement directorate. We have had two meetings, in which we have started to consider how we can come together with the Government and stakeholders to explore a better way of procuring, and of involving SMEs.

**John Mason:** Thank you very much. I will leave it at that.

**Jackie Baillie (Dumbarton) (Lab):** I will stay on procurement. What are the headline challenges in procurement that the construction industry currently faces?

**Ken Gillespie:** I will start with how capital is invested; I will go all the way back to how we plan our projects, our infrastructure and how we invest money. There is a challenge in respect of the scale and type of investments that are coming forward. Because of the size of Scotland and the industry's capacity, when a project such as the Aberdeen bypass is brought to the market, we end up having to import a substantial amount of resource in order to deliver the project in a short time. That does not provide a stable situation for the industry, because it has to pull in a lot of resources to do something very quickly, but those resources then dissipate. We really want to think about how we invest, so that we can deliver projects at the right scale against the right timeline, in order to maximise product factories' employment in Scotland and make it more sustainable in the longer term.

Once we have established the right way to make that investment, we must tackle the fact that, in Scotland, the drive is completely for the lowest price. The perception is that spending the least amount of money in a procurement competition represents best value for the country. I entirely disagree; it could have the opposite economic effect. The committee has seen what happens when contractors do things at the wrong price: not only are the projects poorly delivered, but companies go out of business and jobs are lost. The economic impact is the opposite of what we are trying to do.

We are calling for a substantial change in how we do business together. It is about trying to get ourselves in a situation in which procurement is not based on price, but is based on several factors that I have touched on today. We should be looking at how to maximise the economic impact of the projects that we carry out—not just procuring them at the lowest price.

10:15

**Jackie Baillie:** In response to John Mason's question, you talked about SME access to procurement. Is that a specific issue that you want to address?

**Ken Gillespie:** We have identified that in the strategy. At the moment, the conversation that we are having with the Government is about how we might require the construction industry to perform in Scotland, and to participate both regionally and on a scale with SMEs in a more prescribed way. We are at an early stage.

**Jackie Baillie:** Tier 1 contractors are, by and large, huge and are headquartered outside Scotland. They use their own preferred supply chains and do not often give local SMEs access to their big contracts. Is that the nature of the problem that we need to address?

**Ken Gillespie:** I do not agree with that overview, at all.

**Jackie Baillie:** Yes—but, of course, you came from a tier 1 company.

**Ken Gillespie:** I did: that is my background. However, I have also spent time working for a local contractor—I spent many years in Morrison Construction Ltd. Whether a company is headquartered outside Scotland is not relevant. What is relevant is how many people the organisation employs sustainably, rather than on just one project. Does it have a base in Scotland, does it recruit in Scotland and does it have a Scottish business? Many international businesses have strong Scottish bases and workforces. We must develop those.

To my mind, SMEs are given the opportunity to access contracts, but because of the way in which we do business in Scotland, everyone is driven to the lowest price. If the lowest price comes from outside Scotland—or Inverness, for example—that is what people will go for, because lowest cost is the driver.

**Jackie Baillie:** Is it not the case that tier 1 contractors, in order to make profits on quite tight margins, will squeeze everyone else in the supply chain?

**Ron Fraser:** Before I answer that question, I will say that, as an industry, we are aware that there is a gap between the top dozen or 15 international UK companies that have a presence here in size and capability, and the indigenous companies that have grown up in Scotland. Part of what we have been arguing in relation to economic leakage and how we approach the market is about ensuring that more companies like Robertson Group Ltd and Morrison Construction are able to break through.

One of the reasons why smaller companies have not been able to break through is the size and scale of projects. I understand why the Scottish Government has done that—it wanted to boost the economy and one way to do that was to have big projects. However, the net effect is that there is no work for small and medium-sized companies to grow in.

That is one of the objectives of our engagement with the Scottish Government. There are tier 1 companies that are Scottish, such as Ogilvie Construction Ltd, Muir Construction Ltd and Hart Builders (Edinburgh) Ltd—those are just a few in the Edinburgh area. We have that layer of local Scottish companies, but they are just not the same size as Balfour Beatty plc or Interserve plc.

**Jackie Baillie:** However, the majority of tier 1 contractors with the Scottish Futures Trust are not headquartered in Scotland or even based day-to-day in Scotland.

**Ron Fraser:** You have made the connection to the SFT and I agree about that. The way in which the hub companies were procured drives them towards the bigger, more experienced companies that have all the right skills. We see the need to bring people on and up.

**Jackie Baillie:** Perhaps you can encourage the Scottish Government to break down the megacontracts into something more manageable.

**Ron Fraser:** There are, however, two aspects to that. One way would be to break projects down, but there is an aspect of procurement that we have not covered—I have my list of wishes—is that our industry is bespoke and discrete. By that, I mean that we have a lot of buildings that are designed individually, with each one bespoke to its particular site. We will not look at the Scottish Parliament building as an example. Even a typical school might be designed entirely differently from another one along the road for various reasons, such as that the site, design team and needs are different.

We procure discretely, even within the hubs, and a contractor gets one project. They might know that a pipeline of work is coming, but they have no idea whether they will win the project or, if they win it, what type of project it will be. A tier 1 contractor, at whatever level, has no knowledge of whether they will be working on a prison one week or a primary or secondary school the next. Each of those projects has a different design team, different solutions and different technology.

The industry is often unfavourably compared with automotive and aircraft manufacture as not innovating and not investing. The big advantage that organisations in those sectors have is that they know what their product will be from one project to the next.

Excuse me, I am getting dry—I need a drink.

**The Convener:** Ann Allen wants to come in, and now might be a good time.

**Ann Allen:** What the committee is hearing from Ken Gillespie and Ron Fraser is the macro position. The industry can deliver only what the client asks for, so whether that should be lowest price or best value is key.

I come back to what we are doing in Glasgow. At a micro level, we have tried to deliver some of what Ken and Ron have talked about. Our contractor, Multiplex, is an international contractor, but it is using a Scottish team to deliver our buildings. It was not the only contractor that we could have appointed. We do not talk of Multiplex as our contractor, but as our delivery partner. We work with it and expect it to show us innovation. I expect it to deliver quality and I expect to pay the right price for that quality.

That allows Multiplex to ensure that, for example, it spends time going out to SMEs. It prides itself on the percentage that it spends with SMEs—about 24 per cent on our contracts. I know that there are some interesting definitions of SMEs, which are not always one-man bands.

If you get your procurement right and if you are an educated client who works with the construction industry, there are some real opportunities in Scotland. We have set it up to allow us to look at how we drive economies of scale. For example, we look at whether we can purchase certain items that will deliver and that we will use in multiple buildings. We have designed bespoke buildings for our major new campus, but we can share best practice for each one and buy certain things, such as sinks, that do not need to be different in each building. For some procurement, we can deliver an economy of scale.

**Jackie Baillie:** Clearly, what is going on at the University of Glasgow is an exemplar and others could learn from it. However, we should remember the news headlines from yesterday—or the day before—about a primary school in Dumfries where quality was driven out in favour of cost. That was an SFT, Government-commissioned project.

**Ann Allen:** I agree with you. There are three elements. One is about educating the client and the industry to work together in a different way. The client has to think about what it wants, which might be to have buildings finished to quality and on time. The other elements are about changing the culture and processes, and the leadership group of Construction Scotland can take that conversation forward with the industry. That is why I am pleased to be part of the group. It will take time to build on that and to educate the client and industry.

**Jackie Baillie:** I look forward to seeing your conversations with the Scottish Futures Trust.

The statement of achievements in your strategy for 2013 to 2016 said that you led and co-ordinated the industry in putting a procurement review to the Scottish Government. How did that go? Did it achieve change?

**Ken Gillespie:** No. As I said in my opening comments, we do not think that it has gone far enough. That is why we have recommenced the engagement meetings with the Government, with a commitment to reconsider procurement.

That review started back in 2013. We have seen the publication of some of the implementation only recently. We feel that it falls short of the fundamental changes that we think are required to improve what we do in Scotland. We need to look at that again, together. That is what we have embarked on.

**Jackie Baillie:** When you talk about fundamental changes, are you saying that there is a need for another review, or are you saying that the first review was not implemented?

**Ken Gillespie:** The first review identified all the key issues, so we are not missing any of those. We need to improve our implementation of solutions.

**Jackie Baillie:** Whose job is that? Is that a job for the Scottish Government or do you have a role in that?

**Ken Gillespie:** We definitely have a role. We have continued to work hard to try to influence the outcomes. There are lots of reasons why the Scottish Government has been unable to go down that route. Some of that is to do with the legal position, European law and all that sort of stuff.

We are saying that all the key issues have been identified, but we need to find solutions and implement them. Such a change is necessary to improve what we do.

**Jackie Baillie:** I am not aware of any legal issues acting as impediments to the Scottish Government, but if you are, perhaps you can write to the committee about those.

One of the recommendations of the review was the appointment of a chief construction adviser. The Scottish Government rejected that recommendation. Would a chief construction adviser be useful?

**Ken Gillespie:** Any central individual or organisation that can pull together all the strands is beneficial. That is Construction Scotland's main objective: to pull the industry together, achieve consensus on the solutions and then implement them. Any move towards providing the industry

with a central focus in order to get the necessary action with Government would be welcome.

**Andy Wightman:** I want to move on to the Scottish national investment bank, but before I do so, I note that Ann Allen said that industry can deliver only what the client asks for. I think that Ken Gillespie is the chair of Homes for Scotland. One of the peculiar features of the British house construction market is that the majority of it is speculative, so there is no client. In most of continental Europe, more than 51 per cent of the market is driven by clients. How can we improve the client experience in new house building?

**Ken Gillespie:** In Scotland, a considerable amount of house building is delivered for housing associations, as clients. In Scotland, we deliver a lot of housing to customer specification.

As a house building industry, we are driving the changes that we think are necessary to improve the customer experience. Members will know that we introduced the five-star quality award from across the border. That is a new accreditation that Scotland did not previously have. We have introduced it so that our house builders in Scotland are measured equally with those in the rest of the UK, to improve the quality of what they deliver for their customers.

**Andy Wightman:** Public buildings that go up in Edinburgh will be procured by public authorities and office buildings will be procured by an investor or client—I am thinking of the model used for Waverley Court, for example. However, housing will be procured by no one—the body that builds houses sells them on as a product. How can we get clients more involved in the design and specification of the homes that they will live in, long before they buy them?

10:30

**Ken Gillespie:** The house building industry is a retail business. It is developing products—

**Andy Wightman:** I am wondering whether we can change that, given that, on the continent of Europe, it is not a retail business. There is a vibrant house building industry, but it is predominantly driven by clients who have procured houses, often in volume.

**Ken Gillespie:** House builders are developing what they believe their customers want. If they did not develop what their customers wanted, they would not sell any houses.

**Andy Wightman:** Often, people will buy only because that is all that is available.

**Ken Gillespie:** A vast range of product is available in Scotland.

**Andy Wightman:** I am just saying that clients could get more involved, but perhaps we can have that conversation another day.

We are about to scrutinise the legislation that will set up the Scottish national investment bank, and the Government has been doing a lot of thinking about the bank's purpose. Given that your body is recognised as the lead industry body for construction, have you had any conversations with the Government about the Scottish national investment bank and what it might do?

**Ken Gillespie:** Yes. We have particularly focused on the need to stimulate new entrants and support small and medium-sized enterprises.

We have had a conversation about the investment bank offering a different proposition from what is available in the market. Many in the industry complain that it is difficult to access finance, particularly given the deep recession and the banking crisis that we went through. The constraints that retail banks now place on borrowing make it difficult for smaller businesses to get the funding that they require to develop. Our conversation has therefore focused on smaller scale businesses and how they can access capital.

We are also asking that the investment bank be set up so that it differentiates itself from mainstream borrowing, such that it can be patient capital and focus on how we improve Scotland. We need some structure around that so that the bank adds value as opposed to just being an alternative source of finance.

**Andy Wightman:** Can you say a little bit more about what the capital is for?

**Ken Gillespie:** It varies, depending on what part of the sector you are in. If you are a small construction business, it will be working capital.

**Andy Wightman:** Do you envisage the Scottish national investment bank providing working capital to SMEs?

**Ken Gillespie:** I think that Scotland needs finance that will stimulate the smaller organisations. We touched on house building earlier, which is a capital-intensive part of the industry. House builders will buy land and invest for three, four or five years before they see any income. That is why I talk about patient capital. In order to get more entrants into that market, there is an opportunity for the investment bank to take a longer-term view and look at the cost of capital to the smaller businesses. There is an opportunity for Scotland to support the SMEs, to support new entrants, to develop those smaller businesses into medium-sized businesses, and to create economic growth through that.

**Ron Fraser:** There might be a bigger role for the bank. Looking at the news, we do not know what is going to happen, but if the European Investment Bank was to disappear from the landscape, perhaps there would be a role for the SNIB to look at lending to some of the bigger projects.

**Andy Wightman:** I am just seeking to explore the conversations that you have had with the Government rather than your particular preferences. We all have preferences.

The bank is expected to take a mission-orientated approach. Just the other week, the Scottish Government was presented with a paper that looked at that. Do you expect construction to play a big role in that, possibly tied to the kind of procurement reforms that you alluded to earlier?

**Ken Gillespie:** We believe that it is an opportunity for the sector to be supported.

**Andy Wightman:** In any particular ways beyond what you have touched on in relation to SMEs?

**Ken Gillespie:** Just in the context of making available investment and finance that is currently unavailable.

**Andy Wightman:** The finance is available from clients, who procure buildings, roads and infrastructure. That capital is available. Are you talking about the capital requirements from the industry's point of view?

**Ken Gillespie:** There is a delay in payment cycles. We still need the ability to fund the initial work. Mr Wightman is right to say that, in the main, construction contracts are paid for by a regular payment stream, but there is still a capital requirement either to start or to grow—as a company increases the volume of work that it carries out, the cash requirements are much greater.

For house building, finance from commercial banks is not available at rates that are appropriate to allow small home builders to develop. We desperately want to encourage more small-scale home builders to develop businesses in Scotland.

**Andy Wightman:** Okay. I will finish by inviting you to submit evidence to the committee. We are seeking evidence on the Scottish National Investment Bank Bill until 3 May, which gives you a month to get your views in.

**Tom Mason (North East Scotland) (Con):** I will focus on retentions and payments. It has been suggested that capital retention on projects is past its sell-by date. Do you agree with that?

**Ron Fraser:** Yes, I do. We have had that debate around the table at the ILG—we would all like to see retentions ended, but a little bit of pragmatism is needed because we know that

some people in the industry still worry that they will not get the right quality of buildings or projects delivered if they do not hold some kind of retention on their subcontractors or main contractors. It happens from clients all the way down.

We have been saying to our industry members that we need to come up with alternatives to retention that would be acceptable to clients. One of the roles that Ann Allen's clients forum will play is to test alternative ways in which surety can be given to clients that their projects will not be completed with defects that they have no means of bringing the contractor back to fix. The answer to removing retentions completely—that is what we would love to do very soon—is to ensure that we have the necessary quality assurance measures in place to ensure that the work is being done in accordance with the contract and with as little defect as possible at the hand over date.

As an industry leadership group, we would like to see retentions end, but we understand that it will require a little more effort to establish alternative methods.

**Tom Mason:** What are those alternative methods likely to be? Are we still at the beginning of that process?

**Ron Fraser:** No. Several tested alternatives to retentions are used in other jurisdictions. Some clients already use a variety of techniques. A couple of years ago, an organisation called Pye Tait Consulting identified a range of alternative measures for the Government. In the UK, the use of retentions is historical: it is an old thing that has been going since the 1890s and probably before, in which a small pot of money is retained—I say small, but it could be 5 per cent, which is more than the profit on a job—so that it can then be used to encourage a contractor to return. The problem is that we do not have much evidence or experience of how the alternatives would work in practice.

I know that a further research programme is going on, which the Scottish Government commissioned from Pye Tait, to see what experience there is of alternative methods and, I hope, make a recommendation on which we can all settle, whereby we can say, "Let's end retentions but use something else". Whether we are talking about performance bonds, bank guarantees or more sophisticated digital quality assurance techniques, there are a number of ideas around that might help to give confidence. At the end of the day, it is about giving confidence to all customers, public and private, that they can dispense with the need for retentions without worrying about the performance of their contracts.

**Tom Mason:** Is there a timescale for that work?

**Ron Fraser:** The Pye Tait report is due in the next few months.

Ann Allen might talk about her thinking on getting clients round the table on this point.

**Ann Allen:** Getting clients round the table to have that conversation will take some time. I would turn the lens the other way and say that the conversation that we need to have is about how we make sure that we get the right quality of build—because if we know that, retention becomes much less of an issue.

Through Construction Scotland, we will talk, first, about how to monitor construction, particularly using digital throughout the construction process—it is the bits that we do not see that are important to me—to ensure that we start to deliver the high-quality buildings that I think everyone wants. That will allow us, at the same time, to have a different conversation about retention.

We will put methods such as digital recording in place, but it will take time to evidence whether they are meeting our needs. Everything to do with construction takes time, because it takes time to build buildings.

**Tom Mason:** Is any progress being made on late payments? What is the role of the public sector in that regard?

**Ron Fraser:** Progress is being made on late payments. There is an issue in the industry to do with differentiating between late payments and non-payment or payment that is held back for various reasons, such as commercial or contractual disputes or defects. We think that, in many cases, people hold back payments not simply because they want to hold on to the money but because they think that a proportion of it is not due to the party. Sometimes, it is quite hard to differentiate between the two issues when we are discussing payment.

In relation to situations in which there is no dispute, no issue, no defect and no argument about the payment—it is being processed in accordance with the contract and everyone is happy with it—we went through a bad patch a few years ago, when some quite big companies were deliberately holding on to cash and delaying payments. A number of Government and industry initiatives on reporting on payment terms—the industry conducted surveys and flagged up issues; for example, Build UK has all its members report on their payment terms—have begun to turn round the purely timescale issue, if I may differentiate that from the dispute issue.

The situation regarding the timescale issue is much better. SELECT—Scotland's electrical trade association—conducted a survey of its members

recently, and, although members reported some payments being delayed over term, almost 70 per cent of those payments were coming from clients rather than from tier 1 or other contractors.

There is still an issue and it applies, from the top, all the way down through the industry, but things are getting better as a result of various measuring techniques that have been introduced, as well as legislation.

**Ken Gillespie:** It is important that we differentiate between normal payments and payments that are in dispute. That takes me back, full circle, to procurement review, because the reason why payments get stuck comes back to how projects are procured. Payment is talked about in terms that are not necessarily fully understood. As Ron Fraser said, our experience is that the majority of issues come from how we do business together.

In relation to the payment timescale or normal cycle, you will see from our strategy that Construction Scotland has a stated intention of getting that back to 30 days. Again, we need to be careful about how we measure that 30-day period, because all the contracts are different.

10:45

Going back to Ron Fraser's point, the UK Contractors Group recently conducted an exercise that found that the average payment period for its membership—which is substantial and covers large and small contractors—is 43 days. I concur with Ron Fraser that we are seeing the industry pull that back.

To build on Ann Allen's point, I think that the conversation around retention is a great example of how Construction Scotland wants to operate. Businesses in the contracting industry all want retention abolished—tomorrow, if possible. We can take that to our customer group and say to them that that is what the contracting industry is saying, and the customer group is able to challenge the industry by saying, "Hang on. We think there's a bit more work to do on quality before we can be confident about doing that, and, obviously, we want to look at other options." That is a great example of how those in the industry can come together to discuss the solutions among themselves and then promote them.

**John Mason:** Is the leadership group doing enough to enable that conversation to happen?

**Ken Gillespie:** We can always do more, so we should never say yes to that sort of question.

**John Mason:** Do you have any new ideas to put into the pot for discussion?

**Ken Gillespie:** As Ron Fraser says, we are exploring what the various options could be. There are two issues around retention. One is the security of retention, which is a fundamental issue that we feel can be addressed regardless. It concerns what happens when a client or a contractor goes out of business—it must be wrong that that money is lost. However, what are the alternative methods? The industry needs to drive towards its strategic objective of improving quality, and, on that journey, we need to ask what other methods we could come up with to give our clients the security that the quality will be delivered and that the contractors will be responsive to any potential defects.

**Ron Fraser:** As Ken Gillespie has said, the issue wanders into the procurement arena, but it also goes back to the quality aspect. We did not mention this earlier, but two big themes are coming up in our liaison meetings with the Scottish Government. One is procurement, which we have heard quite a lot about in this meeting, and the other is quality. The industry recognises that, for a number of reasons—partly to get rid of retentions and partly to regain trust in some areas—it needs to demonstrate that it takes quality assurance seriously. One of the key areas in which we are seeing the development of digital technology is quality management. Some of the bigger companies, which we talked about earlier, are adopting digital techniques that will give them a greater assurance of the quality that they are delivering.

Construction Scotland has a working group in which we bring together the professions and the various levels of contractor in the industry to debate how best to ensure that everybody gains access to the technologies, techniques and ideas that are being implemented by the bigger companies. We are trying to get case studies and so on developed and cascaded down, so that everyone benefits from the experience of the larger companies. The larger companies are willing to do that, and we have continued to implement those ideas. That is part of our strategy to demonstrate to customers that the industry is taking its quality mission seriously and is developing techniques to ensure that the problems that we have seen in the recent past do not arise again.

**Ann Allen:** On the issue of whether the leadership group is doing enough in those conversations, I would say to the committee that we are all doing this off the side of our desks, as it were. Having those conversations is not part of our day job as such. Anything that can support more research into these issues or that can give more support to the leadership group to provide us with more time in which to have those

conversations would help to move the conversations on more quickly.

**The Convener:** On the point about retentions, Mr Fraser, you talked about other methods that are used in other jurisdictions, but I do not think that you gave any examples. You referred to bank guarantees. A small construction firm will not be able to get a bank guarantee—at an affordable level—if it does not have a track record and finance behind it. How could that work?

**Ron Fraser:** That is true, but there are several other, softer ways of getting that security.

**The Convener:** What are they?

**Ron Fraser:** When there is a longer-term relationship between the client and the contractor—when they have worked together on several projects—the client can understand that the way in which the contractor operates means that they will honour the terms of the contract without the need for retentions. We see retentions go when there is a longer-term relationship. That is the point about the projects being discrete, which I was trying to make earlier when I dried up. If we can get more repeat contracts and more longer-term relationships between contractors and clients, that helps.

**The Convener:** Is it not likely to be larger companies that would be in a position to take advantage of that?

**Ron Fraser:** Not if we set up the procurement models correctly. That goes back to Ken Gillespie's point about economic leakage. If we set up the procurement models correctly to take account of the needs of the country in relation to geography and the size of projects, we can arrange for even small companies to have repeat business under the same contract. That is one method of ensuring that there is loyalty both ways, with the client and the contractor relying on each other. That relationship then dispenses with the need for retentions.

Quality management, quality systems, evidenced data gathering and digital evidence of compliance are obvious ways of ensuring that people have confidence that the work will be done right the first time and will be defect free on completion. That is the method that the industry is mainly focused on—reinforcing the quality assurance technology.

**The Convener:** Do we have the enforcement mechanisms of other countries? It is not just construction that takes time—so can adjudication, court cases and so on. In other countries, there may be a three-month period in which to fix defects or the customer may be entitled to do that and deduct the cost from the contract price. That might mean that the construction company can

dispute the money in court, but the customer has what they contracted for and can get on with life. We do not have that option in Scotland. Do we have the enforcement mechanisms to do such things quickly?

**Ron Fraser:** We have adjudication mechanisms.

**The Convener:** We have adjudication, but can it deal with things quickly?

**Ken Gillespie:** This is where we go into detail. Most standard forms of construction contract will have a defects obligation in law, which will require the contractor to perform against a specific timeline and will give the client the ability to employ others to carry out the work. As you say, convener, the cost of that work can be disputed at a later date, but the building or project gets completed to the satisfaction of the customer. We have that remedy today. I cannot think of any contract in my lifetime that did not include that remedy. It has been in basic forms of contract for all my career.

**The Convener:** If that remedy exists and is quick and effective, why do we have a problem with retentions?

**Ken Gillespie:** That is a reflection of the fact that retentions have been used for a long time. One might look at them as a cash flow benefit to the customer, so why would the customer want to give that up? They are also custom and practice.

The other side of the coin is the question of whether the construction industry responds as positively and quickly as it should in dealing with defects, particularly at the end of the defects liability period, when everyone has moved on to other projects. We face challenges there and we need to improve. However, there is a customer remedy. Clients have the option of holding a retention to pay for any issues so that, if they employ someone to address those issues, they have the funds to pay for the work while they resolve their differences with the contractor.

The more important point is my earlier one, on procurement. Today, many clients do not hold retentions. I also refer to Ron Fraser's point about how we do business together. For example, the water business in England has been in long-term relationships with its supply chain for coming up to 30 years. It was one of the first sectors to recognise the benefits of a different way of procuring, which involves its SMEs and its manufacturing base. A single manufacturer might have a high level of supply into its work. It might have brought its work to market at five-year intervals, so there is an opportunity to create a sustainable business. Because there is a relationship of at least five years—some such relationships have run for 25 years—there is two-

way trust and a commitment that it will deliver on defects management and other issues, which will be resolved.

A lot of the debates that we have come back to the fact that customers procure one-off projects in a single-contract relationship that will never be repeated, and at the lowest possible price. That does not create the optimal environment for a relationship that will get the best out of what is possible.

**The Convener:** Surely it would never be possible to eliminate that completely.

**Ken Gillespie:** Sorry?

**The Convener:** You would never be able to eliminate that completely, because there will always be one-off contracts, will there not? I take your point that, in general, large private or public bodies might be able to look at things in the way that you describe, but I would have thought that there will always be one-off contracts.

**Ken Gillespie:** Agreed, but there is a huge opportunity for projects to be brought to market in a far more joined-up way, in order to create the environment that I have described. At the moment, we are procuring one-off projects that would be far better served by being in a programme of work over a longer period.

**Tom Mason:** How do you think we can achieve that? I understand that there might be a dream of doing so—the country might spend £X billion every year for 10 or 20 years—but how would the process be managed, and by whom?

**Ken Gillespie:** Our aspiration is that, through our conversation with the Government, we could develop an understanding of the benefits of that approach. We have seen a lot of traction on that approach in England, where the Government is bringing together all its purchasers and is beginning to require them to bring their projects to market together. It requires them to perform in a particular way, including through off-site manufacturing, sustainability in employment and innovation. At the moment, central Government has started that process through the development of the Construction Leadership Council. Therefore it is possible to bring spending profiles together and to explore how we can maximise sustainable economic benefit for Scotland through the way in which such programmes are brought to market.

**Ron Fraser:** It is perhaps worth mentioning again that, as part of the discussions with the Scottish Government, the procurement joint working group that we are setting up has a sub-group on frameworks. The idea is that the sub-group looks at how we can test the ideas that we have on better procurement through the frameworks that the Scottish Government might

set up. The concept is that, if such frameworks are set up properly, they can take account of the differing needs of different parts of the country or of projects of different sizes. They can also allow a variety of companies of different sizes and scales to get some of the benefits of repeated work under a single contract, so that they do not have to keep bidding for things all the time. That will involve linking into quality assurance and ways of getting rid of retentions. It is part of the discussions that we have been having and will have with the Scottish Government about how we can end such practices and adopt the model of a series of frameworks.

11:00

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Does the construction sector get the same level of business support, including financial support, from public sector bodies that other sectors get? What kind of support should be given?

**Ken Gillespie:** Since becoming the chair of Construction Scotland, I have observed that a huge amount of support is given to the industry. We need to get better at co-ordinating that support and collaborating so that we get the outcomes that that level of investment deserves. I see a lot of initiatives happening in isolation and I would like the Government and the industry to pull those together. We are working hard and quite an investment is being made in various parts of the industry, but we need to co-ordinate that investment so that we get better outcomes. I am not saying that we are not supported as a sector—I think that we are—but we could improve the outcomes from that support.

The Construction Industry Training Board, on behalf of the industry, is investing substantial sums of money in skills development, and SDS is also working hard on our behalf, but I still see a lot of little initiatives running around that would be better harnessed under one umbrella. I also see a disconnect between the investment of the educating authorities, and jobs. I would like that all to be joined up so that we are making opportunities available to youngsters and then putting them into a job at the end of it, so that the employers are at the end of that process and they are not disconnected.

The support is there, but we need to co-ordinate it better. In relation to skills, Construction Scotland is trying to do that through an outreach programme called inspiring construction. We are working with the CITB and SDS on that outreach programme to try to co-ordinate our efforts in schools, particularly in secondary 3 and 4. We would really like to go into primary schools as well, but that is a bit away. We need to attract more

diversity and get more people into the industry to deal with future challenges. It is a great example of an area where a lot of effort from various bodies is going on, but let us pull it all together, get around the table and make a difference so that people get jobs at the end of that process, as opposed to jobs being separate from the process.

**Colin Beattie:** You talk about a disconnect—do you see it as your role to bring all that together?

**Ken Gillespie:** I see it as Construction Scotland's role to inform the debate and to express the industry's view on how we best get youngsters into the industry and into jobs. At the end of the day, the industry is made up of the organisations that will employ these people. We have public investment and support going into that pipeline, but are we doing the right things to get real jobs out at the other end?

**Colin Beattie:** Surely, at some point, there will have to be a co-ordinating body to bring together the disparate efforts that are going on out there in the market. If, as you say, there are disconnects, they will not heal themselves without some force behind those efforts.

**Ken Gillespie:** There are two things. There is our inspiring construction programme, in which we are trying to pull together what we do as an industry. Individual industry members are investing substantially in their own initiatives, but we are trying to say to the industry, "Can we all do this in the one place, with a common message and a common ask?" We are doing that with the industry, Skills Development Scotland, the CITB and the schools that we are reaching out to on a regular basis. We are trying to pull that together and grow it into one community within the inspiring construction programme.

We also have our skills working group, which seeks to widen that beyond inspiring construction. That is what we are trying to do.

**Ron Fraser:** I take the point that Construction Scotland does not have the power to reorder the disjointed nature of the support that is provided in these areas. However, we think that our job is to highlight that, identify it and work with the industry and the Government to identify solutions. When we have identified the solution, we should make sure that it is implemented by putting pressure on the Government to pull together the strands of all the organisations that we have talked about.

However, as Ken Gillespie says, it is not just a Government problem. The industry is just as disparate in its approach to, for example, the school population with regard to skills. The industry, its clients and the Government have a combined responsibility to find a way to make the money that we are spending on the skills sector much more beneficial to the delivery of the diverse

workforce that we want in the future. There are a lot of things going on, but we think that they are not very connected at the moment.

**Colin Beattie:** As Ron Fraser says, the efforts do not seem to be very connected. There does not seem to be a forum that will pull everything together and make it happen. It sounds like there is more a hope than anything else that people will come on board.

**Ron Fraser:** I disagree, if only because we have been pleasantly surprised by the level of collaboration that we get from Government at the joint Construction Scotland and Scottish Government forum that we have talked about a couple of times in the committee. We have had only a couple of meetings, but we are already setting up working groups on procurement and quality, and skills are a part of that quality subset. We will be raising the issue with Scottish Government at those meetings. We are hopeful that we will be met with a listening ear and that our suggestions will be taken on board.

**Ken Gillespie:** I have perhaps not been clear in my response to Colin Beattie. Skills Development Scotland and the CITB, which are the two main bodies that support the industry with skills, attend the ILG meetings. They are part of our regular sit-down meetings at that strategic leadership level. They also participate in our inspiring construction programme; that programme is funded by the CITB. We are beginning to pull the strands together. Our skills working group will also look to develop that beyond just inspiring construction, which, at the moment, is focused on school leavers. I am positive that we are actively doing that today, but we have a long way to go.

**Colin Beattie:** It sounds as though engaging with the Government is perhaps the easy side of it. Pulling together the disparate companies and businesses within the construction sector sounds like herding cats.

**Ron Fraser:** It is, but I will doff my hat again to my colleague Ann Allen from the client sector. Most of the companies and organisations, whether they are a tier 1—or any level—construction company, a local subcontractor or a professional body, are going into schools and doing things, in some cases, because of a community benefits requirement in their contract or because of some overarching reason that comes from their own sustainability policies. We do not want to stop people doing their own thing, but we feel that the strongest way of pulling them all together is to develop a standardised approach to it. Therefore, we say to customers, “No matter which bit of the industry you are from, if you are going into a school, please give the standard information on the whole range of available careers and the routes and paths into them.” If we can get the

clients on board, the clients will say to their contractors, “When you do your community benefits work to get a tick in the box for your contract, please give the Construction Scotland briefing, which is now standard throughout the country.”

That is one way of ensuring that we achieve our ultimate aim, which is that children in every secondary school in Scotland get the same message at some point during the year. The message is that they should look at the range of careers that are available, which cover everything from the lowest level of qualification to the highest. That is one way of driving inclusive growth. As an industry, we employ a vast array of skill levels, but sometimes that message is not out there in schools. When schools are directing children to look at careers, they do not necessarily see the wide range of capability that we need in the industry. If we can get customers to help us and they can drive that down through their supply chains, we have a good chance.

**Colin Beattie:** I have a final question, which is probably inevitable. How are you helping the sector to prepare for Brexit?

**Ron Fraser:** Ken? *[Laughter.]*

**Ken Gillespie:** It is a real challenge. The issues for construction are threefold. First, the uncertainty is undoubtedly affecting investment and decision making on whether to proceed with projects or purchases. It is difficult for us to adjust to deal with that, and there is obviously a concern about pipeline and workload as a result.

That takes me on to issues that we can do something about. There are two such issues that would affect us the most. One relates to the fact that we rely on people from outside Scotland to come here to work in our industry. That is obviously a challenge for us, particularly as we have a declining workforce anyway, because it is ageing. That is why there is a drive to get younger people into the industry to stimulate the workforce, which I have talked a bit about. To deal with that issue, we are trying to get the local population to be much more aware of the opportunities in construction so that we get a better flow of people.

The other issue is that some of the materials for our projects come from Europe. There is a concern about whether we will have delays and/or cost pressures as a result. Some in the industry have been trying to bring in products earlier than they would otherwise do, so that they can have some confidence that they can finish projects that they are building. There has been an emphasis on products coming from outside the United Kingdom—people are trying to ensure that they are not caught at the wrong time.

**Colin Beattie:** Are businesses stockpiling?

**Ken Gillespie:** Yes, they are. They are choosing to bring in certain materials in much greater bulk and have them available in more volume than would otherwise be the case.

**Colin Beattie:** What is the percentage of European Union workers in the construction industry and what is the percentage of materials that come from the EU?

**Ken Gillespie:** I do not carry those percentages in my head.

**Ron Fraser:** The numbers and the percentages vary with the nature and the volume of the work. During the boom time a few years back, when, for example, the Aberdeen bypass was at the peak of its construction, the percentage of European workers, particularly engineers and professionals, working in Scotland was much higher than it is at present. Now that the Queensferry crossing is complete and the Aberdeen bypass is more or less complete, many of the Portuguese, Spanish and other engineers who were working here have moved on to other big projects elsewhere.

There are still European workers in various trades in the construction industries in Glasgow and Edinburgh, but I would not like to put a percentage on it, because it fluctuates depending on the trades that are needed on projects at any particular time. Many European workers are away from home and move up and down between London, Scotland and elsewhere to follow the flow of work and the volumes—especially the specialist trades.

11:15

**Colin Beattie:** What about materials?

**Ron Fraser:** It is the same with materials. We import up to 40 per cent, which again is a figure that I have plucked from the air—it means very little. If a road is being built, not many materials will be imported, other than perhaps bridge bearings; if it is a hospital, a much higher percentage of the products that come together to make the building will come from Europe, such as air conditioning units or cladding systems. The industry has developed a very diverse supply chain over the whole of Europe.

A characteristic of our industry is that we are all very pessimistic. That is probably good in this case, because most construction companies assumed a long time ago that no deal would be done and that we would be in this situation. We held a meeting before Christmas and asked a bunch of construction companies how pessimistic they were; they all said, “Very pessimistic.” That is good news, because it means that they have taken measures to protect themselves. They have looked at their work pipeline and what they need

for supply and they have either made arrangements for alternative sourcing or procured earlier than 29 March. Customers have been doing the same, such as putting things into contracts that would terminate them if a no-deal Brexit were to happen.

The industry is probably as well prepared as it could ever be, but how prepared is that? It remains to be seen what will come out of the wood. As Ken Gillespie said, we are affected at various points by European labour fluctuations, depending on the work, and on imports, depending on the type of project that we are building.

**Colin Beattie:** It is good to finish on a down note.

**The Convener:** We will not finish on a down note. Jamie Halcro Johnston has questions.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** That is a challenge. I have very quick questions on schools, as I am conscious of the time.

However, first, you have talked about initiatives and what Dean Lockhart calls a cluttered landscape with regard to investment. On visits, people have spoken to me about skills gaps and skills deficits, particularly in certain disciplines, and they are not confident that those gaps and deficits will be addressed. You have said that you are aware of them and that your role is to highlight, identify and inform. If so, how confident are you that we will be able to address the skills gaps and—probably more importantly—our skills deficits, which are going backwards in some cases.

**Ron Fraser:** I may have used the wrong words if I suggested that we can only identify things. The industry leadership group has a convening power—by which I mean the power through the individuals on the group and their status in the industry—to bring parties together to hammer out solutions. That is our main power; we can identify the issues through our skills working group, and it is able to convene Skills Development Scotland, the CITB, the Scottish Government and other key players round the table to say, “What do we need to do to fix these problems that we have identified?”

Under the new strategy, we are at an early stage of pulling together the skills committee, which has a new chair, Emma Dickson, who has just joined the ILG. She is identifying the myriad of organisations that play in the skills sector, making contacts with them all and talking to employers about the availability of skills. We will bring all that together in the next few months and use our convening power to get all the parties to the table

to hammer out solutions. We cannot enforce, but we can convene and knock heads together.

**Jamie Halcro Johnston:** Are you confident that the skills gaps and deficits will be identified and addressed?

**Ron Fraser:** I am confident that they will be identified, and we will do our darnedest to ensure that they are addressed.

**Jamie Halcro Johnston:** I am not sure whether that finished on a positive note, but I will quickly ask another question.

A number of different organisations suggested that there should be a dedicated construction foundation apprenticeship. At the moment, there is training in schools. What are your thoughts on that? Would it play a role in bringing digital skills into the training at an earlier stage and engaging with people at a younger age, rather than relying on them coming along later?

**Ron Fraser:** I am an old fogey, but I am aware that the use of digital technology attracts children to the industry. When school pupils come to our inspiring construction events, they are all attracted to the virtual reality headsets and the iPads that we use to show them what a completed building will look like.

In earlier committee sessions on construction, people talked about building information modelling. That sounds a bit dry, but it is about creating a digital twin of a building, which means that the physical building is built in parallel with the electronic model that records all the information. Nowadays, that information can be put on a virtual reality headset so that people can look around the building that is being constructed. Those tools have a powerful appeal and they show pupils what will be seen as the norm in the construction industry in just a few years' time.

**Jamie Halcro Johnston:** I know about the inspiring construction campaign and I have heard positive things about it.

I know that there is already a foundation apprenticeship related to the sector, but would a foundation apprenticeship that was focused on the construction industry in general encourage more people, including young women, to come in and get involved with it?

**Ron Fraser:** A lot would depend on how the apprenticeship was presented, the course content and what we were trying to turn out. The industry needs people with artisan-level skills in trades, because there is still a massive number of existing buildings that have to be maintained, for which the traditional joiner, brickie and craftsman skills must be created.

**Ken Gillespie:** To stay on a positive note, the opportunity is that, in the past few years, for whatever reason, the industry has not done enough to attract young people into the industry and we need to substantially improve the diversity of the workforce.

Interestingly, in the lead-up work to inspiring construction, I found myself at various events to which we had invited secondary schools to have a look at our projects. I found that the young people the schools sent to the events were very focused on low-skill trades. When we opened up a conversation about that, it became apparent that the industry has allowed the perception to grow that we are only about trades and wet building sites. Actually, there is not much that the construction industry does not do when it comes to careers, whether people are contemplating a professional career as an architect, quantity surveyor or accountant, or a career in information technology. A broad range of skills is required.

We need to get better at putting information out there, not only to pupils but to teachers. We need to say, "Look, this is a great industry with great opportunities and it is very rewarding."

Working in construction, we take great pride in seeing things that we have built or developed and, as Ron Fraser said, as you get older, you pass by more of that because you have built more. We create projects, roads and infrastructure that will be there for generations to come and we and our teams are proud that we have participated in delivering such projects. As an industry, we need to get the message out more positively in order to attract a more diverse pipeline of talent into the industry. That is our opportunity.

**The Convener:** That is a positive note to finish on. I thank all our witnesses for coming in today. We now move into private session.

11:25

*Meeting continued in private until 11:50.*

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