



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 26 February 2019

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
7th 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:

Gillian Cameron (Supplier Development Programme)
Robin Crawford
Maureen Douglas (Forster Group)
Kate Forbes (Minister for Public Finance and Digital Economy)
Fiona Harper (BSE Skills Ltd)
Jamie Hepburn (Minister for Business, Fair Work and Skills)
Ian Hughes (Construction Industry Training Board)
Jeanette MacIntyre (Indeplås Ltd)
Shona Nicol (Scottish Government)
Professor Sean Smith (Edinburgh Napier University)
Fiona Stewart (Skills Development Scotland)
Alan Wilson (Specialist Engineering Contractors Group Scotland)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 26 February 2019

[The Convener opened the meeting at 09:45]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the seventh meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone in the gallery to turn off electronic devices that might interfere with proceedings.

The first item on the agenda is to ask members to decide whether to take items 9 and 10 in private. Do members agree to take those items in private?

Members indicated agreement.

Subordinate Legislation

Insolvency (EU Exit) (Scotland) (Amendment) Regulations 2019 [Draft]

09:46

The Convener: We turn to subordinate legislation. I welcome Jamie Hepburn, the Minister for Business, Fair Work and Skills, who is accompanied by Alex Reid, David Farr and Victoria Morton. I invite the minister to make a one-minute opening statement on the regulations before members ask questions.

The Minister for Business, Fair Work and Skills (Jamie Hepburn): I shall do my level best to make it within one minute, convener.

Thank you for having me here to move the motion on the draft regulations, which the committee is considering in the light of contingency and in the event that the United Kingdom leaves the European Union without a deal, in which circumstances the UK's insolvency regime would cease to be automatically recognised under the provisions of the EU insolvency regulation.

Given that I have only one minute, I will not rehearse the Scottish Government's position on, and great concern about, a no-deal Brexit. However, it is of course necessary to plan for all eventualities, including a no-deal outcome, so the draft regulations deal with the situation that would be created by that outcome. I will leave it at that, convener.

The Convener: We move to formal consideration of motion S5M-15528, on approval of the regulations, which are subject to affirmative procedure.

Motion moved,

That the Economy, Energy and Fair Work Committee recommends that the Insolvency (EU Exit) (Scotland) (Amendment) Regulations 2019 [draft] be approved.—
[Jamie Hepburn]

Motion agreed to.

The Convener: Do members agree that I, as convener, and the clerk should produce a short factual report of the committee's decision and arrange to have it published?

Members indicated agreement.

09:48

Meeting suspended.

09:50

On resuming—

Construction and Scotland's Economy

The Convener: Item 4 on the agenda is our inquiry into construction and Scotland's economy. We have been joined by our witnesses. Robin Crawford is the chair of the review of Scottish public sector procurement in construction; Gillian Cameron is the programme manager with the supplier development programme; Alan Wilson is the national executive officer with Specialist Engineering Contractors Group Scotland; and Jeanette MacIntyre is the managing director of Indeglås Ltd. Good morning and welcome to you all.

By way of introduction, I point out that there is no need to press any buttons, as the microphone system will be operated by the sound engineer. Do not feel obliged to answer every single question. I will let the discussion develop, and you may come in on one question and not another, and so forth. I ask members to keep their questions short and, in answering, to try to cover the points that you think are important but also to be brief.

I will ask the opening question. You might be familiar with the 2018 Audit Scotland report, "Major project and procurement lessons", which says that

"the public sector does not always do"

procurement "well", and comments that

"There are ... recent well-documented publicly funded projects with serious failings".

What are your comments on that?

Alan Wilson (Specialist Engineering Contractors Group Scotland): There are a number of fundamental issues in relation to failures, including the whole model of procurement, the drive towards lowest-cost tendering and the lack of expertise in a number of local authority and public sector bodies, all of which contribute to poor construction. When you are building something, if you start with the premise that the cheapest tender will win, you will not necessarily always get the best outcome, in any sector. There are a number of examples from across the country that highlight that that is the case.

In our industry, specialist engineering contractors experience late engagement, passing on of risk and delays in payment—all of which cause issues with construction programmes generally. It is an endemic issue that unfortunately cuts across almost every project that we see, and almost every project that our members are involved in.

The Convener: You refer to projects being awarded on the basis of the lowest cost. Of course, the procurement regulations do not require contracts to be awarded to the lowest bidder; public bodies can take other factors into account. Is the difficulty that public bodies look too much to the price and not enough to the other factors that they are entitled to take into account?

Alan Wilson: Yes. There is definitely pressure on public bodies to look for the lowest-cost option. What then happens is that, when a contract is awarded to, for example, a tier 1 contractor, which is often a management contractor rather than an actual construction company, it passes on the risk and the cost savings. The term that has come into vogue in the past few years is "value engineering", which is really "cost-cutting", but using a different form of words. All that happens is that, down the chain, the costs are cut and the risk is passed on until the person at the end has most to lose if the contract goes wrong.

At the top, where the work is procured in local authorities, there is often a procurement team sitting above those whom we might term the industry professionals, including quantity surveyors, that determines how contracts are awarded.

The Convener: I saw Jeanette MacIntyre nodding her head. Do you want to come in?

Jeanette MacIntyre (Indeglås Ltd): Yes. I second much of what has been said.

One key driver in construction generally is elimination of waste. Many of the tier 1 contractors and those in every tier below it are challenged to improve in that regard. We are driven by current procurement models that encourage waste throughout the whole process—multiple companies price and design in the knowledge that only one of the designs will be implemented. That flows through the supply chain.

All the tier 1 contractors, working through the entire process, have agreed on the requirement for a procurement model that focuses on the whole life of the building, as opposed to just how much it costs to put it up. That expertise is lacking in most public procurement processes.

An essential step forward would be the engagement of appropriately experienced chartered construction specialists in the procurement process.

The Convener: Is there too much short-termism?

Jeanette MacIntyre: Yes. Short-termism is prevalent, and perceived construction-stage savings can become extremely costly to the organisation that inherits the building and to every subsequent occupier of the building over its life.

The contractor's responsibility can end as little as 12 months after construction of the building—the 12 months defects liability period.

Design, structure, fire-rating, compartmentation and all the other technical aspects that are essential to a building performing well are cascaded down the supply chain, with their associated risks. My company is in one of those trades: very few public buildings, including schools and hospitals, do not involve some kind of design, engineering, supply, installation or maintenance service from such companies. There is very poor understanding of that at the procurement stage.

Robin Crawford: It is slightly depressing that every single one of those issues was raised in the "Review of Scottish Public Sector Procurement in Construction" report. Six years on, it is disappointing that so little progress has been made in tackling many of them. For example, the whole-of-life costing issue has been addressed by the Scottish Futures Trust in a very good document that is on its website and which gives details of how to carry out a whole-of-life costing that looks not only at the initial costs of a building or infrastructure project, but at the costs throughout its operation. The initial cost is very often only a fraction of the total costs to operate the building. It is disappointing that that tool has not been taken up sufficiently by public authorities.

One of the key recommendations in our report is that the issue of risk transfer should be addressed. On the race to the bottom and lowest-cost tenders being the ones that inevitably tend to be the most successful, clearly the public sector has to look for value for money—that is a given—but quality is also important. We believe that it is essential that there be wider scoring, such that quality scoring would be given greater prominence and the decision would not come down to the lowest price. Sadly, it remains the case that the lowest price very often wins.

The Convener: Before I bring Gillian Cameron in, you mentioned the 2013 "Review of Scottish Public Sector Procurement in Construction" which Andy Wightman wants to explore.

Andy Wightman (Lothian) (Green): Mr Crawford, why has the review that you chaired in 2013 not had the impact that you expected? For example, I note that one of the recommendations in the review report relates to what the report calls "painshare/gainshare arrangements", which is interesting terminology. The report says that

"The construction industry has a background of confrontational attitudes between client and contractor."

10:00

You talk about such arrangements having been put in place in the health sector but not elsewhere. Your recommendation on that issue is that

"Specific guidance should be developed".

The report mentions guidance in a few places. Is one reason why we have not made much progress the fact that although guidance is useful, in order to implement recommendations for changes in practice we need, at the end of the day, laws, financial penalties or contractual obligations?

Robin Crawford: There are, to my mind, three essential aspects to the issue. The first is to get the guidance in place, the second is to ensure that there is the correct level of skills in the procuring authorities, and the third is to determine whether the people who are responsible for construction procurement are following the guidance, and that they have the correct level of skills to carry out the construction project.

With regard to the guidance, there are 66 recommendations in the review report, 65 of which were accepted by the Government and one of which was neither accepted nor rejected, but was put in limbo.

A great deal of work was done immediately following the report. A construction review development group was formed and I attended a number of its meetings, as the report's author, as did most of the large public authorities that are involved in construction spending. The group met monthly and tried to drive progress—there was a lot of documentation.

The first stage that was considered to be necessary was to set out what should be done. That was because if we do not tell people what they should do, we cannot really expect them to do it. A lot of effort has gone into that process and it has, by and large, been successful. There are still a number of key gaps, but we now have the "Construction Procurement Handbook", which is on the Scottish Government website. The manual is, however, incomplete; there are bits to be added to it. A number of construction procurement notices have been published, which give guidance on some of the key areas on which we made recommendations.

We are making good progress on the guidance, but it is currently underresourced. A lot of resources were put in at the beginning, but they have been gradually whittled down. I do not think that there are enough resources to get to the critical next stage of completion, which is to digitise the process, so that the manual is readily accessible and available to all public sector bodies that are involved in construction procurement.

Stage 2 relates to the skills issue: other panel members have referred to the great concern about whether there is an adequate skills base in procuring authorities.

The third stage is to determine whether people who have the correct skills are being deployed and whether they are following the guidance. Sadly, that has not really got off the ground yet. In my view, until we have a system of following up to ensure that the guidance is being followed, and that proper procedures in construction procurement are being followed, it will be difficult to address a number of the issues that were referred to at the outset.

Gillian Cameron (Supplier Development Programme): I will follow up on what Robin Crawford said. With the publication of the procurement manual, steps have been made to address the lack of knowledge about construction procurement in the public sector, but there is an issue about implementation of the manual and how it is passed on to the various people who should be reading it and acting on it.

I do not have as much construction experience as my colleagues on the panel, but our programme supports all Scottish small and medium-sized enterprises in how to tender. However, construction is a huge sector, and a number of suppliers that come to us feel that they do not get an early enough indication of projects that are coming up, which can stymie progress. Also, the public sector is risk averse in respect of taking on board innovation that might be available in the marketplace.

Andy Wightman: Mr Crawford, can you point to any procurement projects in the past few years that have effectively reflected the improvements that you sought in 2013? With there being incomplete guidance and a skills problem, are we still some way from achieving the ambitions that you set out?

Robin Crawford: I do not want to paint the picture that all construction and infrastructure in Scotland is procured poorly. Many of the large authorities already embrace best practice and have skilled people in procurement, so a large number of major infrastructure procurements are done competently and well. The problem cases that have been referred to do not represent the larger portion of the infrastructure that has been procured in Scotland. A lot is being done well and our report drew on a lot of examples of good practice.

The difficulty is in rolling good practice out across all the public sector bodies. We estimated that there was about £4 billion of spend on infrastructure in Scotland, which is a huge sum. Nobody pulls that figure together, so we had to

estimate it—we set out in the report how we did that. The problems occur when an authority that is responsible for a major procurement does not follow the guidance or the best practice that we have recommended. The authority's procurement capacity might be underresourced—reference has been made to that—and might go ahead on the basis of people saying, "We will muddle through with what we've got," rather than saying, "Sorry, we do not have the proper resources to carry out the procurement competently, so we need to buy in resources or share with some other public body that has those resources in order to make the thing work."

Andy Wightman: Do you think that that is a key observation for the future? Some evidence has been given about a more co-ordinated and, in some cases, a more centralised procurement model.

Robin Crawford: In our report, we recommended that authorities that lack the competence to do a big infrastructure procurement should go to authorities that have that competence. There should be more collaboration—

Andy Wightman: That would rely on a self-declaration—people saying, "Hey, I do not have the capacity." That would be difficult in some cases.

Robin Crawford: That is clearly an issue.

Jeanette MacIntyre: Some of the best examples of procurement and whole-life building analysis that I have seen recently have not been in the public sector. Buildings that have key drivers for what they are expected to deliver, such as Maggie's centres for healthcare, seem to go seamlessly through procurement, design, engineering and construction, with lots of post-occupancy evaluation surveys to see how the building performs for the end user. Those are fantastic examples of good practice.

Alan Wilson: The best examples that we have had go back in time a bit. The Commonwealth games construction in Glasgow was one of the best examples that we have been given of early engagement with contractors, which is another key issue. Often those who construct the building are brought in at the very end, having gone through a process of getting to the lowest cost and passing on the risk, as Jeanette MacIntyre mentioned. Such early engagement is with the people who carry out the work, and who often undertake the design.

I congratulate the Government on providing surety of payment through the introduction of project bank accounts and reducing the thresholds from £4 million to £2 million, which will make a difference and is a positive step forward. That was

one of the recommendations in Robin Crawford's report.

The Commonwealth games construction is a good example of early engagement that meant that things worked—buildings were built on time and within budget and were properly constructed.

Andy Wightman: I have a few other points to follow up, but as we are a bit tight for time, I will, hopefully, come back to them later.

Jackie Baillie (Dumbarton) (Lab): I want to explore frameworks and hubcos as models of procurement. When I consider some of the work that has been done on that, I see that hubcos are dominated by about five big companies that operate at tier 2 and tier 3, which means that the relationship could be deemed to be quite incestuous. Four of those five companies are headquartered outwith Scotland. In addition, I do not recognise many of the SMEs that are involved at the very end of the food chain as being local—some come from the rest of the United Kingdom. Does the framework and hubco approach work against SMEs?

Gillian Cameron: My experience is of Hub South West Scotland, which is one of the larger hubcos and is very proactive. We are hosted by South Lanarkshire Council and we work quite closely with both the council and the hubco. They have set up the build Lanarkshire initiative to encourage local businesses to get involved in the supply chain. My experience of that and of the Aspire development programme is that the hubco is being proactive.

I cannot comment on some of the other hubcos where I have not seen that happening—I might not be close enough to see that. With large infrastructure projects there is always the challenge that the risk-averse public sector will look for a larger contractor to be at the front face. In some areas, steps are being taken to try to address that by bringing smaller contractors into the supply chain, but I do not see that happening nationally across Scotland.

Alan Wilson: Hubcos are organisations that microbusinesses and SMEs find it difficult to break into if they are not part of what has already been established. The hubcos were meant to become centres of excellence and there is some evidence that that might be happening at the top level. However, our members see them as a barrier to entry for bidding for work in those areas.

Jackie Baillie: I am seeing nods from everyone else. I understand that the hubco model is about to change: the Government announced that it was considering the model that is used in Wales. Does that address those concerns or will we just see more of the same with a different name?

Jeanette MacIntyre: I fear that it could be the case that we see more of the same. Having dealt with almost all the hubs now, I endorse what Gillian Cameron said about Hub South West being way ahead: the hub's cascade of key drivers is very clear, perhaps because of the involvement at board level by John McClelland and the others who drive that team. We are very engaged with them; they tend to maintain more responsibility through the procurement of buildings and they attend meetings while the tier 2, 3 and 4 contractors are being appointed. There is definite evidence of more engagement with local employability and supported employment. Hub South West goes way above and beyond some of the other hubs in respect of that type of engagement.

Having said that, Hub South West still minimises the tier 1 contractors to four or five companies. Not all of those contractors are based in Scotland and not all of them have local employment as a key driver. The current project contractors for Hub South West are Morgan Sindall, Graham Construction—which is Irish owned—and Morrison Construction. We still experience situations where the specification for the product will clearly identify the properties that the product has to achieve, but when we engage with the main contractor it will say, "Well, Jeanette, we know that you need all the terms of the spec and our engagement, but we have a much cheaper price from a company based in Leeds or Birmingham, and that is the price that you will need to achieve to be engaged."

10:15

Jackie Baillie: So we lose out on local economic benefit.

Jeanette MacIntyre: We lose out big time.

Jackie Baillie: You said "big time"; will you try to unpack that? When we are spending billions of pounds on construction, I think that it is a missed opportunity not to ensure that local companies get a slice of the action.

Jeanette MacIntyre: You are quite right; all your fears are realised out there. We are sacrificing local employment, skills, training, development and so on by not keeping control of procurement at that level.

For example, Indegtlås just employed North Lanarkshire Council's 100th supported placement, and I have more than eight apprentices, at various levels—we are fully engaged. However, none of those statistics or accreditations is key at the point when we are being compared with a man and a van and an account with Travis Perkins, who happens to be based in Blackpool, if his price is cheapest—at certain levels.

At Hub South West, there is more evidence of an interest in that level than is the case in any other area.

Jackie Baillie: But Hub South West is just one of five hubcos.

Jeanette MacIntyre: It is just one of five, I am sad to say.

Gillian Cameron: The Scottish Government has done great work to put in the sustainable procurement duty, which is about the local economy, local wealth building and so on. At the high level, that approach is put in place in the contracts, but the minute we kick down into the tier 1s it gets lost.

Jeanette MacIntyre is right to say that there is a drive almost to the bottom line, which is where the smaller businesses that might be investing a lot to do good and to take on apprentices are losing out. Work is leaking into other parts of the UK, as opposed to staying in Scotland.

Jackie Baillie: You are saying that it is fine to have the duty, but the theory does not match the reality on the ground.

Gillian Cameron: Yes. There is an opportunity here. The UK Government put out a procurement policy note that was all about keeping such a duty in contracts all the way down the supply chain. The Scottish Government has not put out a policy note about that, although it is trying to encourage such practice.

That takes us back to what Robin Crawford was saying. It is about implementation. The guidance needs to go further to drive the approach, so that people say, "Well, you can't just award a contract on price all the way down the supply chain; you need to include these benefits."

Hub South West has tried to do that. It is under pressure from the local authorities to do that, and it is going some of the way. I am getting feedback about there being improvements. However, that is just one area; the approach is not national.

Jackie Baillie: The hubcos are controlled by the Scottish Futures Trust, which is national. The SFT is the national body that we would expect to drive all that good practice, but it is not doing that. Without beginning to look at whether local authorities or health boards are doing that, we can see that, in effect, the Government is not following its own guidance, which is most disturbing.

I am conscious that hubcos have greater involvement from the private sector, following the changes with the European system of accounts 2010 framework. The private sector is now in a controlling position, which is not necessarily helpful in meeting some of the objectives that the witnesses have outlined.

Do the hubcos lead to a further separation between local authorities and contractors? That is my concern, given that a lot of the expertise that Alan Wilson referred to has been stripped out of local authorities and, I suspect, now rests with hubs. Is that a good thing?

Alan Wilson: Is it a good thing? I would say no. There has to be a fair spread of expertise across all procuring bodies, and it cannot be right to overload one area at the expense of others.

Jackie Baillie: Robin Crawford has not said anything, so I invite him to speak.

Robin Crawford: When we did our review, the hubcos were pretty much in their infancy. We were concerned about access for SMEs and we spoke to all five hubcos about that. We received assurances that SMEs would be included in the frameworks. However, other panel members have spoken to the current experience of the hubcos.

On frameworks generally, guidance on the Scottish Government's website now sets out the importance of operating frameworks in a way that gives SMEs proper access to the frameworks—there is guidance on splitting the contracts into bite-size chunks that SMEs are capable of bidding for, and a lot more besides—but the problem to which we return is whether that is being applied in practice.

Jackie Baillie: If the Government agency SFT is not applying that in practice, one wonders what hope there is for the rest of us, but there you go.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I will explore one or two of the panellists' comments. I think it was Robin Crawford who mentioned the skills that are available in local authorities, and the comment was made that the bigger local authorities appear to have greater quality, quantity or whatever of skills to tackle developments. By implication, the smaller ones do not have the same level of expertise. Will you comment on that?

Robin Crawford: One piece of evidence that we were made privy to during the review was that there has been a winnowing out of construction expertise in local authorities' procurement teams. We heard that they are often quite well resourced, but not with people who have a construction specialism. That diminution of expertise in local authorities is giving rise to a lot of construction and procurement issues.

Colin Beattie: Have the bigger local authorities retained a larger measure of those skills?

Robin Crawford: Clearly, the bigger local authorities have more resourcing, but even some of them have experienced a reduction in the skills base.

In our report, we emphasise the need for any authority that is involved in construction procurement—we are not talking just about local authorities, because many public bodies are involved in infrastructure procurement—to make sure that it has the correct skill base before it takes part in that procurement. If it does not have that, it must recognise that and seek other means to achieve that skill base.

Colin Beattie: What does that mean in practical terms in relation to the impact on projects?

Robin Crawford: It means that you are not getting a proper brief at the start and not ensuring that the infrastructure is design led. Following our review, we would regard those as the essential components. There must be a proper brief that sets out what the procuring authority is seeking to achieve. That might seem to be a statement of the blindingly obvious, but it is quite often the case that that has not been properly documented at the outset.

After that, you need to look at the design and ensure that you have the best design, taking account of pre-market engagement. Many authorities have been nervous about pre-market engagement, because you have to get it right in order not to invalidate the procurement. Nonetheless, we regard it as an essential element of a proper procurement so that you can understand what is available out there and then get the design right.

There are a series of processes. I will not go through them all, but it is about getting all the steps right before you procure. Once the procurement is under way, it is about giving proper cognisance to quality and whole-of-life costing. Those are the essential elements in a build project ultimately being successful.

Colin Beattie: If we look at the other side of the coin, does the construction industry have the skills to be part of the procurement process? Is its position similar to that of local authorities? Do bigger companies have bigger resources and therefore tend to be favoured, whereas smaller companies struggle a bit more on the resource level?

Robin Crawford: There is no doubt that a lot of SMEs have found it difficult to respond to many public sector procurement requirements, but training has been put in place to address those issues.

The position varies. The large contractors—the tier 1s—have largely become project management organisations, and many of those with the trade skills that we recognise as part of building, such as electricians and plumbers, have been driven down to tier 2 or 3 as subcontractors.

Colin Beattie: Is that a good thing?

Robin Crawford: There are a lot of difficulties. Placing the contract for a fairly small project with a tier 1 contractor builds in additional costs. To address the issue, Scottish Water, for example, has developed a system whereby it is more specific about giving work to the body that will carry it out.

Colin Beattie: From what you say, the system in the private sector and among local authorities seems to favour the big boys, in terms of the quality outcome that might be expected. Are they becoming the market leaders?

Robin Crawford: The big boys are more capable of meeting the procurement tendering requirements. Not having the resources to compete in the public sector has been a big issue for SMEs. It is easy for a large tier 1 contractor to have all the resources available to undertake a procurement exercise, put in bids and so forth, but that is much harder for SMEs.

Gillian Cameron: Resources in public bodies have substantially reduced, too. Dealing with one large firm rather than 10 or 12 small firms is easier to manage within a public body's resources. Some areas are looking at a step change because they wish to grow the local economy and get more small businesses involved, but the larger companies have the resources to bid. Tender documents can be quite onerous, and the risk is another aspect.

Another big area involves accreditation and health and safety. Some smaller businesses that wish to work with tier 1 contractors use an accreditation scheme, but different tier 1 contractors use different schemes, so a small business might have to sign up to two or three schemes if it wants to work with tier 1 contractors. Signing up can cost just a couple of hundred quid, but that is a barrier to small businesses getting more involved.

Our perception from speaking to small businesses is that some prefer to be in the supply chain because they do not have to go through the tender process with all its documentation and risks. The system works for small businesses in some instances, but not in others.

Alan Wilson: Gillian Cameron talked about what is easier and about risk. It is fair to say that lots of businesses in the electrical, plumbing and mechanical engineering sectors are capable of engaging directly—that relates to Robin Crawford's point about Scottish Water.

As I said, all that happens is that the risk is often passed down the path anyway. As has been acknowledged, whether it is involved at the start or the end of the process, the tier 1 contractor

nowadays is a management contractor that manages the project, rather than an actual contractor. The tier 1 organisation passes the design, the risk and the issues of late and delayed payments, retentions and withheld payments all the way down the line to the businesses that do the work. I suggest more early engagement with those smaller firms.

Part of the problem in construction—the Parliament building is perhaps a good example—is that, after a building has been considered, people want to change something. That is a natural progression in anyone's life—I am sure that we have all got a contractor into our homes and said, "Instead of putting this there, I want it over here." Everyone can do that, but it has a cost. In construction projects, cost often results from late changes in the design and in where things are placed.

Early engagement with specialist contractors on a project to ask for their expertise would enable us to avoid some of the issues that add cost and confusion and lead to delayed payments—payments are often affected by disputes about added cost. Early engagement with specialist contractors is vital to avoid some of those big issues.

10:30

Colin Beattie: Previous panels have raised the issue of the transfer of risk. Given that a multiplicity of subcontractors and so forth are involved in the construction industry, is the question of risk properly addressed? Is there confusion about it in the system?

Robin Crawford: The issue of risk came up a lot in the review that we carried out. The concern was expressed, particularly by subcontractors, that risk is passed down the chain. It was felt that public authorities try to pass the risk on to the main contractor, and then the main contractor will try to pass it down the line. As has been said, the risk often ends up with the party that is least able to bear it, which is a comment that we make in our report.

That situation has all sorts of implications. It gives rise to the risk of insolvency if the risks materialise, which can have an impact not just on the subcontractor that is involved but on the whole project, because the critical path might be thrown out by the subcontractor going into insolvency.

We believed—and we recommend in the report—that there is a need for a much better understanding of the allocation of risk at the outset of public sector contracts. It is not always appropriate for the public sector body to pass as much risk as possible on to the main contractor. That might seem counterintuitive, but a sensible,

grown-up addressing of the issue of risk allows it to be priced accordingly. If the contractor has to carry a huge amount of risk, it is going to price accordingly. If the risk can be more reasonably apportioned, the pricing can be more realistic.

Part of that is about the issue of "painshare/gainshare" contracts, which were mentioned earlier. Such contracts have been used down south for some time and there are now recommendations on the Scottish Government website as to how to use them. They allow a more measured view of risk. However, Mr Beattie is right to say that risk remains a significant problem.

Jamie Halcro Johnston (Highlands and Islands) (Con): I represent an area that has some very remote and rural communities, but they still require public projects to be delivered—for example, local schools and hospitals, particularly in Orkney and the northern isles, where I am from. Those contracts are being delivered by large national companies rather than by more regional operators. Are the current procurement procedures and systems suitable and do they work for regional operators and small businesses such as construction companies in the Highlands and Islands?

Jeanette MacIntyre: I am involved in supplying all the internal glass screens to the hospital in Orkney. I have been engaged through Robertson, whose main office in the central region is dealing with that. We were specified through the design process by the lead design team, which is Keppie Design. However, even that experience is compromised in that the health board's original intent for the building was to achieve something quite special in relation to what the healing powers of light and fresh air can do. That idea goes back to the Victorian age. It is about appreciating the importance of fresh air and daylight in healthcare and healing.

However, that intent was sacrificed at the construction stage due to perceived cost drivers. Many of the sophisticated, high-performance glass screens that were originally intended have come out of the building. On my most recent site visit, there were significant journeys along corridors in the hospital where I wondered when I was going to see the light of day again.

Such decisions are ill-advised. The savings are purely for the construction stage and they will have a cost related to the wellbeing of not only the people who are trying to get well, but the staff in the building. At some point in the journey through engagement with the tier 1 contractor, which cascaded down through the sub-contractors, there was a driver to value engineer that package.

Jamie Halcro Johnston: Will that decision have been made not locally but by the construction company?

Jeanette MacIntyre: It will probably have been made by the construction company. That is an example of the type of decisions that are being made by the tier 1 contractor that are not, in my opinion, in the interests of the health board or the end user—the patient.

Hospitals and healthcare buildings are being built that are better exemplars. We have gone all the way back to Florence Nightingale and her values, with appreciation of the importance of daylight and fresh air, in the recent building of the hospital at Alder Hey. Those values were key drivers that were appreciated by the client—the health board—and driven all the way through the process. They were not sacrificed at any point in the delivery of the building.

Jamie Halcro Johnston: You are suggesting that the national procurement model might take away from the local aspect of decision making, to some extent.

Jeanette MacIntyre: Yes.

Jamie Halcro Johnston: Some responders argued that it is

“unfair that the procurement process does not do more to incentivise the direct employment of apprentices.”

How could a national procurement model do better in encouraging more apprenticeships or skills training? Where are the barriers to that? We know that small businesses can have an issue in accessing apprentices.

Jeanette MacIntyre: We currently have an apprentice scheme. We have engaged with the Construction Industry Training Board and Skills Development Scotland about the fact that many of the existing formalised and recognised qualifications for apprentices are based on what are deemed to be traditional trades.

For example, in my company, I have no option but to bring an apprentice through a traditional carpentry and joinery apprenticeship; on completing that, they have to start training again from scratch with the completely different discipline of working with aluminium and glass, because there is no apprenticeship in the industry that would give an apprentice a recognised qualification in that sector. Yet, when glass is required internally to bring daylight through a building—the Scottish Parliament is a good exception to this—the glass is less likely to be framed by timber, particularly in healthcare buildings, because of infection control, than by steel or aluminium.

Formalised SQA qualifications for those specialist trades do not exist, so we are engaging with the CITB, Skills Development Scotland and other bodies to address that. The CITB is limited in the assistance that it can give SMEs with training, because its remit is to cover skills that are being used on building sites. It cannot cover anything to do with pre-manufacturing or development of products coming from a supplier; it cannot cover a company such as mine for anything that does not happen on a building site, so I have to self-fund a lot of the specialist training that our apprentices require beyond the traditional apprenticeship.

Jamie Halcro Johnston: I do not want to go too far into innovative new areas, as one of my colleagues will probably cover that.

Alan Wilson: Procurement contracts require bidders to look at community benefits. Often, the industry takes that to mean apprenticeships. It is fair to say that procuring authorities have taken a pretty poor view about how community benefits should operate.

If you look at the record of businesses in our sector, you will find that apprentices are recruited predominantly by micro and small businesses. In the electrical industry, we recruit approximately 1,000 apprentices each year. Not many of the apprenticeships are correlated to the community benefit aspect. Apprenticeships are a hefty investment for a business; it probably costs in the region of £15,000 per year to recruit and train an apprentice, with little given back to the business afterwards—certainly not in the first year. That is a direct cost to those businesses but, year after year, those micro and small businesses see the benefits of recruiting apprentices and train the workforce of the future by taking them on.

Such businesses, which are at the most risk of delayed and late payment, are taking on yet another level of pain—in their minds, quite rightly so, because they are developing their businesses. However, the opportunity to develop two apprentices instead of one is stymied because of the procurement processes, with the delays in payment. The processes are not conducive to engaging in, developing and building such small businesses.

In the electrical industry, FES Ltd is one of our largest members, with 250-plus electricians; it started as a one-person business in the 1960s. It would be difficult these days for a business to go from one person to 250 people in a few years because of how procurement works, certainly in the public sector. Pressures on payment in the private sector would also make it difficult for a business to grow exponentially in that way.

Until we flip things over and realise that the people who are doing the work and the training

are those small and micro businesses rather than the tier 1 contractors, we will always have this malaise around apprenticeship recruitment and payment.

The Convener: May I clarify something before we move on? I do not know the detail of the contract in Orkney that was commented on, but usually it would not be just the contractor that decided to alter the design—the decision would be made in conjunction with the design team and the employer, under whatever contract terms applied to the contractor. A difficulty can arise, because a bid is made and a contract is awarded based on a certain design and price, and then a bit further down the road the design is dumbed down, for want of a better expression.

Is part of the problem with the procurement process the fact that not enough account is taken of the realities of what will happen under a contract? A larger company can bid and get the contract but then, ultimately, the design is pared down because of cost, whereas other companies might bid on the basis that they could deliver the design as originally envisaged.

Robin Crawford: One of the areas in which that has been a concern is so-called suicide bidding, whereby people come in with a very low bid and that bid is accepted. That has been an endemic problem and I think that it remains a problem.

The difficulty is that the contractor that bids at a very low price then seeks to make a lot of savings throughout the contract; there will also be a lot of claims. In part, that is a procurement issue in terms of getting the design right at the start but it is also about having a price that is deliverable. If the price is not deliverable, you will see a lot of value engineering and a lot of claims.

10:45

Dean Lockhart (Mid Scotland and Fife) (Con): The committee has heard evidence that a number of factors are having a negative impact on productivity and innovation in the construction sector. We have heard about limited investment in skills, limited adoption of technology and digital platforms, and low margins in the sector. I would like to hear your views on what is holding back productivity and innovation and what steps could be taken to improve them in the sector.

Robin Crawford: I will start. That has been an issue since earlier reports than mine. Egan and Latham focus very much on the issue of innovation in the construction sector, which remains an industry wedded to boots on the ground in muddy sites. Innovation has been hard to achieve.

The Scottish funding council has invested in the Construction Scotland innovation centre, which is now making some progress in empowering innovation and looking at different methods to increase efficiency. There have been issues with prefabrication, particularly in the housing sector in social housing, and there are some very good pilot schemes in Scotland in which innovative methods are being pioneered.

However, there is no doubt that more can be done, particularly on the issue of sustainability. We refer to that a lot in our report, because modern methods of building properly insulated buildings using greener methods of construction may cost a bit more at the outset. However, the whole-of-life cost of the building will prove that using those methods is very much the correct decision.

Gillian Cameron: On that note, the Construction Scotland innovation centre is a great opportunity, but there is a lack of awareness of it. We quite often refer suppliers to the centre and say that it offers an opportunity. It is not just about the big projects; guidance is available on smaller things as well, but I do not think that businesses in general are aware that it is available to support them.

Alan Wilson: I want to separate productivity and innovation for a moment. If we talk about productivity, the time that is taken by small and micro businesses to prepare bids impacts hugely on those businesses, and then there is the issue of payment. One of our members, who is the director of such a business, told us recently that on average they spend 12 weeks per year chasing payment. That proportion is probably experienced in each such business. They have to use their productivity in the wrong ways, for example on chasing money—debts and retention sums—and formulating bids that ultimately may not be successful.

I think that the industry does better on innovation. In our engineering sector, particularly in the electrical industry, we are undertaking training on electrical vehicle charging point installation and battery storage, and we have done training on other aspects of renewables, such as solar photovoltaic panels. Often, however, having that training is not enough; the client then has to lead that through their tender. Some local authorities are good at that and include requirements for minimum installation numbers of certain things, but tier 1 contractors are not often asked to say that their design should include X of something. The client asks for X and then, as was said earlier, that X is value engineered out because of the cost to the budget overall.

Jeanette MacIntyre: I currently sit on the governance board of the Construction Scotland innovation centre. In my short journey and our

time there, I have been incredibly encouraged by the number of SMEs that are engaging with the centre and coming up with all kinds of advanced technology and innovative ideas to drive either productivity or greater effectiveness in their sector.

Two products are going through the centre, so I am aware of the costs to an SME of that type of engagement. The Government should look to assist in that area in any way that it can, because there is huge potential there to invest not only in projects for Scotland but in companies that have huge potential to go on to export within Britain and abroad.

If I may, I will show you one particular product. It is always good to have something to look at—

Dean Lockhart: That is great. Please go ahead.

Jeanette MacIntyre: I am not giving away any trade secrets. This is an example of a product that we are developing for introduction into schools and the education sector, particularly early learning centres. It is a sophisticated glass product. It is made from safety glass and it can be used to perform for acoustics, sound and fire internally, but we are playing around with all sorts of graphic applications and interlayers within laminations of glass for high visual and sensory development in early learning centres and schools. You will see the effect and what happens when I turn the glass around.

Dean Lockhart: Ah—right. Very good.

The Convener: I am not sure how we will get that into the *Official Report*. [*Laughter.*]

Jeanette MacIntyre: With great difficulty. I like to give the committee a challenge.

That is an example of something that we are working on. However, I have been told that I cannot get assistance. Even when we engage with Scottish Enterprise, there are lots of parts of that journey where there are significant gaps. Because of the types of things that can and cannot be supported, there are major gaps where I, as a company, am expected to fund things, and my ability to do that comes down to the profit levels that I can achieve in any one year. We are stifling a lot of potential innovation in SMEs.

Dean Lockhart: Are there any simple steps that sector bodies or the Government could take to support best practice in the sector, highlight it and fund it where necessary?

Jeanette MacIntyre: Yes. There are lots of ways that that could be done. One of those ways would be to ask the Construction Scotland innovation centre to prepare some examples of the situations that companies are in, which will differ, so that we can get an idea of the steps on the journey that could be better supported—things

such as applying for a patent attorney. There are significant fees that slow down the progress of innovations. People have to wait until they can afford it, or they have to spread the cost over five years with, perhaps, a little assistance. Those things could be done and delivered to industry much more quickly.

Dean Lockhart: That is helpful. Thank you.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have heard a lot of evidence about the benefits of early contractor involvement. There was a suggestion that the Commonwealth village in Glasgow had that early engagement. Why are we not making more use of those frameworks?

Alan Wilson: To be honest, I think that a culture change is required. The construction industry has been working under the procurement models, the payment models and things such as retention for 100-plus years, and to change that will mean a significant change in culture. There is the carrot and the stick, and I think that the two have to be used together.

The project that you mentioned is an exemplar, and more could be done to highlight it to the industry. The Government should certainly be taking the lead, showing leadership and using that project as an example for all the projects that it directly funds. That would be a step in the right direction, and I would hope that that would then percolate down through the rest of the contractual and construction industry. Things have to be shown to work. That project is an example of where things worked, but we have not made enough of that in the construction industry, and I include us in that. We probably do not promote that enough.

Gordon MacDonald: When the Scottish Futures Trust comes in front of the committee, should we ask it why it does not use that example, bearing in mind that it is the delivery model for the hubcos and so on?

Alan Wilson: That would be useful. However, we all have to be engaged—not just the Scottish Futures Trust, but the industry as a whole. We have to become involved and give out more information, details and examples. We all have different ways of communicating—with businesses, members and the trade as a whole. We need to take the opportunity to do that.

Gordon MacDonald: In relation to innovation and improved productivity, many of the materials that are used on Scottish construction sites are imported. Is there a need to build into frameworks or contracts a standardisation of product or materials that can be used, so that suppliers can become more efficient and develop more productive methods of manufacturing door handles, breeze blocks or bricks, for example,

because they know that there is a pipeline of projects? Would that be beneficial?

Gillian Cameron: Yes. Some of the work that the supplier development programme has done relates to the city deal. When that was first announced, we worked on raising awareness of what the city deals were about. Many small suppliers thought that it had nothing to do with them and that the big contractors were the ones that would get involved. We were interested in opening up the supply chain and enabling small suppliers to look at how to go down that route.

That takes us back to specification. The earlier that a contractor or small business can be brought in to understand what is being bought, the more beneficial it will be. We worked on a programme with the Scottish Government that looked at spend data to understand where spend in Scotland was going. We did a good trial of a product that could identify where spend was going out of Scotland. That could be drilled down by local authority area. It was interesting to see that it could help to identify what suppliers we have in Scotland.

There is a challenge there, too. The procurer does not always know what manufacturers and businesses are in their local or wider area that they could be connecting with when putting things out to tender. The bigger companies are very aware that they have all the systems in place and can find out about those opportunities—they have teams of people doing that. There might be a small local business that could deliver the door handles, but how does the procurer connect with such a business?

Recently, we ran an event with South Lanarkshire Council that was called, “Meet the real buyer”. At that event, small suppliers came in to meet the procurers, but they were also meeting the commissioners—the people in the local authority who are specifying and buying things. That raised awareness of the businesses that existed locally. That market awareness is really important, as is how the public sector engages with business to ensure that awareness.

That also relates to the sustainable procurement duty, which is built into the regulations when people are looking to find local contractors. How can that be used more to go down the supply chain, rather than stopping at the first level?

Robin Crawford: Much has been said about frameworks, and the development of specific Scottish frameworks has a lot of potential in looking at Scottish supply chains. Frameworks have a lot of advantages in allowing synergies right down the supply chain when companies start to work together more regularly. Frameworks also provide the opportunity for more innovation,

because the companies are working together and they might be able to identify better local sourcing.

It is clearly much better to source locally, not just from the perspective of promoting the local economy or the sustainability of remote and rural parts of the economy in particular—in our review, we regarded the construction sector as playing an important role in that—but in getting better and cheaper products. Using local sources should be cheaper than bringing stuff in from a long distance away.

Gordon MacDonald: Given that the Scottish Government has ambitious climate change targets, should we be building into procurement frameworks a weighting to be given to the carbon cost of producing and transporting products to site? Would that help the Scottish manufacturing industry?

Robin Crawford: That is one factor that must be borne in mind. You must ensure that the product is the correct product for the build, but it is important to bear in mind all the cost elements.

11:00

John Mason (Glasgow Shettleston) (SNP): We are heading towards the end of this evidence session, so I want to give you all a final question.

We have focused on procurement, but I know that a lot of you are also knowledgeable about the wider issues that face construction. Could you all suggest one or two things that you think we should also be looking at? Brexit is the obvious one. Is that having an impact on the construction sector? We have touched on issues such as off-site construction. Some of us visited an off-site construction site recently, and we were told about some of the issues around that; for example, one council will give planning permission for buildings that are constructed in that way but another council has said that real bricks must be used rather than off-site construction methods.

Robin Crawford: The one thing that I would mention, moving away from the issue of procurement, is the quality of build. We have seen a number of examples of poor-quality builds that have resulted in significant problems with buildings. More work needs to be done on quality and how public authorities control quality during the build phase to ensure that more issues of the sort that have been well publicised in Scotland in recent months do not arise. I know that work is being done on that.

Gillian Cameron: I cannot comment on the construction side but, with regard to the training aspect, there is a long way to go to ensure that SMEs are adequately trained, especially in the public procurement process. A lot of companies

are averse to getting involved in that process, because they think that it is too onerous. There is no doubt that there are a lot of steps to go through and a lot of documentation to be submitted. However, once that skill has been learned, it can be re-used with every public body. There is a benefit to that.

We are constrained by the resources that we have. I have a small team of four people, yet we cover the whole of Scotland. With regard to the construction centre, we were named in the review, but we have not had any additional funding on the back of that review to enable us to grow and do more with the sector, which we would like to do. Training is a big part of the issue that we are discussing.

John Mason: I can think of small businesses in my constituency that might benefit from your help, so I will be sending them your way.

Gillian Cameron: Excellent.

Alan Wilson: I would make a plea for the committee to think about the four Ps, the first of which is procurement. We must change the traditional model, which is not working.

The second is payment. We must make more use of project bank accounts, in order to protect sums of retention and trust.

The third is professionalism, which goes back to the point that Robin Crawford made about quality. It is all too easy for businesses to enter the construction industry—there is really no limit to businesses. More must be done in that regard. There is already a good Government scheme—the approved certifier of construction scheme—which sets out the criteria for businesses and individuals. More should be made of that.

Finally, the fourth is policing. There are pieces of legislation in place that are being mandated. For example, the Procurement Reform (Scotland) Act 2014 places an obligation on public sector bodies, including local authorities, to check whether payment terms are being pushed down the procurement chain to tier 2s and tier 3s. A research paper that I have in front of me suggests that only 25 per cent of public bodies are taking any action on chasing those payments. Where there is legislation in place, we should ensure that it is policed. The introduction of a procurement or construction regulator would go some way towards that.

John Mason: Ms MacIntyre—better glass?

Jeanette MacIntyre: I would like to conclude by reiterating the emphasis that has been placed on the importance of having expert knowledge at the procurement stage in construction. It is essential that we keep hold of the key drivers of any building and hold on to the responsibilities and a bit of the

risk at that point, because there is far too much emphasis at the moment on the cost to build the building—that is, simply the construction phase—and not enough emphasis on what the building will be asked to do thereafter, throughout its life. It takes considerable expertise at the outset to ensure that those key drivers are held on to all the way through the process.

The Convener: I thank all our witnesses for coming in today.

11:04

Meeting suspended.

11:06

On resuming—

Subordinate Legislation

INSPIRE (EU Exit) (Scotland) (Amendment) Regulations 2019 [Draft]

The Convener: We move on to agenda item 5. I welcome to the meeting Kate Forbes, the Minister for Public Finance and Digital Economy, who is accompanied by Shona Nicol. I invite the minister to make an opening statement of two minutes.

The Minister for Public Finance and Digital Economy (Kate Forbes): Thank you, convener. As the draft INSPIRE (EU Exit) (Scotland) (Amendment) Regulations 2019 are quite a technical Scottish statutory instrument, I will take the opportunity to make an opening statement.

The regulations implement an EU directive that established infrastructure for spatial information, because member states are required to operate national spatial data infrastructures using common standards that make spatial data easy to find, use and reuse. As a Government and, indeed, as a Parliament, we want to make decisions and have policies based on high-quality data and we want to use that data to create value for Scotland. The regulations will ensure that there is a national spatial data infrastructure that uses common standards and, therefore, that there is consistency.

Our understanding is that the INSPIRE legislation is functioning well. There are more than 750 records on the online discovery portal and the standards underpin a number of online public sector services such as ScotLIS and Scotland's environment web.

There are business impacts. The UK Government has estimated that there is a benefit of £6 billion to £11 billion per annum from exploiting and using data more efficiently. For example, the standards will be used to report on the spatial elements of the United Nations sustainable development goals to fulfil the First Minister's commitment.

Our aim throughout Brexit is to keep delivering those benefits for the people of Scotland, which is why I am proposing to make the amendments that are detailed in the SSI to correct deficiencies that will come about in the 2009 Scottish INSPIRE regulations as a result of Brexit, so that the framework continues to function effectively. The SSI builds on the changes that were made to the UK Government's equivalent INSPIRE regulations before Christmas, and it corrects similar deficiencies. I gave my consent, with the Parliament's approval, for Scottish matters to be included in the instrument.

The UK Government has been consulted on the proposed amendments to the 2009 regulations and it has raised no concerns. I am happy to take questions from the committee.

The Convener: Thank you, minister. The first question is from Andy Wightman.

Andy Wightman: Thanks very much, committee—sorry, I meant to say “convener”.

Regulation 10 in the amendment regulations replaces regulation 15 in the original regulations, which states:

“The Scottish Ministers have the following functions in relation to the Directive—

- (a) enforcing the requirements of—
- (i) regulation 7, and
- (ii) regulation 8”.

Regulation 7 is about metadata and regulation 8 is about network services. Those are your functions under the existing regulations. The amending regulation, through which you are substituting the whole of the original regulation 15, states:

“The Scottish Ministers must, for the purposes of ensuring compliance ... ensure that appropriate structures and mechanisms are put in place for coordinating ... the contributions of all persons”.

It says nothing about the duties that were imposed by regulation 15, which is about enforcement. That strikes me as a weakening of the regulations, yet my understanding is that the changes are being made to keep the statute book consistent with the pre-Brexit situation.

Kate Forbes: I will ask Shona Nicol whether she has anything technical to add, but my understanding is that there are no specific changes to the core duties of Scottish ministers.

Shona Nicol (Scottish Government): I agree with Ms Forbes. The only thing that I will point to is that there were amendments to INSPIRE in 2012 that changed regulation 15 to make it about ensuring compliance rather than enforcement.

Andy Wightman: Okay—thank you. This is a complicated area and I did not realise that there had been amendments there. Can you assure me that your new regulation 10 amends the latest INSPIRE regulations in order to be consistent?

Shona Nicol: Yes.

Kate Forbes: We do not deem there to be any significant changes to the expectations on public bodies, the expectations when it comes to monitoring or the expectations on Scottish ministers. With the SSI, we are trying to replicate things like for like.

The Convener: I say to Mr Wightman that the convener is, of course, nothing without the committee.

As there are no other questions from committee members, we move on to the formal debate on the motion to approve the affirmative instrument. I invite the minister to move the motion.

Motion moved,

That the Economy, Energy and Fair Work Committee recommends that the INSPIRE (EU Exit) (Scotland) (Amendment) Regulations 2019 [draft] be approved.—[*Kate Forbes*]

Motion agreed to.

The Convener: In light of the time, I invite the committee to agree that I, as convener, and the clerk should produce a short factual report on the committee's decision and arrange to have it published. Is that agreed?

Members *indicated agreement.*

The Convener: Thank you—and thank you, minister.

Kate Forbes: I am sure that that was the highlight of your morning.

The Convener: You managed it in under two minutes.

11:13

Meeting suspended.

11:22

On resuming—

Construction and Scotland's Economy

The Convener: For item 7, we return to our inquiry into construction and Scotland's economy. Our panel of witnesses is Fiona Harper, director of BSE Skills Ltd; Ian Hughes, partnerships director of the Construction Industry Training Board Scotland; Fiona Stewart, head of national training programmes for Skills Development Scotland; Professor Sean Smith, director of sustainable construction at Napier University; and Maureen Douglas, human resources director for the Forster Group. I thank all five of you for coming in this morning.

I have a question about the comment from the Institution of Civil Engineers that the construction sector in Scotland suffers from

"fragmented and unsustainable supply chain relationships"

and that there is a problem with

"limited investment in skills".

Do the witnesses want to comment on whether that is correct? Do not feel that you have to answer every question; we will move the discussion along as people come in and out.

Ian Hughes (Construction Industry Training Board): The latter part of the comment, about limited investment in skills, is interesting.

The organisations that invest in construction are, primarily, CITB and Skills Development Scotland, along with our colleagues from Government. We invest roughly 10 per cent of our £350 million budget in Scotland in skills, and we are the largest modern apprenticeship training investor, alongside the Scottish Government.

The lack of investment in skills leads to a further question: has that created a skills gap or has it created an underqualified and unskilled workforce? Scotland has by far the largest unqualified workforce, among older workers in particular, in Great Britain. Future priority areas that we would like to have a closer look at include investment in the older workforce.

With regard to the supply chain, members have probably heard numerous stories about procurement and the relationship between tier 1s, 2s, 3s and 4s. On the question whether the chain is fragmented or broken, I will defer to my colleague from the construction sector, who has more first-hand experience of what that means on the ground.

Customers from the SME and micro sectors often tell us that they are continually squeezed

with regard to the time taken for them to be paid, the amount that they are paid or issues of retention—I will not go over those issues because they were probably dealt with this morning, but they need closer scrutiny.

The Convener: Before we come to Maureen Douglas, do you think that enough is being done to address the number of construction workers who will retire in Scotland over the next decade, which is estimated to be 30,000? The other issue is that the economy comes and goes, including for the construction sector; can something be done to feather out training during periods of downturn so that we have the skilled construction workers who will be needed when there is an upturn?

Ian Hughes: The retirement of 30,000 skilled workers is part of the picture of the churn of new entrants coming to the industry and people retiring. However, our research over this year and last—the first that has been carried out across Scotland's regions—shows that certain occupations and geographies will suffer more than others over the next three, four or five years, which I can talk about further during this evidence session.

Bringing new entrants into construction is a key priority. People talk about skills gaps being created, which is a glass-half-empty phrase; our research shows that 6,000 job opportunities will need filling in Scotland over the coming years across various occupations and geographies. Part of our job as a training body is to make sure that the pipeline of talent that is coming through, particularly but not exclusively from schools, is right to fill those job opportunities.

Maureen Douglas (Forster Group): There are a lot of points to make, and I hope that I will cover them all. For context, I point out that I am from an SME that covers Scotland and directly employs 150 people. We have created a skills academy and apprenticeship framework.

I turn to the convener's original question about the sector's investment in skills. What was said about investment in skills is not our experience, but I recognise the comment. With regard to the question about the supply chain, I do not think that the industry is fragmented, but we have different problems to which we cannot find a solution collectively. Tier 1 contractors have a very different skills challenge from the one faced by SMEs. On who services our sector, SMEs are 98 per cent of the construction industry, of which 91 per cent are microbusinesses.

It is important to understand that when we are talking about how to address the skills challenges.

11:30

I think that the perception that we do not train comes from the frustration that we do not have the skills at the time when we need them. I think that construction is the most popular framework for apprenticeships. We are really good at apprenticeships. I spend a lot of time in other areas across the UK, and everybody looks at the Scottish model in respect of the construction industry and the apprenticeship framework. The model is phenomenal; it is envied by others. However, it is only one solution. As a nation, we have an opportunity to build on the good work that we do on the craft apprenticeships and to extend beyond those to other forms of apprenticeships, such as the foundation apprenticeships and the graduate apprenticeships that are coming through now.

As Ian Hughes said, we need to create pathways that enable us to take a trade or professional in one sector and allow them to transition across to another. We can then deal with the peaks and troughs of the construction industry. I work mainly in housebuilding. The industry is either building a lot of houses or, if recession comes, not building any—in which case, where do those people go? That is where the opportunities lie.

As an industry, we train, but we are frustrated that we perhaps do not have the skills; that is where we should focus our attention.

The Convener: Before I bring in Andy Wightman, I say to our panellists that, when they want to come in, they should indicate that by raising their hand and I will try to bring them in as appropriate.

Andy Wightman: Ian Hughes talked about 6,000 job vacancies. We have figures that suggest that 35 per cent of vacancies in the construction industry are hard to fill due to a lack of available skills. Why is that? Has the position changed over the past 10 to 15 years?

Ian Hughes: We are hearing from employers, who are our customer base, that the quality of applicants—not the volumetrics, because we still have substantial numbers of applicants for apprenticeship vacancies, for example—is not as strong as it was in the past. There is no doubt that the numbers are down in some areas, particularly the Highlands and Islands, but a roofing apprenticeship that is advertised in the central belt will result in 200 or 300 applications.

We need to have a close look at the sift of the talent that is coming through the education system and at the career strategies to address some of the issues. The issue of employers struggling to get the right quality of applicants needs to be addressed in our education and further education

systems. In many cases, the evidence that we are getting is that the volumetrics are still there. I am sure that Maureen Douglas would agree that a construction apprenticeship is still seen as a cherry, particularly for a young person, but in many occupations we are just not seeing the quality of applicants coming through, and that creates the percentage gap that Andy Wightman mentioned.

Andy Wightman: I know that one or two others want to come in, but I want to pursue that issue with you. You said that, in the central belt, there will be 200 to 300 applications for one apprenticeship opportunity.

Ian Hughes: Yes. That is not unusual.

Andy Wightman: However, from those 200 to 300 applications, you struggle to find a quality applicant.

Ian Hughes: A sift takes place. Any employer in any sector wants to employ the best individuals for their business. Employers have been telling us that, over the past 10 years, they have seen a downturn in the quality of the applicants for apprenticeships.

If we have 100 applicants for a roofing apprenticeship and only one can get the job, the challenge for us as a training body is what to do to keep the other 99 interested and active in moving into construction. Those people have shown an interest in getting into the sector; they have just not crossed the line as part of the competitive route into it. Do they fall off a cliff edge at that point or can we do something to spend more time with them, work more closely with them and get them over the line with another company, or the same company? That is the challenge that we face given the large number of learners in the system.

We must bear it in mind that 20,000 learners at further education colleges alone study construction in any year—2,000 are modern apprentices and 18,000 are other learners. We need to look closely at moving that cohort—that talent pipeline—into the construction industry to fill the gaps that were talked about earlier.

Andy Wightman: Are those learners not going into construction now?

Ian Hughes: The Government is looking at research to identify the directions that those learners go in. We carried out such research in England last year, but data for Scotland and Wales was not available. We hope to see destination points this year for construction learners. We hear from SMEs in the construction sector that those learners are not moving into the space, so where are they going? If they are not moving into construction or are not employable in

the sector, part of our role is to ask why they are not and what we need to do to address the issues.

Maureen Douglas: There is absolutely no challenge on the volume of entrants into the construction sector. As Ian Hughes said, 20,000 people who are in full-time education want to get into the sector. Their transition rates are unknown, but work is under way to find out why people do not go into the sector.

As an employer, I go back to the filtering and channelling of our young people that starts in secondary school. We have a traditional vocational and academic approach, which means that a narrow funnel of talent ends up going down this channel. That is one reason why we have little diversity in our workforce, but it presents us with one of the greatest opportunities.

If we can change people's experience at secondary school of a sector—whether that is construction and the built environment or another sector—through an alternative form of learning, we will have young people who are work ready and have the skills and capabilities that employers are looking for. The young people will then be able to adapt to the skills that are required in the industry.

Now, we train people to do a narrow job—to be a joiner or surveyor and to work in the public or private sector. If we can change our approach to education and to reskilling and retraining people once they are in employment, we can do wonderful things in the construction industry. We must look at that differently.

Andy Wightman: I ask Fiona Stewart from Skills Development Scotland to respond—

The Convener: Fiona Harper also wants to come in, after Fiona Stewart.

Andy Wightman: Skills Development Scotland is the Government body with responsibility for skills. Why is there such a shortage of skilled workers?

Fiona Stewart (Skills Development Scotland): Every year, we train 6,000 apprentices; last year, 6,104 people entered the industry as apprentices. Not all those individuals are new entrants, as many are employed and are upskilling. They might have come from other industries to retrain, or they are being trained at a higher level in leadership and management—which applies to many in the older cohort—which improves the industry.

For young people, Skills Development Scotland has developed foundation apprenticeships, which are a fairly new product that has been going for a few years. They are beginning to address diversity issues in the construction industry. For example, 13.1 per cent of those on foundation apprenticeships in construction are female. That is

a big rise from modern apprenticeships, where only 1 per cent of those who choose that route are female.

That is vocational education, but many females enter the construction industry in higher-level jobs after further or higher education. The university participation rate for females is something like 39 per cent so, the higher the qualification level, the more attractive it is to female participants.

The modern apprenticeship programme is open to people of all backgrounds, genders and ethnicities, but one difficulty is that the industry involves mobile labour. Female participants do not necessarily want to travel from Glasgow to Dundee every day for work, so the terms and conditions do not lend themselves particularly well to female participation, especially for older female workers.

On entrants into the industry, we are looking at creating new pathways in schools at lower levels—at Scottish credit and qualifications framework levels 4 and 5—for young people who would perhaps not come into the industry through the traditional routes. We are trying to offer different vocational pathways for those young people to make a start in the industry and then to progress on to foundation apprenticeships, the main modern apprenticeships or graduate apprenticeships.

Some young people do not relate well to the types of learning you get in school—they do not do well with chalk and talk—but vocational learning enthuses them and makes them light up. It means that they can be successful in a career that they may never have thought of otherwise. We hope that those pathways will help with that.

The Government is making big inroads into attracting talent into the industry. It is looking at particular learning styles and offering different pathways. As a Government agency, SDS is looking to use innovative ways of attracting labour.

Most importantly, we cannot do any of this without engaging with employers. As Maureen Douglas pointed out, the industry is made up of SMEs, and most of our apprentices are employed in SMEs. It is important to attract and enthuse employers so that they aspire to create their own talent pipelines and invest in young people.

Our sector is the only one in Scotland with huge levels of both private and public investment, and 22 per cent of apprenticeships in Scotland are in construction. Private employers and the public sector take great account of the industry and they are investing in its future.

Fiona Harper (BSE Skills Ltd): BSE Skills Ltd is a new organisation. We are part of the building services engineering sector, which covers

plumbers, electricians, heating and ventilation, refrigeration and trades.

We had a sector skills council that came to a sticky end. The three trade associations in Scotland, which are Scotland's Electrical Trade Association, the Scottish and Northern Ireland Plumbing Employers Federation and the Building Engineering Services Association—SELECT, SNIPEF and BESA—had already collaborated, and we decided to continue to collaborate. We wanted to participate in a detailed, in-depth look at what our industry offers in terms of skills and training. That is not to say that the approach is new; we have always done that through working alongside other organisations—for example, with SDS on the SummitSkills frameworks, and with the SQA.

The new company is quite unique in that it is run by the three trade associations. It has three directors and one consultant, and that is it. Our remit is simply to look at qualifications, national occupational standards and modern apprenticeship frameworks. Underneath all that, however, are three trade associations that are passionate about their industry and the people who work in it, be they employers or employees.

My side of the business is about looking at skills and training. The question was about where the industry gets people from. In the electrotechnical sector, our training provider would argue that it is inundated with applications, but it would also say that the quality of the applications has fallen and that it is harder to do the sift that Ian Hughes mentioned. The quality is not as good as it was. That is not based on empirical evidence but is the opinion that is expressed.

Recently, with our English colleagues, we conducted labour market intelligence research on the electrotechnical sector for the first time in our industry, and what came back was that young people are now looking for different things. They do not particularly like the idea of travelling—other panellists have mentioned that. We probably need to have another look at how people are employed in the industry and what we expect from them.

On training, what came through from the labour market intelligence was that employment in the electrotechnical sector is sustainable. People come in, they stay and they progress through the industry. They come in as apprentices, stay on, go into management and, often, become company owners.

11:45

We know that we are doing well, but whether the skills gap is being filled is a difficult question to answer. All our apprentices are employed on direct hire and the companies have to maintain

that employment throughout the four-year apprenticeship. Employers want to do that in order to sustain the industry, and that is where we focus our attention.

Foundation apprenticeships are difficult for us in the context of health and safety, but we run our own pre-apprenticeship programmes. We have a national progression award that covers all three sectors, but it is not funded, so it is difficult to encourage young people and their families—or employers, for that matter—to become involved.

The Convener: We have limited time, so could committee members ask short questions, and could panel members focus on the key points and give brief answers when responding?

John Mason: I will build on some of the questions that Andy Wightman asked, especially around diversity. I take the point that Fiona Stewart made that more women are coming into the industry at the higher and further education levels, but it is disappointing to read that only 1 per cent of entrants to modern apprenticeships are women. That figure comes across as pretty grim. We see other sectors that were predominantly male, such as the police, making quite big steps forward in bringing in more women. Is there really nothing more that we can do to increase the figure from 1 per cent?

Maureen Douglas: It is an absolute tragedy. I work in the sector and I am appalled, but the industry itself has created and sustained the situation. Unlike other sectors, we have not made the shift to change. I will give a bit of a history lesson: we will not go back to the 18th century, when apprenticeships were run by parishes. Prior to the world wars, it was very common to see women as bricklayers, carpenters and craftswomen, particularly in rural areas. The wars came, and we all know what happened when the men came back from the wars. In particular, the role of women changed. From that grew organisations and institutions and, as an industry, we became very narrow.

The joiners, plumbers, electricians, architects and other professionals all have their own organisational bodies and develop their own qualifications. In recruitment, we all know that people will typically employ the person who looks like and represents them. Sorry if this is slightly contentious, but we ended up with a predominantly white male industry that did not have much desire to fundamentally shift and change the situation. How do we address that?

John Mason: When you say a lack of desire, is that on the part of small employers, for example?

Maureen Douglas: I think that it is a blend. Employers absolutely have a responsibility, because they take on employees, but people know

what they know and, with our industry being as small as it is, it is very difficult to change such behaviours without changing something else first. Sorry, I was asked for a short answer, so I will get to the point. For me, it is about the talent pipeline. I think that the foundation apprenticeships are phenomenal and really exciting, but if we can have a more diverse range of talent coming into the sector, through a variety of pathways—and, of course, it is not just about women—the people who come through will reflect the communities in which we work, and employers will gain the confidence to take on those people and then make the shift.

John Mason: I will move on. Although I have mentioned women, I am interested in the fact that black and minority ethnic people are also underrepresented. Who can change that? Is it schools, families, peers, or is it everybody?

Fiona Harper: It is everybody. We firmly believe that schools and careers advisers can help. We run a skills competition in Edinburgh and the Lothians that combines work by training providers, universities and colleges. The competition involves fun tasks that use electrotechnical skills and concern heating and ventilating. The competitors have to make water go through a pipe, make a light turn on and build a roof—all sorts of things. That is great fun. The competition is aimed at secondary 4 pupils; it involves a number of girls, who work with boys as teams—the teams are not girls against boys. The pupils enjoy that competition. If, with the help of schools, careers advisers and SDS, we could roll that out to other parts of the country, that would influence how young people approach the industry and what it offers.

John Mason: In a previous evidence session, we heard that some colleges teach girls separately from boys—at least in first year—because they feel that that is advantageous. Is that worth while? Ms Douglas is shaking her head.

Fiona Harper: Sadly, Maureen Douglas will not be happy with me for saying that, with SDS, we are encouraging West College Scotland to see whether having an all-girl class would help. I make it clear to all members that there are no barriers in our industry if a girl applies; the problem is getting girls and people from different ethnic groups to apply.

John Mason: Is the term “construction” an issue? I am not a fan of changing the name of something just to create a different image—my colleague Angela Constance will talk more about image later—but would using another name make a difference?

Professor Sean Smith (Napier University): We need to learn from why the workforce at higher

levels, which comes through universities and colleges, is becoming more diverse. There are key role models in the sector—we see women who have gone into particular positions in the sector in the press and on television, which all helps. We do not see that in the trades.

In a 2016 survey, Keepmoat asked young women how they saw the construction sector and whether they would work in it. About 29 per cent of young women said that they thought that construction was only on site. To go back to terminology, when there are so many clean tech roles in engineering and other areas, the construction sector needs to widen the reach of its messages.

John Mason: If there were more off-site roles, would that draw in a wider variety of people?

Professor Smith: Many regard being off site as an opportunity, particularly because it offers flexibility around work and shift patterns for people who have families and other commitments. However, that is not a panacea. The car industry in America shifted significantly towards having more female workers, but it then shifted back. I do not have the answer as to why female participation reduced again in America; the level increased but fell back.

Ian Hughes: I agree with colleagues about the talent pipeline. It would be shocking in any sector for 50 per cent of the potential talent pipeline not to be recruited into the sector. That is a huge waste and a missed opportunity.

We plan to put together a substantial careers strategy through working with colleagues in Skills Development Scotland. Such a strategy must be for four, five or six years—it is not a quick fix.

There are four strands to any careers strategy that intends to attract and diversify a workforce. The strands are using digital and social media; giving young people hands-on work experience; using ambassadors and role models, which has been touched on; and using marketing campaigns to take a hearts-and-minds approach.

If the blend is right, if the impact on increasing the number of people from the population cohorts that are not getting involved in construction is measured over a sustained period and if that works properly, we will have a success. We are not achieving that at present.

It is interesting that, in the school environment, every sector—from further and higher education to industry—is after a piece of the third-year or fourth-year student. Getting a part of Jimmy or Mary Smith is so competitive that it is unsustainable.

On the point about the sectors needing the correct skills and having in place the right people

to drive forward the economy, it is important that we—the Government and the training body—address that collectively, to make sure that we can tackle the issue head on.

John Mason: Thank you very much. We had better leave that one; we need to move on.

Angela Constance (Almond Valley) (SNP): The evidence thus far implies that the construction industry has an image problem; indeed, the CITB has published research to that effect. If the witnesses accept that the industry has such a problem, what can the industry do about that? Perhaps you could reference the pay gap and the industry's reputation for adversarial relationships and unconscious bias. We will come on to the Government agencies later, but I want to know what the industry will do to improve its image.

Maureen Douglas: I disagree in part. I believe that the image problem starts at school. If we take woodwork as an example, many pupils' first experience of a construction qualification is when they are given a task to measure and cut a piece of wood then chuck it in a bin. That does not give them construction experience or help them to understand the broad range of careers, as is the case when people take on a project.

Angela Constance: I want to know what industry will do to improve its image. I will come on to Government agencies and public services in a minute.

Maureen Douglas: I did not mean to be rude. Construction experience provides the foundation that industry has to build on. Therefore, we are already getting a preconditioned, narrow group of people into the industry, and it is up to us—we are mostly small and microbusinesses—to do what we can in that environment to create something that provides for all. When you are typically employing only a particular cohort, it is very difficult to do anything thereafter.

Industry—

Angela Constance: So what are you proposing to do?

Maureen Douglas: I am trying to say that small and micro-organisations will find it very difficult to do any one thing themselves—whether it is education or something else—that will tackle the issue institutionally, across all the different sectors, to make a difference. The solution has to come at a much higher level, whether that is through campaigns run by the industry training boards or by working with major contractors that have the resources to allow the open-door programmes, for example.

You are asking me what industry can do. Given that 98 per cent of the industry comprises microbusinesses, that is a huge challenge and

responsibility. I think that the responsibility lies elsewhere—it is for the policymakers, the funders, the influencers and the educators to create a more diverse pipeline of talent for the industry. That in itself will culturally help businesses to grow.

Angela Constance: I am not disputing the responsibility at an institutional level, but I am keen to hear examples. Perhaps Ian Hughes can suggest what industry could do to take a lead.

Ian Hughes: Industry has to lead, with the support of organisations such as the CITB, which has leverage and investment capabilities. The sector's image is poor across the board. In order to rebalance it, we need to move the industry into a space in which the pathways to opportunity are picked up. Those opportunities exist. We create and offer tens of thousands of jobs every year. We are not making that up, and nor is it anecdotal.

Many young people and, more important, their parents, have an image of what the construction industry is like. Recent research shows that 75 per cent of parents said yes to an apprenticeship but only 25 per cent said that they want that for their child.

What does image refer to? Is it the building site image? Is it the image of guys covered in mud walking down the road after work? Is it the image that the pay and career opportunities are not very good? Those images need to be rebalanced and redressed. We cannot sugarcoat the fact that building sites are dirty, hard places to work in, and why should we? However, many of the 270,000 jobs in construction are outwith building sites, and the issue is how to get that fact across. That is about image, basically. It goes back to the pathway of a huge amount of job and career opportunities, which are not necessarily with tools on building sites. As was mentioned earlier, we know that we need to rebalance that image.

My 18-year-old daughter went through the careers conversations recently. She was given brochures for construction and the built environment. The construction brochure went over the shoulder, but she thought that the built environment looked interesting. That was because the image and opportunities were pitched in a different way.

12:00

Angela Constance: So what are you doing about that, as an industry skills person?

Ian Hughes: That question goes back to our plan, which we will announce in a matter of weeks, to invest considerable additional money in Scotland to address image and opportunity through careers campaigns and direct funding interventions in the school environment. We will

not do that in isolation but with colleagues in Government and, more important, with employers, who will be able to step in and get the message across, both as ambassadors giving a story and with job opportunities. Over the next three to four years, we will be investing heavily with additional money to try to address that specific area.

Angela Constance: We look forward to hearing more about that.

We have heard about negative images and problems of perception among teachers, parents, careers advisers and young people. I ask Fiona Stewart to outline what the careers information, advice and guidance service is doing to overcome negative perceptions throughout every stage of our education system, starting early.

Fiona Stewart: We have our digital platform My World of Work, we have marketplace, and we have information for young people at primary school and right through secondary school that is pertinent to their particular stages and the decisions that they are making. My World of Work has a comprehensive construction offering. Construction, with 22 per cent of modern apprenticeships, is our most popular apprenticeship. If perceptions were negative, those people would not be coming for those places. Demand is greater than supply; for every job, there are at least six applicants. As Ian Hughes pointed out, some areas have a couple of hundred applicants for each place.

Careers advisers work directly with young people through all stages of their school career.

Angela Constance: When does that start?

Fiona Stewart: It starts in primary school. We are encouraging primary school teachers and pupils to use our digital platform so that children make choices from an informed position. It means that, on the transition from primary to secondary school, young people have an idea of what a career is, can work out their strengths and can build on that as they go through secondary school.

At apprenticeships.scot, we have a vacancy portal so that young people can look at what jobs are available in sectors, including blue chip companies and all sorts of organisations. CITB works with us and is progressing more jobs on to the vacancy portal so that young people can see that the jobs are not just for a brickie or carpenter; there are jobs for building standards, clerks of works, civil engineering and a whole gamut of occupations. Young people can plan their careers accordingly.

A lot of young people want to do vocational jobs, which involve making things or contributing to making things. Other people want to design things or outline plans for things that someone else will

do. My World of Work allows young people to gather information and demonstrate it to their parents, because, as Ian Hughes said, sometimes it is difficult for a young person to persuade a parent of the validity of the apprenticeship that they want to do.

The qualifications that they will gain through an apprenticeship have an equivalence with further and higher education. Young people can go through an apprenticeship programme from foundation to graduate and come out with the equivalent of a masters degree. That is a very powerful message, but we have a huge hill to climb to change hearts and minds about vocational education and achieve parity of esteem. Our digital offering will help with that, but we need to get messages out and we need to get the industry to back this.

We have case studies about diverse individuals who work in the industry; we are trying to promote them as ambassadors so that young people aspire to be the same as them and realise that construction is not a closed occupation to people who are female, have a disability or come from an ethnic minority background.

SDS is spending a lot of time and effort on populating our digital platforms with relevant information for individuals, parents, teachers and employers. Employers are important because those are some of the hearts and minds that we have to change. As Maureen Douglas said, people tend to recruit others in their likeness until they are shown something different. The case studies and examples we have—talking heads, video clips and so on—demonstrate that.

Professor Smith: I chair the Scottish Government's short-life working group on new housing construction skills. A lot of people have been involved in that and my thanks go to SDS, the SMEs, CITB, the Federation of Master Builders, the Scottish Building Federation and Homes for Scotland.

The working group's report will come out in the next two or three weeks and I will make sure that the committee has sight of it. We have broken it down into nine thematic areas and we cover the short, medium and longer-term skills needs of the sector.

One area is outreach to schools and, linked to that, we are involved with the Edinburgh and south-east Scotland city region deal, in particular the inclusive growth aspect. There will be a 40 per cent uplift in the number of new homes being built over the next 20 years. That is a staggering amount of activity and work and therefore we need to get more people to come into the sector in south-east Scotland. That cannot be done through the normal routes, because it is the fastest-

growing region in Scotland and the fifth fastest-growing region in the UK. We have worked with SDS and others to look systematically at themes for south-east Scotland and that work has fed in to the short-life working group.

There will be a specific focus on early years. Although the project has not started, as part of that early outreach we have been in to speak to the headteachers of all the primary and secondary schools in Edinburgh. We are telling them that we need to get in front of the teachers and the careers advisers—

Angela Constance: Presumably you will be doing that work outwith Edinburgh as well, if it covers the south-east region.

Professor Smith: Yes—it covers the six local authorities for south-east Scotland. It will also involve working with the local operational staff of the developing the young workforce programme. One key feature is to build on something that industry has been doing in the past few years, which is the design engineer construct programme that is run by Class of Your Own. It is about going into primary and secondary schools to raise the profile of the job opportunities in the sector. Teachers in the schools that have been involved with the programme say that it is going extremely well and are very positive about it.

Primary headteachers have asked us why we are talking about skills career pathways when that is so many years down the line from primary school. It is because when we ask the students who arrive at Napier where they first heard about sustainability, low-carbon technologies and renewable energy, they all say that it was at primary school.

Primary teachers have an incredibly influential role—they can plant a seed. We would like to build on that work across south-east Scotland. The short-life working group will be making that recommendation too. You cannot just turn on a tap; it is about planting a seed.

Jamie Halcro Johnston: Witnesses have said that the quality of the applicants coming through has fallen. Is there a particular reason for that? Is there a particular year that it happened or has it been happening over the past five or 10 years?

Maureen Douglas: That question is perhaps for me, as an employer. The issue is about the lack of variety in the applications rather than their quality. When we launch our apprenticeship opportunities, I receive more than 1,000 applications from throughout Scotland. The volume is there, but the skills—or lack of them—and competences from applicants are much the same.

The challenge for the sector is that we are not getting the broad vocational and academic talent

pipeline, which is where the opportunity lies. Broadening that pipeline would help businesses to grow.

Jamie Halcro Johnston: Is that a change from the past? Did you previously get people with such a vocational and academic background?

Maureen Douglas: No—it is a fundamental problem in the sector that people come in through a narrow channel of skill level. People have typically taken a vocational and non-academic route; they might have dropped out of education and gone on to full-time NPAs.

Jamie Halcro Johnston: Ian Hughes referred to quality. Did you mean that too narrow a group of people is coming through?

Ian Hughes: Maureen Douglas is absolutely correct. I can speak only on the basis of what employers—our customers—say. A painter and decorator offered two apprenticeships and received 70 applications. He said that, once he had sifted the applications, he had a shortlist of only four. After those four had gone through his internal recruitment processes, no one was recruited.

The employer told me that the skills that applicants brought to the table were not as strong as those that would have been offered 10, 15 or 20 years ago. I do not know whether that has a direct correlation with what happened in schools then, but that employer definitely talked about the quality of the young people's experience. That could mean that the population of young people are doing other things; they might be less interested in becoming a painter and decorator and more interested in moving into college or university, food and drink or manufacturing.

We have talked about image, recruitment issues and the talent pipeline from the school cohort diminishing. That is probably because construction has not kept up with its competitors on its offer. The offer from construction is extremely strong—there are huge opportunities and great career opportunities—but it has not kept up with the offer from some other sectors that are in schools and which also want a piece of the pupil. With our public sector partners, the construction sector needs to address that, because that boils down to the big economic impact that construction has on the country. It would be remiss of us not to address the opportunity and the weak talent pipeline.

Jamie Halcro Johnston: Instead of encouraging people to go down the apprenticeship route or to college, are a lot of schools encouraging their students to aim towards university? Do apprenticeships have parity of esteem with university? Do we as a society need to value apprenticeships more?

Fiona Harper: Anecdotally, we receive quantitative and qualitative information that the trend is to direct better students towards university. Another piece of information that comes to us, for which I have no evidence apart from what people see, feel and perceive, is that young apprentices do not have skills in talking to people or dealing with customers and that they have different attitudes to work. The anecdotal information is that the young people who come forward from schools have changed.

Fiona Stewart: The hope is that foundation apprenticeships will start to turn the tide, because they involve young people making positive choices about careers and moving into particular industries. In the senior phase of school, those young people get academic underpinning knowledge and—most important—vocational opportunities through working with employers.

The hope is that, when those young people move from school and from foundation apprenticeships, they will be much more attractive employees for employers to take on. The aim is for young people to make a smooth transition from school and a foundation apprenticeship into a modern apprenticeship because they will have the skills and will be equipped with an understanding of the industry that they are moving into, so they will not make wrong choices.

12:15

Colin Beattie: Some positive comments have been made about foundation and graduate apprenticeships, but there is clearly an issue about the quality of the applications, which has been explored to some extent. Do we have more work to do specifically in relation to construction apprenticeships? Should we redesign them so that they are better shaped for the future?

Professor Smith: That has been discussed at the short-life working group, given the shortage of bricklayers, for example, and workers in other trades in the sector. We should not take anything away from the electrical side of things, because there are also shortages in that sector.

A number of house builders that in the past have not wanted to take on or have not invested in apprentices, because they used their sub-contractors, now want to take on apprentices, but those house builders are finding it difficult to take on young people who want to do a four-year modern apprenticeship in bricklaying. Some of them have said that they do not want the apprentices to work on curved walls and arches, but that they want the apprentices to start with bricklaying and work on houses. The house builders have asked for there to be a qualification for bricklaying for house building, so that they can

get the apprentices excited and salaried. Then, they want the apprentices to be stepped up to that full MA, which will lead the apprentices to a future.

Parts of the sector are requesting that approach. It would not be about watering down or providing MAs by the back door. The sector is listening to young people who are saying that they want to be at work slightly quicker and are interested in doing various things. There is a need and a demand, so employers are asking whether some of the apprenticeships could be adapted.

It is credibly exciting for the sector to think about the skills and technologies to come. Not just in Scotland but globally, there will be a transformation in the next 10 to 20 years, given the amount of new technologies that there will be in relation to clean tech and other infrastructure that will be required, in addition to all the retrofit and traditional craft skills.

In our discussions, some organisations have asked, “What about if you introduced a qualification in that area?” There is a general feeling that that might take a bit longer than the organisations think, because there would be a lot of paperwork and hurdles. The industry has requested that we adapt our approach to the qualifications that are provided by the Scottish Qualifications Authority so that it is more amenable and adaptable to the sector’s current and future needs.

Colin Beattie: How are the industry training organisations responding to that?

Ian Hughes: We respond to employer demand. With partners in the public sector, we assist in the design of qualifications when there is a proven demand from employers for them. There is no point in spending time, effort and money in designing something that would not be picked up by employers who want to retain individuals in their business. If there is a demand from employers, we react to that by bringing our standards and qualifications colleagues round with table with employers to design a qualification. The employers will then pick up people with that qualification through the employment route. We are not prescriptive. We strongly support the existing four-year craft apprenticeships in Scotland, for example. If there is a demand for other qualifications in the sector, we will respond to that positively across the board.

Maureen Douglas: I have a practical example. As I said, our four-year craft apprenticeship is regarded and envied by many. However—this is similar to what Jeanette MacIntyre said earlier—it did not produce the desired outcome for our organisation after the four years, because the apprentices learned things that they did not need

to do and they did not learn things that they needed to do.

We now have a specialist apprenticeship programme that is specific to house building. However, it is not about having one or the other; there needs to be a spectrum of qualifications that create pathways that we do not have at the moment. People should be able to do a craft apprenticeship and work in repair and maintenance, before moving into house building, doing their transitional training and then becoming a specialist in price work, for example. We do not have those pathways.

We should protect what is great and good, but we should also develop other sector-specific qualifications and shared apprenticeship models, perhaps in rural areas, such as the Highlands and Islands. That is where the opportunities to generate greater capacity in the sector lie. We have the tools at our disposal, but we are very narrow and rigid in what we offer.

Fiona Harper: The BSE sector takes a holistic view of training. We train people to be able to work in the commercial, domestic and industrial sectors. We see that as being the right way to go about things, because when people move from job to job and from one employer to another they can then adapt to suit the new employer’s business. We also encourage, and provide, continuing professional development in the new renewable technologies—such as installation of electric vehicle chargers—and building standards. We see craftsmen as being the core, with top-up training in the specialisms.

I did not have a chance to say so earlier, but we seek professionalism in our trades. In the electrotechnical sector, in particular, we seek protection of title so that we can get professionalism into the industry. A person will take pride in being, for example, an electrician—not just because they are properly trained but because that is their job. That is where we are.

Colin Beattie: I will continue with that theme. Some of the submissions that we have received have expressed concerns about apprenticeships being dumbed down or diluted in some way. What are the panel’s views on that?

Maureen Douglas: The comment about dumbing down was made about our apprenticeship programme. As I said earlier, the outcomes on learner skills were not what we needed for delivery of a zero-defect roof, for example. We worked hard with institutions such as the qualifications bodies to change the content, but we were not able to do so. The qualification is a generic one that, quite rightly, has to cover all elements, because very few companies will do a

particular thing in volume. It is therefore an unusual situation.

In four years, I have put 50 apprentices through the scheme, half of whom are now qualified and out in industry. Of that half, half again are working for other contractors, but that is okay, because they will come back. The other half are in either their first or second year of training.

The training is done in a residential programme, in which we seek not just to develop the individual but to contextualise the learning to industry standards. It is the quality control element—the fabric of what we do in volume—that we cannot replicate through other training providers. We are contractors, but we did not step into training; we fell into it because we could not get the skilled workers whom we were looking for. I would argue that we are not an example of dilution, but I understand the fear about that.

If we look at what has happened in England, we see a plethora of confusing information and different training providers. We are not like that in Scotland. We have a main qualifications body, a funding council and Skills Development Scotland, and we do not have the massive population that there is down south. Therefore, we can figure this out if we are creative. A lot of what people might hear is about closed minds and protectionism, because that is the way that things are. To go back to the original question, if we intend to change what our industry looks like and who is in it, we may have to challenge how we do things, which we can do through skills and training.

We also need to modernise our MA programme, but that is perhaps a matter for a different discussion.

The Convener: We will have to move on.

Jackie Baillie: Much of what I had intended to ask questions about has been covered, but let me ask Professor Smith about the CITB. Earlier, you talked about digital transformation, but the CITB has expressed concern that the industry has yet to undergo the digital transformation that it needs. Why do you think that is and what do we need to do to make it happen?

Professor Smith: I had thought that that question would go to the CITB.

Jackie Baillie: I am asking you first, Professor Smith—I will come back to the CITB. [*Laughter.*]

Professor Smith: Digital transformation is happening through a variety of measures. If I may, I will use the example of south-east Scotland again. The two principal skills gateways that are planned for south-east Scotland in the Edinburgh and south-east Scotland city region deal are data-driven innovation and housing construction

infrastructure, because those are the two largest growth sectors in the region's economy.

The integration of what is happening digitally or with data, and of where future infrastructure is going, is still a bit of a learning journey. For example, it was great that the Governments south and north of the border wanted to encourage BIM—or building information modelling—but one of the requests that will come from the short-life working group is for a skills impact analysis perhaps to be carried out with any major change relating to skills or to building regulations or other policies. No one asked the colleges and universities or the companies, “Do you have enough people who are BIM trained?”, “What investment do you require for software?” or “How many licences do you need?” Sadly, that resulted in short-termism, and there was no initial investment. People in the sector were recovering from the recession and, as a result, we had a huge churn of people who were BIM qualified jumping companies to get increased salaries, because there was just not the supply.

I cannot blame the CITB for that, because it was not responsible for that policy. However, when there is a policy change that is important and which helps the sector for the future, investment has to come with it. Things are now happening with BIM training—the Construction Scotland innovation centre and others are doing work on it—but it is an example of the cart coming before the horse. If we are to embrace digital correctly, we need to ensure that the training that we require for some of that digital content is ready to roll out.

Ian Hughes: In my opinion, the issue of digitalisation is part of the future skills requirements of industry and the staff in it. A partnership agreement that we recently signed with the Construction Scotland innovation centre has four key themes running through it, one of which is digital in its widest sense—it is not restricted to BIM.

In essence, our vision is to enable employers to access, with our financial support, the right training in future skills, so that they can move their workforce and businesses capability forward. Under the CITB's model, we do not deliver future skills training directly; we have an innovation centre for Scotland that is tasked with doing that type of thing, and what we bring to that centre is, we hope, our employer network of interested parties and investment. It is an approach that we are keen on.

Next month, we will launch a major funding initiative on digitalisation. It will be a commissioned funding bidding process that will be open to the marketplace; however, it will be nation specific where required, which means that Scotland,

England and Wales will be able to bid separately if they need to.

Jackie Baillie: Good. I will leave it there, convener.

Gordon MacDonald: Before I move on to my questions, I want to ask about training levies. Construction companies pay two levies for training—the CITB levy and the UK Government apprenticeship levy. Do Scottish companies benefit from the UK Government apprenticeship levy, or is it seen as another form of taxation?

Ian Hughes: As an overview, I would say that approximately 70 companies in Scotland pay the joint apprenticeship levy—the CITB levy and the Westminster one. Those 70 companies are the ones with a payroll exceeding £3 million, and we worked with them on a one-to-one basis and offered them transitional financial assistance in the first year. We are working closely with Westminster to get across the message via employers and, for example, the Construction Leadership Council that, particularly with the tier 1 levy, having one sector administer two levies does not make much sense in terms of economies or efficiencies of scale.

Colleagues might want to comment on this, but the main difference between Scotland and England is that English companies or employers that pay the apprenticeship levy can then tap into a digital process to access limited funds for training in specific areas. That is very different from the CITB levy and the diversity that we bring through additional leverage and value. Work needs to be done on that to ensure that there is more of a level playing field. We are under pressure from our tier 1 customers asking us why they have to pay a construction levy managed by the CITB as well as the Westminster levy. Given that the money comes off their profit and loss, they have every right to ask that question, and there is work to be done particularly with the Westminster Government to try to rebalance the impact on the sector.

12:30

Professor Smith: That subject has come up in discussions in the working group. There is a general feeling from the larger companies that there is more transparency in England in relation to how the apprenticeship levy is spent and what they see as a result, and the Scottish Government might have a role in creating greater transparency of how the levy is spent in Scotland by the sectors. For those who work in construction and pay into the apprenticeship levy, that might involve reflecting on the moneys that are coming back north and how much is coming back to the sector in various forms such as MAs, FAs, graduate

apprenticeships and whatever else. Several voices have made the point that they would like greater transparency, given that, in England, they can see where the money is going and how it is being spent.

Maureen Douglas: The microbusinesses and SMEs that make up 98 per cent of the industry do not benefit. The CITB levy provides the sector with a different form of support that is invaluable to Scotland. Scotland receives back from the industry training board far more than it puts in, because the board trains people—and rightly so—and the challenge for the CITB is to communicate clearly the offering and added value that it brings back to the large, the medium and the micro. It has moved away from a grants-in, money-out model to a levy-in, skills-out one, and those are two very different things.

Gordon MacDonald: In 2017, the construction index website highlighted that 94 per cent of Scottish respondents were dissatisfied with aspects of the CITB. What needs to change to make the governance and operation of the CITB more accountable to Scottish CITB levy payers?

Ian Hughes: That is an interesting statistic. I will throw another one back at you: in the last census that we carried out over the whole of Scotland, more than 80 per cent of respondents said that they were happy with what the CITB was doing. The responses depend on whom you speak to and what statistics you use.

It is in the public domain that our governance model and our structure are changing and that we are downsizing our headcount, and that is a reaction to what employers, Governments and institutions have been telling us for several years now, which is that we have become too large, too complex and, one might say, bloated. We are reducing what we are doing in order to concentrate on our three key operational areas, which are training and development, careers, and standards and qualifications.

In our future operating model, everything else that we have been doing over the decades will be moved aside by being outsourced or sold off. Our timeline is to achieve that by 2020. That does not mean by any stretch of the imagination that we will be investing less in skills and training; indeed, we will be investing more in those things, particularly in Scotland, because of the research that was carried out last year. The fundamental changes will be made to the back wiring or back engine of the business. We are increasing our customer-facing units in Scotland, including apprenticeships and the company advisers on the ground.

There is also the change to the governance model. We now have a Scottish council that is 100 per cent employer led with a split of roughly 50 per

cent tier 1 companies and 50 per cent SMEs and microbusinesses, and its role is to hold the main CITB board to account for what is happening in Scotland. That change was implemented over the final quarter of last year and quarter 1 of this year, and we will monitor that new governance model to ensure that it has impact and influence on what we do in Scotland, based on the CITB strategy coming out of headquarters.

The Convener: Does Fiona Stewart want to comment?

Fiona Stewart: The CITB is very relevant in Scotland. We rely on it to shape standards and the frameworks within which qualifications are developed, and we rely on it to work with industry to identify areas where technology has changed and where qualifications and national occupational standards, which govern job descriptions and so on, need to be kept up to date. As with any organisation, there are challenges about doing more with less and being better, faster and more responsive, and the CITB is developing in that direction by looking at how it can do its core activities better.

We have talked about negative perceptions of the industry, and the CITB will be doing more on that. It already does a huge amount on diversity and works closely with SDS on our five-year equalities plan, as do our other partners, to try to change entrenched behaviours and patterns.

The CITB has a huge task, and it is exciting that it is rising to the challenge and trying to get into a shape for 2020 that should help us to make a difference in Scotland and make the sector much stronger.

Gordon MacDonald: That is good to hear. The fact that new governance arrangements are coming in must mean that there were concerns among the membership that the CITB had to address. How much collaboration is there between the two bodies, given that you both have responsibilities for providing apprenticeships?

Fiona Stewart: There is great collaboration. As I have said, the CITB uses our digital platform, and as it digitises its activity, it gets into a better place to be much more responsive. Meanwhile, the CITB helps us get enough relevant, up-to-date information on to our platforms to allow young people to make informed choices about their future and to inform parents, teachers and so on. There is a huge amount of collaboration on, for example, regional plans. None of us can do this ourselves; we must all work together, and it is exciting to be moving into that future.

Gordon MacDonald: I asked the question, because of what was said in some of the written submissions that the committee received. Glasgow Caledonian University said:

“there seems to be little collaboration”

between the two bodies. GCU also said:

“CITB seems out of touch as far as Scotland is concerned”

when it comes to meeting the needs of the industry. You are telling us one thing, but a submission from another organisation suggests otherwise.

Fiona Stewart: There are two aspects to this. As the CITB is our biggest contractor for apprenticeships, it is, on the training and operational delivery side of things, a huge partner.

On the other side—in other words, the standards, frameworks and qualifications side—the CITB takes information from companies such as Maureen Douglas’s company and other small companies, as well as from tier 1 suppliers, and tries to shape a framework to enable individuals to be trained for the industry and not just for one job, so that if a downturn comes, those people will be mobile and able to go into other jobs that become available. Some of the work that we have done recently in the context of the downturn in oil and gas and the transition training fund has involved setting up a fabulous model of responsiveness to allow us to be fleet of foot in helping individuals change from one industry to another. Construction has been a huge supporter of that, because that sector has benefited from people moving into it from the oil and gas industry.

We also run an adopt-an-apprentice scheme with the CITB, again to try to tackle some of the perceptions that an apprentice can complete their apprenticeship only if they are in employment when they come to do their skills test. Through the CITB, we have challenged trade organisations to allow some skills tests for qualifications to be done six months before the end of the apprenticeship, because the person has the underpinning knowledge and the vocational capability and competence to do the test at that point. Some of the submissions perhaps do not understand the complexity and the depth of our partnership working. From SDS’s perspective, the collaboration with the CITB is very good.

Ian Hughes: I must re-emphasise that, as members well know, skills, training and education are devolved across the three nations, and we are moving our business model to reflect that. We align with public sector partners to deliver Government policy. We do not create the CITB policy in the three nations; instead, we align with what the Governments want us to do and their priorities, and we communicate that to our employer customer base to ensure that they know where their money is being invested. The aim of our alignment with organisations such as SDS—we have agreements with other public sector

bodies and will put more in place shortly—is to deliver the policies that are set by Government. We do not work in a vacuum or a bubble, and we cannot do this in isolation.

Gordon MacDonald: I believe that the national construction college site at Inchinnan is being closed and that 29 training jobs are moving down to York. Can you give us some background to that?

Ian Hughes: Inchinnan is one of six sites in our college network where we are withdrawing from direct delivery. We are not withdrawing the provision of scaffolding training but, as part of our operating model moving forward, we will not deliver that training in Inchinnan; instead, we will find a new partner and enable it to deliver the training. We have said publicly that we will not withdraw from any specialist training in any nation until a better alternative can be found in the marketplace.

Over the decades, much of what we do has evolved because of market failure; we stepped in, invested and directly provided training such as the scaffolding training at Inchinnan. We believe that the market is now in a position to pick that up. We have a tremendous further education network in Scotland with infrastructure, assets and skills. I am not saying that it will pick up the training at Inchinnan, but we believe that there are organisations out there that can do that as well if not better than the CITB. Our overall model is to withdraw from that direct delivery, but we will not do that in a way that jeopardises the provision of the training. We cannot stop scaffolding training in this country, as that would be disastrous.

A number of other functions in Inchinnan are being outsourced to other organisations, and colleagues are having conversations with those organisations to decide where the functions might be located. I cannot comment on whether they will go to York, as that is part of the consultation—

The Convener: I am sorry to interrupt, but we are a bit pressed for time, so I will have to cut you off there.

Dean Lockhart wants to come in briefly, and I think that Andy Wightman has a question.

Dean Lockhart: I will keep it brief and go back to the observation made by a couple of panel members that Scotland does not do enough to train older people who are either in work or between jobs. We have heard about the role of apprenticeships in addressing that gap, but what about part-time college places? How important are they in retraining older workers in the sector? Are enough college places available? Perhaps Ian Hughes can answer that first, as he made the observation that we are not doing enough to train older people in the sector.

Ian Hughes: The issue of investment in that cohort is a matter of priorities. Fiona Stewart can comment on this better than I can, but as far as modern apprenticeships are concerned the priority for Government at present is 16 to 19-year-olds. Our employers say that they would be more than happy—many of them would be delighted—to work with older entrants in the workplace, but the present funding model makes that difficult. The reality is that it is not attractive for, say, a 25-year-old to enter construction on an apprenticeship wage rate, and we are keen to explore what more can be done to make that an attractive proposition for older individuals. Fiona Stewart can confirm this, but I think that, with modern apprenticeships, the Government's current priority is the younger cohort, and that is where we concentrate our resources.

12:45

Fiona Stewart: Yes, it is current Government policy to give young people the best possible start in their careers, but I point out that a third of those in the modern apprenticeship programme are 25 years and over. As I have mentioned, many of those individuals are involved in leadership and management; they are progressing their careers, and employers are using the apprenticeship for workforce development. For example, many of the people doing level 4 in construction site management have come from other industries and are taking the opportunity to retrain. It all comes down to the employers and the support that they provide through wage costs and so on, even though individuals might not be as productive at the start of their career as they will be when they move through their training. Currently, a third of apprenticeships in construction are 25 plus.

The Convener: I am afraid that we have other business to deal with before 1 o'clock and members have other matters to attend to in Parliament. If there is anything that you wish to add to your evidence, if there are any points that we have not had time to cover fully or if you want to comment on some of those latter questions, feel free to write to the committee, and we will treat that as part of your evidence. I apologise for having to cut things short, but I thank you very much for coming.

I suspend the meeting briefly to allow the witnesses to leave.

12:46

Meeting suspended.

12:47

On resuming—

European Union (Withdrawal) Act 2018

Public Procurement etc (Scotland) (Amendment) (EU Exit) Amendment Regulations 2019 [Draft]

The Convener: We move to agenda item 8, which is consideration of amendment regulations made under powers conferred on devolved authorities in the European Union (Withdrawal) Act 2018. Under the protocol between the Scottish Parliament and the Scottish Government, the committee is required to consider whether the procedure attached to the Scottish statutory instrument is appropriate or should be changed. The instrument is subject to the affirmative procedure, which reflects the fact that it amends the Public Procurement etc (Scotland) (Amendment) (EU Exit) Regulations 2019, which are also subject to affirmative procedure. Is the committee content that the SSI be subject to affirmative procedure?

Members *indicated agreement.*

The Convener: Thank you very much. We now move into private session.

12:48

Meeting continued in private until 13:00.

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