



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 8 December 2021

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

14th Meeting 2021, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

- *Alexander Burnett (Aberdeenshire West) (Con)
- *Maggie Chapman (North East Scotland) (Green)
- *Jamie Halcro Johnston (Highlands and Islands) (Con)
- *Fiona Hyslop (Linlithgow) (SNP)
- *Gordon MacDonald (Edinburgh Pentlands) (SNP)
- *Colin Smyth (South Scotland) (Lab)
- *Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Gordon Banks (Cartmore Building Supply Company Ltd)
Bill Ireland (Logan Energy Ltd)
Stephen Kemp (Scottish Building Federation)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 8 December 2021

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the 14th meeting in 2021 of the Economy and Fair Work Committee.

Our first item of business is a decision on whether to take agenda item 4 in private. Are members content to do that?

Members indicated agreement.

Scotland's Supply Chain

09:30

The Convener: The main item of business this morning is the fifth evidence session in our inquiry into Scotland's supply chain, in which we are looking at the short-term and medium-term structural challenges that Scotland's supply chain faces and how the challenges and shifts in supply chains are impacting on Scotland's economy. We want to consider future resilience and whether there are opportunities to develop domestic supply chains.

This week, we are looking at the construction sector. I thank our witnesses for joining us. I welcome Gordon Banks, who is managing director of Cartmore Building Supply Company Ltd; Bill Ireland, who is chief executive of Logan Energy Ltd; and Stephen Kemp, who is a board member of the Scottish Building Federation.

We have received apologies from Stephen Good, who is chief executive of the Construction Scotland Innovation Centre, who cannot attend due to illness. We send him our best wishes for a speedy recovery.

As usual, I ask members and witnesses to keep questions and answers concise, and it would be helpful if members could direct their questions to the witness they wish to respond.

I will start with an introductory question. The supply chain challenges in the construction sector have been quite high profile, so people are aware of the challenges around labour shortages and the supply of goods and materials. Can you give us an overview of the challenges that the sector has faced, when those challenges started and what the reasons are for them? Maybe you could also refer to what you think the economic impact of that has been for Scotland. That question goes first to Gordon Banks.

Gordon Banks (Cartmore Building Supply Company Ltd): The real challenges started after the Covid lockdown. When businesses started to go back into operation, initially, businesses such as mine were working off the stock and supply that we already had, because many other businesses and manufacturers were not yet back at work when we went back. As the supply chain freed up a bit and manufacturers and distributors came back on stream and got people back to work, people in my position were able to feed from our suppliers' supply chain, which is normal. The problem came when the manufacturers and distributors tried to replenish their stock, which caused a knock-on problem for us being unable to replenish our stock, and that created a knock-on shortage in the marketplace. Over the past 18 to

20 months, the situation has been absolutely dire; I cannot stress how difficult that period has been in the construction industry.

One of the major commodities that we need in the construction industry is cement. Despite all the environmental impacts of cement, if we want to have a construction industry at this point in the 21st century, we have to have cement and we must have lots of it. Scotland has a problem, because we do not produce enough cement here, so we import a lot of material from England and overseas. During the past 10 months, cement has been so scarce—and I mean that. We have been getting between 30 and 40 per cent of what we need. Commodities such as ready-mixed concrete, which would normally be available within two or three days, sometimes now take four to six weeks, as people are planning cement use based on availability. Prices are rising dramatically. I am using cement as an example, because cement is in so many products that we use in the construction industry, but I could say the same about steel and timber.

About five or six years ago, manufacturers and distributors started to introduce the wonderful term “allocation”, which is really rationing. I hate the term “allocation”. Basically, it allows manufacturers and distributors to ration the supply into the marketplace. A manufacturer might turn round and say, “Last year, you took 100 per cent volume, and this year we’re going to give you 60 per cent.” When that happens across the industry, massive shortages occur. When massive shortages occur, prices rise. When prices rise, development of every nature, from do-it-yourself projects through to big projects, will be reduced.

I have always believed that the construction industry could be like the coal industry of the previous century. We need skills of all natures—there is low-skilled and high-skilled work. The sector could be a massive employer and a massive driver for the United Kingdom economy. However, we have really serious supply and pricing problems and, unless something is done about them, those will feed through in reduced economic activity.

The Convener: Has that had an impact on the employment of workers in your sector? For your business, have people had to go, as it were?

Gordon Banks: As yet, that has not happened directly in my business, but it has happened in other businesses. There has been a fair degree of rationalisation in the industry. It is a chicken-and-egg situation. If a manufacturing plant closes, jobs are lost, but the output—the supply into the market—is also lost. That has happened significantly post Covid.

There are people with skills that can be used in multiple ways. A heavy goods vehicle driver does not have to drive in the construction industry; they can drive for Tesco. People are moving out of the construction industry into other sectors where, frankly, the pay is better and maybe the working conditions are better, too.

There are definitely jobs that have not started and will not start that would have had a positive impact on the industry. If a series of jobs do not start, it is difficult to evaluate what impact that has had. You might not lose jobs, but you are not creating jobs. If the supply chain issues are not resolved and we cannot return to competitive pricing and decent competition in the market, that will definitely affect jobs.

The Convener: I ask Stephen Kemp whether his understanding of the situation is similar to that of Mr Banks. Would you like to add anything?

Stephen Kemp (Scottish Building Federation): I can provide a little more detail on the specifics, just to give some context. My business is as a house builder, predominantly up here in Orkney, and I focus very much on affordable homes delivery. We have made use of the Scottish Government’s help-to-buy scheme and supported the local housing association and local authority with their capital house building programmes.

We now entirely use the timber-frame closed-panel construction method, and have been doing so for about a decade in order to get the quality and U-values that are now demanded through Scottish building standards, as is appropriate. That results in huge use of Sterling board, which has gone from £7 a sheet to £17 a sheet. There is an inner and an outer face on every house, as well as a face on the roof of every house. I have just been notified that cement from one major manufacturer will probably go up by 19 per cent on 1 January. Rockwool, which is a trade name for fibre and blown-fibre insulation, is going up by 9 per cent in January. One plasterboard manufacturer is telling us that there will be a 12 to 18 per cent increase in January.

Even in Orkney, where we have a low-wage economy and subdued house prices in comparison with those in the rest of the country, over 18 months, I think that we will see a 20 per cent rise in the sale price of new-build affordable houses, which will take new homes to a point at which they are unaffordable, but there is nowhere to go.

On labour, I work very closely with the local skills development team and the local schools, and it is incredibly difficult to attract into the industry the number of suitable young applicants who are needed. Mr Banks explained the position

of the industry in Scotland. I agree entirely that the construction industry should be seen as underpinning the economy. We have a huge breadth of skills demand, from people with basic skills right through to highly skilled technical people. We just cannot get the applicants and the entrants. As Mr Banks also touched on, pay rates for labour in the construction industry are very subdued compared with rates in other sectors.

We are seeing a lot of competition in Orkney. We are a bit of a hotbed of activity because of our geography and size, but we are a very good microeconomy to use as an illustration. We have six very successful and competing sectors, including aquaculture and the renewable energy industry, and their supply chains—they need work boats and so on—which are flourishing. Those sectors pay higher rates, because they obtain higher revenues for what they do. As a result, it is becoming harder and harder to recruit people into construction and to retain the calibre of people that we need.

The three main resources in construction are labour, plant and materials. We have heard articulated in fair detail the constraints with materials, including price. Labour issues are ongoing, and labour seems to be becoming more constricted. With regard to plant, I just got the last 14-tonne excavator that one major manufacturer will be delivering in the UK in the next year. That is terrifying, because the 14-tonne excavator is the mainstay of the construction sector when it comes to house building. It is an everyday machine, and that manufacturer, which I will not name, will not have another one to deliver to the UK for a year. That is the level of constraint that we are seeing.

As another example, I have just agreed to purchase a small 8-tonne excavator, and I cannot get it until September 2022, and that is from a different major manufacturer. Constraints and delays are being experienced with all our industry's key resources—labour, plant and materials. Frankly, many employers, contractors and business owners are having to fight through the situation to survive.

The Convener: Thank you, Mr Kemp.

Mr Ireland, do you want to reflect on what the previous two speakers have said? They have described very acute pressures on the sector. Are those mainly a result of the pandemic and the global economic slowdown, or are they particular to the arrangements for supporting the sector that we have in Scotland?

Bill Ireland (Logan Energy Ltd): Logan Energy is more to do with the energy side of the building sector but, to comment more widely on what has been said so far, the pandemic has had a big impact, as have the customs changes.

We import an awful lot of equipment from abroad, and then we combine it into equipment and export it back out again. One of our units has been stuck in customs for 10 days in the Netherlands; that is purely because of customs changes. We have had major delays on raw materials that we might not necessarily use directly but which our suppliers need. For example, they have not been able to get steel to make the frames that we put our equipment into. We are using local suppliers for fabrication, but Europe ran out of steel for that particular purpose, so we were delayed for three weeks. We have guys standing around; they are not necessarily doing nothing, but it is disruptive to productivity.

Things are taking longer to be delivered and the prices are rising. We have had basic materials, such as sheet steel, go up by 300 per cent in the past few months. That accounts for a relatively small element of what we are doing, but it is an extreme area.

The current situation is probably more to do with the pandemic. The customs changes are causing delays, but you can just set up a longer lead-in period or bring the stock in earlier, if you can get it. That is pretty much where we are.

09:45

We are increasing our wages, as we have to compete with other sectors. The oil and gas sector is very volatile. We have people coming in—fork-lift drivers, fitters or whatever—but if something kicks off in the oil and gas sector, where wages are much better, people will move where they live and work. We lose people that way, which is very destabilising for business. We have problems with retention and recruitment because of that.

The rate at which the world is asking the world to change is very fast, with the focus on climate change. Concrete has been around for millennia, as has steel, but we are now considering alternative skills for what we are doing, and we have to reskill. We may not have all the right skills in existing workforces, and they may not be transferable. Much is said about having skilled workforces in Scotland, but they might not be appropriate for the new industries that we need here, particularly when it comes to renewables. Some skills will be transferable, but we need to act quickly and we need to make informed decisions on how we move forward, where we train people and what we train them to do.

With the pandemic, everybody has become more localised in their views. That is not necessarily a bad thing: it helps everybody, whether we are talking about localised production, local timber, recruitment of bricklayers or whatever. That is actually quite healthy.

As regards our reliance on carbon dioxide as a by-product of the production of fertiliser, for example, we are relying on two or three companies or production facilities in the UK. If that stops because of energy costs going up—which is also affecting us—we then have a complete shortage and a crisis on our hands, which must be dealt with. As a nation, we cannot afford that. We need to be more self-sufficient. We will always import stuff, but we need to export stuff as well. We need to open up those routes and, to a degree, our self-sufficiency. We need to be less reliant on the global supply chain and to be a bit more focused on regional, national and local international. That is my view.

The Convener: That is helpful—thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to explore more issues with supply chains, perhaps on a broader basis. I will start with housing and construction. Homes for Scotland has advised that the housing statistics show a 35 per cent drop in the number of housing completions in 2020, with starts down by 27 per cent. Of course, 2020 was a difficult year, and there might have been a particular issue in that year because of Covid. Are there any indications through 2021, from your experience, of the numbers picking up, despite supply-chain issues? I invite Stephen Kemp to comment on that.

Stephen Kemp: At the moment, demand appears to be fairly constant. The demand for new homes will change with the macroeconomic issues such as interest rates and inflation, if it adjusts, but at the moment people are still seeking new homes. That will keep sale prices buoyant and, in turn, that will continue to give confidence to house builders such as me to continue to prospectively start.

We have seen issues, and most builders across the country will have seen the same. This does not just concern the supply chain and what people purchase; it is about the support chain, if we can call it that, by which I mean those in local authorities and other organisations who have to issue construction and planning consents. They have all been working from home now for a long period. They have all experienced a lot of disruption and there has been delay in certain circumstances.

Across the country, there has been difficulty in getting to site over the past couple of years, and our ability to progress new work has been affected to a degree. For example, we have had to keep negotiating prices for timber frames. I have seen a 60 per cent increase in prices for timber frame kits in the past 18 months. That is for our standard three-bedroom affordable house, which is a semi-detached terraced house. Our programme has

been led by the need to negotiate prices and delivery dates for those items. I used to just place an order and get what I wanted when I wanted it. Now, we have to work around the supply chain. For want of a better term, that puts a cat among the pigeons. We have to reorganise everything.

Self-isolation has been another major constraint every time there is a flare-up of the virus. We are island-based, so that can be very focused. A number of families or people can test positive and have to self-isolate. That has caused on-going disruption to our workforce and has constrained the number of units that we can start and how fluently we can deliver.

Colin Beattie: Is it your impression that we will see some reversal to the fall in completions that took place in 2020, which was an extreme period? Are the numbers of starts and completions beginning to come back up?

Stephen Kemp: The withdrawal of the help-to-buy scheme will have a major impact on the delivery of affordable housing. To my knowledge, there is no direct replacement for that. Earlier, I alluded to the fact that, because of the withdrawal of the scheme, we will struggle to deliver housing that is affordable for the population in Orkney. Across the country, there will be a substantial reduction in the number of affordable housing units that commence across the country. Developers will probably look towards other markets for their new houses. That will be one of the biggest interrupters in relation to the tenures and types of housing that will be constructed and the speed at which those houses will be started and completed.

The withdrawal of help to buy has been a huge blow to our confidence to commence with 30, 40 or 50 new houses for the affordable market. We will have to look at alternative house types. They will be larger and we will build fewer. We will build for the cash-rich market rather than for the affordable market. I think that that will be reflected across the country.

Gordon Banks: I agree with what Stephen Kemp has just said. We are putting the cart before the horse. Stephen cannot build the number of houses that he wants to build or has planning permission to build, or for which he has demand from prospective buyers. He can build only the number of houses that he can get materials for. That is a bizarre situation. We have a construction industry that is restricted in what it can construct because the supply side cannot, or perhaps will not, put the volume of product into the market that is necessary to build the commodities that we all need.

Colin Beattie: This might be an obvious question. We have talked about difficulties in the

supply chain and constriction on the supply of essential materials. Why is that happening? Is it just because of Covid? Is it Brexit? Has there been a sudden and exponential increase in demand?

Gordon Banks: My view is that the answer is all of those and a little more. I do not think that Brexit or Covid have added anything positive to the situation. There have been reactions to those two major incidents. It is what industry, manufacturers and businesses do to react to that that causes me some concern.

Without naming names, I suggest that the fact that large manufacturers were able to close down production plants in Scotland and England that served the Scottish market so quickly after the start of the pandemic shows that there were plans in a drawer somewhere that were implemented at that point in the hope of gaining the people who were making those decisions some sympathy, because they could say that the closures were the result of the impact of Covid. Some of those plants have been forced to open again, which I believe shows that the decisions to close them were wrong.

You have to understand what has happened in the construction industry over the past period. I have been in the construction industry since I was 18, and I can see that the ability for Scotland and the UK to domestically produce what we need does not exist. We are reliant on international markets, and our manufacturers and, sometimes, our distributors are internationally owned companies. Decisions that impact us are taken a long way from where we sit. The historical position has been reversed: we are like an outpost in some people's empires now.

Colin Beattie: From what you are saying, it sounds like you believe that there is an element of manipulation in the market. Is that the case?

Gordon Banks: Yes. If you create a shortage in supply, it drives up the price. Stephen Kemp mentioned an issue with Sterling board. Miraculously, as soon as Chinese-made Sterling board hit the UK, the price for domestic Sterling board dropped.

Colin Beattie: That would imply—I hate to use the word “conspiracy”—concerted action across a wide number of industries, not just the construction industry. Is that correct?

Gordon Banks: I have no evidence to suggest that. All that I can say is that businesses look at the best way of getting more pounds per square metre or tonne of product. If they can do that more economically by putting less of the product into the marketplace, they will definitely make that decision.

I have seen what we have lost in Scotland since I was 18. We have one clay brickworks left. I cannot expect you to have an understanding of this, but a huge number of sawmills in central Scotland have disappeared—in the 1970s and 1980s, around Grangemouth, you could not move for sawmills, but there are hardly any now. Brickworks, foundries, steel implement manufacturers—they have all regressed. Businesses have been bought up, sometimes by domestic businesses that have then closed down those facilities so that the price of the commodity will go up, and sometimes by international businesses that believe that it is better to structure their business in that way.

Colin Beattie: If the international supply chains are impaired, as they seem to be, and pricing is going the way that it is, surely that is a stimulus to local production. Is there any indication of that?

Gordon Banks: There is, but the decisions to start up local production cannot be taken quickly. For example, you could not quickly get planning permission to build another cement manufacturing plant in Scotland. The UK steel industry has been decimated over past decades. I have seen a particular type of reinforcing mesh, which is used in foundations, go from £38 a sheet to £138 a sheet.

Manufacturers in certain areas of our industry are able to sell everything that they can make. It is a lovely position to be in. That will drive up the price. There is no surplus in the market. There is no spare or slack, as we would call it.

Colin Beattie: I ask Bill Ireland to come in on that.

The Convener: Sorry, Mr Ireland, but, because the questioning is taking a while, I ask you to answer briefly.

10:00

Bill Ireland: The issue is uncertainty, basically. Everybody is running a business and needs to make money to pay people and buy products. As soon as there is a bit of uncertainty, people become cautious to keep themselves afloat. It is mainly because of the pandemic. People have shut down around the world, which has affected everybody. People have been more cautious and have bought fewer properties. More properties need to be on the market for people to live in.

What was described as collusion is an age-old marketing strategy. With all respect to house builders, there are house builders who have plots of land and can speed up or slow down the number of houses that they build within a certain period to maintain the price. If you build all your houses in the first year, the price will go right

down, so you do not do that. It is a matter of supply and demand; it is basic economics. That goes on all the time. It is not collusion; it is business.

There is a bit of global decision making. I come back to CO₂, although the point is not building related. If a particular thing is more expensive in one place or the taxes on it are higher, people decide to shut down an activity until the price that they get goes up. You see that with oil fields opening up and shutting down depending on the price per barrel. I have just seen that the oil price might hit \$150 per barrel next year. That will open up more oil fields, or the oil producers will start pumping more out because the price has gone up. That is not necessarily malicious manipulation, but it is manipulation.

Colin Smyth (South Scotland) (Lab): I will follow up Colin Beattie's questions and ask about the policy response to some of the supply issues that the witnesses have highlighted. What are your views on the Scottish Government's initiatives so far to tackle those challenges? We have had the working group on construction supply chain and building materials. We have the supply chain development programme. Are those initiatives having any positive impact on the problems? What other initiatives would you like the Government to pursue?

Gordon Banks: I cannot say that there has been anything positive on the supply chain in Scotland over the past 20 months. It has all been negative. It has all been problems. You can never tell how bad the situation would have been if something had not happened.

There are ways to resolve the problems that I have expressed, but that is a much longer-term governmental strategy. If you want a buoyant construction industry in Scotland and to be in control of some or a lot of its ability to produce, you must have a domestic supply chain. Therefore, we need to get back many of the things that we have lost over the past 40 or 50 years.

Colin Smyth: Is it about stimulating the manufacturing base in Scotland so that we are producing the products, rather than relying on imports?

Gordon Banks: Yes. The deputy convener made a comment about the opportunities for other people to come into marketplaces. Some independent Scottish-owned businesses are doing that but some of the investments that are needed are really significant. You have the problem of getting the commodity—the manufactured product—correct so that it is acceptable in the marketplace. It has to be approved by regulatory bodies before it can be used. Then you have to sway the market as to why it should use that

product instead of the one that it has been using or—dare I say it?—trying to use for a number of years.

We are definitely seeing new players coming into the marketplace that produce parts of ranges. Grey slabs and kerbs are very important for road building and footpaths—indeed, for any development. There are some new players in that marketplace, but they do not supply the complex ranges that the industry needs. They supply products that are easy to produce and quick to get out the door, and they leave the other products.

Colin Smyth: What needs to be done to get them to do that? Is setting up those manufacturing bases to do with access to Government support? Are you aware of any barriers that businesses that supply your business face in achieving that? Are they not getting grants from the Government to do that, or has that simply not been on the radar so far?

Gordon Banks: I cannot comment for other businesses, but I can tell the committee what I believe to be the case, without that being grounded in any evidence. Some businesses are doing things out of their own cash reserves. Obviously, that is a distinctive decision that has been taken because the company wants to go down that particular route and does not want to indebt itself in some other way.

I have been involved with Government grants to a degree. The timescales of getting them and the hoops that have to be gone through to comply to get them are often off-putting to people. They might mean that people delay a decision, take a negative impact, or try to fund something themselves. We need the Scottish Government to encourage the domestic Scottish supply chain to regenerate itself. If that means the Scottish Government assisting and making its support more available in many ways, that can only be a positive thing.

Colin Smyth: I put the same question to Bill Ireland. Is it about supporting the manufacturing base to grow, or are there other policy initiatives that the Government should be pursuing?

Bill Ireland: I have said before that it is not necessarily money that is needed; it is consistency of policy that is needed. There is private money out there that will support business if it makes commercial and financial sense to do so, and there should be the right policy to encourage that. It comes down to protectionism, free trade and all those sorts of things.

The producers of the stuff that we import from abroad do not pay the same for energy. Some people pay more and some pay less. Obviously, we do not necessarily go to the people who pay more for primary energy or primary resource to

buy the cheapest product. We will compete locally with transport costs in other regions of the world and their particular economic infrastructure. Logistics companies are based in Luxembourg, because they save millions in road tax per year. Their drivers drive around within the European Union, where there is free trade and everything is taxed the same.

It is more about policy; it is not necessarily about giving out grants. Obviously, guaranteed loans are excellent, but the whole thing is down to business. We need stable policy. No one likes uncertainty and, from a number of aspects, we are going through a massive period of uncertainty. We have the pandemic and Brexit, as well as climate change and what we are doing on that. There is loads of uncertainty, but there is also loads of private money out there.

What needs to come from Government is not money but stable policy, so that a person can say, "Right. I'm going to build a new sawmill, because the policy for Scotland is that we are going to produce our own timber frames and 80 per cent of them have to come from Scottish businesses." We might have to import timber if we do not have the right quality. That is just an example—there are others.

We can produce things using renewable energy. If carbon has to be reduced by 50 per cent, that will hit loads of nations. Europe is struggling with energy coming in from Russia, for example. All of that is going on, and China is opening up coal-fired power stations. A policy involving carbon would be quite an easy way to drive the economics and stimulate local businesses, whatever sector they are in.

Colin Smyth: That is helpful. I put the same question to Stephen Kemp. You mentioned that the support scheme for buying new homes has been discontinued. Obviously, reinstating that scheme would be one policy initiative that you want. Are there any other initiatives that you think the Scottish Government should pursue?

Stephen Kemp: As we have just heard, materials production has declined in this country. It is sad that the primary heavy industries that serve a lot of our sector have disappeared down to England. For example, with the specific flat black roof tiles that are used an awful lot in the Highlands and Islands because of planning policy, I think that I stock more of those in my yard than the manufacturer has in Scotland. I have 60,000, and I know that there are not another 60,000 in existence. It is worrying when a small builder in Orkney is buying the whole capacity.

The tiles that I received a month or two ago were ordered in April, May or June. I am now ordering for what I will get next summer—I buy

lorry loads at a time and leave them in the yard. I should not have to do that, but it is because the yard that the tiles come from down in Stirling is now just a storage yard. About 20 or 30 years ago, when I was going through school and university, those roof tiles were manufactured in that yard or depot. I will not name names, but it is the main trade name for roof tiles. That manufacturer withdrew the operation and now manufactures all the tiles down in England.

We need to explore why that manufacturing plant has become a storage yard and a piggyback delivery depot for the northern regions of Scotland.

Colin Smyth: Do you have any idea why that unnamed roof tile manufacturer in Stirling is not producing the tiles? Has it been taken by surprise by all the factors such as the pandemic?

Stephen Kemp: I do not know. My coaster here is from the cement manufacturer that used to own that company, which I think did not do it any favours. A lot of the production was centralised, and it has never been decentralised. There is huge demand in Scotland that could be served from a local production facility.

The constraint for me is that I join the line down in England to wait for the roof tiles that I need, which are not produced that often. A Scottish producer of that product would be much more focused on the Scottish market, because it would live, work and operate within the economy here.

That goes across the supply chain generally. With the aerated concrete blocks that I purchase and that go into all the foundations—again, they are from a major trade name that everybody knows—the biggest merchant in the UK, which is over the fence from me here, told me a month ago that it cannot supply the product because it is on allocation. The merchant would not even give me a price. I had to go to another merchant, who said, "Yes, I'll deliver five artic loads in February." That is all because the blocks come from one centralised point.

It would be good if the Government could provide incentives, through policy or support, to get major manufacturers to decentralise and take the manufacturing and distribution of those bread-and-butter products that the whole industry uses back to Scottish control. That could serve the local market from central Scotland northwards, rather than from the north of England and the midlands north and south. If that happened, we would have a far smaller constraint and it would make life a lot easier for the whole supply chain.

I do not profess to know exactly what the policy and support mechanism could be from the Scottish Government, but it would be good if the Government could engage with those major brands to try to determine what would be needed

to encourage them to move manufacturing back here. As I said, some of them still have assets here that they could invest in to take them back to what they once were. However, the policy stimulus needs to be there to drive that.

The Convener: I will take a brief supplementary question from Jamie Halcro Johnston. It would be helpful if he could direct it to one of the witnesses.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning, Stephen. It is good to see you—I hope that you are doing well. I have a really quick question, which is a bit of a devil's advocate one. I agree that the more that we can take opportunities for local production and local building, the better.

However, when prices from abroad reduce, what is to stop you, as a builder, and any company that provides supplies going back to the lowest common denominator? I do not necessarily mean “lowest common denominator”, but if there was a 20 to 30 per cent difference between a supply that was produced in Scotland or elsewhere in the UK and a supply that you could get from abroad, surely you and any other business would look at the cheaper option, particularly given your concerns about the costs of building affordable housing.

10:15

Stephen Kemp: The challenge is that what we consume in this country as regards house building is becoming very specific. One or two of the other consultation responses on housing talk about the building standards in England just coming towards where we are with the Scottish building regulations, and ours will probably go up again. We need a different set of components that are assembled and built in different ways. For example, we have a very limited number of supply sources for windows. I am tendering for a care home, and I have just built one. To be honest, the windows are likely to be Scandinavian because, in this country, we do not have a sustainable timber window manufacturing offering that meets the standards, values and quality requirements. It is not that easy to cherry pick different products from Europe.

We are not importers, so I rely on a system of merchants. Arguably, I have the largest one in the UK immediately over the fence—you are from Orkney, so you know what I am talking about. That merchant turning round and telling me that one of the most commonly consumed products, in volume, that I have bought from it for almost 15 years is now not available to price and is on allocation is an example of the challenges that the industry is dealing with. I cannot buy the product elsewhere, because it is available exclusively

through the merchant system. If the merchant system and the supply chain decide to constrain the availability of a product and put it on allocation, that product has, in effect, been withdrawn from a big portion of the UK market, so there is something wrong.

I take on board the fact that everyone is in business and that there is a supply and demand issue—it is basic economics—but I am concerned that some large corporations are buying up big portions of the supply chain. The company that I have spoken about owns one of the biggest trade names in plasterboard insulation, so where do you go? If it constrains the availability of specific products and the allocations for other merchants remain, the price drifts up, but then suddenly—hey presto!—the allocation disappears and the product can be bought for a price that is 10 to 15 per cent more expensive in three months' time. I have mistrust in the whole UK supply chain for construction materials. I am at the receiving end and I have had to deal with such issues for a long time.

As an SME house builder in a rural location, we have been very careful over the years and, as a result, we are in the lucky position of being able to take in large stocks—six months' worth of bread-and-butter materials such as insulation, blockwork, roof tiles and so on. However, 90 per cent of employers in the Scottish construction industry cannot spend between £50,000 and £200,000 on materials and put them in a yard or shed for six to nine months. Everybody is working with a very tight cash flow.

I always maintain that there are not many other sectors in the country in which so much risk has to be taken for so little return. Over the course of a year, most SMEs in the industry are looking at between 3 per cent and 6 per cent profit, so it does not take much—it could be one resource constraint—to push a company into a precarious position. That is why the people who produce the goods, the houses and the school extensions, and the people who employ local labour in this country, cannot beat this; they are at the bottom of the food chain and have to take what they get from the supply chain system. There is a systemic problem.

Fiona Hyslop (Linlithgow) (SNP): My question is for Gordon Banks. I will follow up on the theme of whether Scotland has sufficient demand to sustain a secure and stable construction sector. We should bear it in mind that we are dealing with global forces and markets, and that, given what we have heard, people might be taking advantage of global disruption in their pricing.

If we get the policies right—whether on heating standards, if we were specific about procurement in that area; on carbon miles, if we were looking at importation; or on some of the energy issues—and

take account of the £1 billion of additional infrastructure investment from the Scottish Government, would there be sufficient demand in Scotland from housing, hospitals, education and so on to enable us to develop a sustainable local supply chain that would give us a bit of stability?

Gordon Banks: Yes. It is all a question of scales. I believe that Stephen Kemp will agree that there has been a process of centralisation into mammoth-sized production facilities, which have economies of scale. Production for the Scottish domestic market would not be of the scale that would be needed for production for the UK and international markets.

The situation at the moment is that we cannot get product from elsewhere—for example, product that is produced domestically within the United Kingdom—transferred into Scotland. HGV drivers will not come to Scotland because they can make more money supplying things to the high speed 2 project. I am having to pay an ex-works, ex-quay or ex-factory price for commodities that I was previously able to get at a delivered price, and then scratch around and see whether a haulier who is coming back to Scotland with an empty lorry will go into that factory or port, pick up the materials and bring them back to Scotland.

There is demand in the Scottish market. Over the past 30, 40 or 50 years, Governments have allowed centralisation to happen, whether through incentive policies or slap-on-the-wrist policies. Centralisation is great if you benefit from it, but not great if you do not, which is the case in virtually every instance for the Scottish construction industry. There is demand in Scotland that could support a much bigger supply chain of products produced in Scotland than are currently produced here.

Fiona Hyslop: Does Stephen Kemp have any comments on that?

Stephen Kemp: We used the example of Sterling board earlier. There is a tremendous success story right next to Inverness airport, where there is a massive producer and exporter of Sterling board. Although we need to be sustainable and serve the local market, that would be setting our ambitions low. We should look to serve the market.

Why can things not be produced here and distributed to the north of England's house building sector? That northern powerhouse is only about two and a half to three hours south of Glasgow. I drove around there for a few hours in the summer and was astounded at the density of house build sites and the volume of house building that is taking place. That market is on our doorstep. There is no reason why we cannot successfully

manufacture products in this country and export them across the border into that enormous sector.

As has just been said, there has been centralisation at the hands of large brands and manufacturers, which for the past two or three decades have been purchasing more and more of the supply chain to control it from the top down. With the pandemic and Brexit coming together, we are now seeing and feeling the consequences of having a limited supply chain and limited options. I know that it will take a generation, but the right direction for us to go in is to move towards a home-grown industry and, as far as possible, a complete supply chain that assembles and manufactures here, and which also exports. We need to set our sights higher than just dealing with the domestic market.

Fiona Hyslop: Thank you. Our inquiry is to look at whether there are any short-term or medium-term solutions. You are indicating that longer-term measures might be needed, as well.

There is a sense that the market itself might not resolve the current crisis. If that is the case, what interventions do we need? I will ask Bill Ireland to answer first and to reflect on his industry, as we have spent a lot of time on construction. Are there any short-term or medium-term interventions that would help to mitigate or resolve the supply chain issues?

Bill Ireland: There are loads, but I do not think that we have enough time to go through them all.

Fiona Hyslop: Maybe you could tell us your top suggestions.

Bill Ireland: One of the measures is around essential services. Building new houses is an essential service, so we need to be able to support that industry to open up multiple supply chains, so that it does not have to rely on a single supplier to fulfil the demand. Whether that is sustainable is a matter of how much is needed.

To come back to exports, we import quite a bit. We also make a lot locally and we have had supply chain problems locally, UK-wide, Europe-wide and worldwide. We had one supplier of one particular product, so we have developed our own. Rather than rely on one manufacturer in one location, we said that we could not do that and that we needed alternative sources, because that was affecting us directly—we could not get a product out of the door because we had one widget missing.

The situation is similar to the one that is affecting cars at the moment. There are 2,000 to 3,000 chips in every car that goes out of the factory. In many parts of the car sector, everybody is working short shifts, because they do not have enough chips. They are stocking up, and they do

not have the right components. That is not because of Brexit; it is because the market has picked up significantly. It dropped off, because everyone was focusing on the pandemic, but it has now ramped up.

We were looking for an agricultural-style trailer from a well-known trailer manufacturer in the UK. I said, "Do you have one of these in stock? When will it be available?" It is a bog-standard item. The answer was, "Yeah, we should have one in 2023." That means that I cannot produce what I want to sell. It is a small-value item, but it means that I cannot sell what I want to shift out the door, or I cannot move things around, for example, so I have had to look around at alternatives.

We have to look at what is essential to Scotland working and surviving—or, rather, prospering. If we bring in the necessary expertise and alternatives, we become an exporter inherently, because we have got better products and other people are not doing it. We might assume that we need a second manufacturer, or possibly a third, but if we are doing it better and we have got a better supply chain, we can do it quicker, and we can sell that product around the world. The opportunity to do that is there. We are doing that with our products. A lot of our trade is exporting from Scotland. That is the reality.

We must be careful about policy. For example, the UK Government supported the installation of photovoltaic cells, but that went dramatically wrong, because suddenly everybody jumped on the bandwagon of putting in subsidised PV. Loads of companies opened up to do that, and loads of companies lost money and went bust or just shut down their solar division. A similar thing happened with the Northern Ireland heat incentive. It is possible to get it dramatically wrong with the wrong policy. A policy must be well thought out and informed, and you have to plan what you want to encourage in Scotland. You might have to decide that you do not need to make something because 15 other countries are producing it. You might say that you do not need to make that because it is an item of low value and low criticality. We want to do the stuff that is critical to us, that we might be restricted on, and that we have the skills and resources for.

Fiona Hyslop: Gordon Banks, do you want to reflect on that?

Gordon Banks: Bill Ireland mentioned alternative supplies, and Stephen Kemp also touched on that. Quite often, they are just not available in the construction industry. I know of many businesses that are not taking on any new orders or customers, partly because of the scarcity of the raw materials that they need to produce their products. We cannot go somewhere else. That goes back to a comment that was made

earlier about moving somewhere else once the price drops. We need guarantee of supply and sometimes that comes only through longevity in dealing with the manufacturer or distributor.

10:30

I have seen that affecting companies in the past 20 months. People who bounce around buying commodities from here, there and everywhere, possibly sourcing out the best deal that they can every day of the week, show no loyalty to a supply chain, so, in turn, the supply chain shows no loyalty to them. I have seen that impact companies in the construction industry in the past 20 months. It is not just about chasing what happens to be the cheapest product today—it is a much more complex question and answer than that.

Fiona Hyslop: However, we do not live in a command and control society, and much of this is market driven. A lot of the solutions seem to be what you would like other private sector suppliers to deal with. The issue that we are trying to get to is whether there is anything that you think that Government can do to help with the situation. I would be happy for you to send in any additional information after the session.

Perhaps we could give Stephen Kemp a chance to answer that, and then move on, unless time is an issue, convener?

The Convener: I am sure that other members will raise the issue that Fiona has asked about, but if Stephen wants to make a brief comment, that is fine.

Stephen Kemp: I agree with the member that it is incredibly difficult because the private sector is in control of the supply chain. There is nothing specific in the short term that could change that. This is about an economic circumstance that we have all found ourselves in. I return to my previous answer about a long-term strategy. Unfortunately, that is probably what we are looking at here.

Maggie Chapman (North East Scotland) (Green): I thank the witnesses for their contribution so far. Given what you have all said—this picks up on Bill Ireland's most recent comments—we will see change and diversification. In the future, your sectors will look quite different from how they looked pre-pandemic. I am interested in exploring the connections between resilience and innovation. I know that, in some areas of construction, there is innovation in building information management and design. What are the key opportunities for innovation in your industries, including with regard to materials, which are one of the issues that we are talking about today? What do you need from us to enable that innovation to happen and be that catalyst for change? Do you want to start off, Bill?

Bill Ireland: Yes. I have just written down, “Government is very slow.” That is inherent, because we want Government to make the right decisions, because they have big impacts, but that slowness can hinder massively what we do.

I have mentioned that the current speed of change is unprecedented, including with regard to how we are reacting to the pandemic. The pandemic reduced certain things, but other elements came in to support us in dealing with that. Then things kicked off and everybody started to go again after having shut down particular factories, for whatever reasons, be they economic reasons or primary supply reasons.

In our sector, carrying out precision work, we are material light but skills heavy, whereas the building sector is far more material and skills heavy. Therefore, materials have less of an impact on us. However, we do not make a lot of the primary materials that we use. For example, we do not make high-grade stainless steel.

We have a great hydro plant in Fort William where we could do loads of smelting and produce aluminium and all the rest of it. We could use that—we have great natural resources that would enable us to use products that are highly energy intensive but low carbon. We have talked about concrete. That is a massive producer of CO₂, if you make it conventionally, but you can reduce its carbon content—indeed, people are looking to do that all over the place. I am not sure that the economics will ever work out for steel, and we should focus on other things.

Maggie Chapman: What other things should we focus on?

Bill Ireland: We have to be realistic. Scotland has only 5.5 million or 6 million people, so we are relatively small and we cannot do everything. We need to focus on the things for which we have natural resources and skills. I do not have the answers—if I did, I would not be here—but there are a lot of things that we can look at.

There are innovations—universities in Scotland are brilliant, and there is a lot of research that we can do. We are working with universities around Scotland on developing new systems for artificial intelligence and that sort of thing.

We have to get away from the idea that we have to manufacture big things such as ships, and bring the shipyards back. We have to be realistic. Other people are going to do that more cheaply—the process may not be as environmentally friendly or good for communities, or take account of the environmental, social and governance aspects, but that is reality. We cannot control that; we can only control particular things. We need to look at those things, rather than harking back to where we have come from. We need to look to the future,

and at what we can do now to re-educate and retrain people. We need to do that quickly, or we will lose out.

That is what happened with wind turbines. The UK was leading on that technology, but we did not back it, and all wind turbines are now produced pretty much everywhere other than the UK. We did not look to the future and say, “That’s the future.” We—the UK Government, and the Scottish Government to a degree—are doing the same thing now. There are a lot of words, but we need action. That is important, because otherwise people will jump ahead of Scotland, as they already have done in my sector of hydrogen energy, in which we were previously ahead.

Maggie Chapman: I come to Gordon Banks on the connection between resilience and innovation.

Gordon Banks: Innovations take time, and the commodities that have been innovated then need to be approved by all the regulatory bodies as suitable for use in certain sectors. For instance, it is not at all easy to get something approved by Scottish Water to replace an existing product.

I see your question as being about what we can do to make ourselves more resilient. If we can reduce the amount of cement and steel that we use in the construction industry, and if we can be the market leaders in developing that reduction, that is humongous, as we use those two products in massive quantities in our sector. However, we are very slow to accept new commodities.

I remember the introduction of recycled aggregates instead of virgin quarried aggregates from out of the ground. People are still reluctant to use them, even to this day. Often, such reluctance is unfounded. We sometimes have a situation like the one that came to light during the cement crisis that hit earlier this year, in which the manufacturer of a particular block really took a tumble. Products that were used every day, on every housing site in Scotland, were massively overspec'ed. At a time when Grenfell tower and similar situations are fresh in our mind, it is difficult to talk about reducing specifications. However, if we overspecify something, and therefore use twice as much cement in a product as we need, we are not doing anybody any favours. The house is not going to fall down with either a 3.5N dense block or a 7N dense block, so why do we need the latter?

It has been difficult to get end users to accept that; they think that there is a problem there. With cement, if something had been done willingly, with somebody trying to change the marketplace while supply was still fresh and buoyant, they would not have got anywhere. They got somewhere only because there was a take-it-or-leave-it situation. The engineers, and the National House Building

Council, can accept that the product will work, but nobody would have looked at it if there had not been a problem in supply.

There was recently a cement-free concrete pour in Manchester—I say concrete, but it is not really concrete; I cannot remember what it is called—that used graphene as well. That is just one example, but there are hundreds of concrete pours going on as we speak—probably thousands in the United Kingdom—yet we are talking about one that happened three or four months ago. Things are too slow. That may be for a good reason, but we need to explore ways to get things to the front line a lot quicker than we currently do.

Stephen Kemp: I would like to focus on skills. We can have all the technical systems in the world but, without the skills to build them, we will not pass go—labour, plant and materials are the three main resources. We have covered materials well.

Up here in Orkney, we are the main house builder, as I think I mentioned. I have done a calculation and, to give you some context, over the past 10 years, we have been handing over a house every eight days on average. We are not a small builder: we have just under 100 direct employees and a lot of sub-contracted specialists. We have not handed over what I call a conventional house—a house with a fossil-fuel heating system that is not closed-panel and airtight with mechanical ventilation—since 2008.

Innovation is not difficult. All the innovation that the industry needs for house building for the next 10 years is there. We took the initiative in 2008 and looked at how we would entirely electrify. We did not have the luxury of the gas network, so we were forced that way to a degree. I smirk a wee bit when I see the news about heat pumps going into new houses across the country, as we are looking to the future beyond heat pumps. Skills are the big thing that we need to focus on.

One thing that has upset me since I left university and joined the industry 20 years ago is the way in which large capital procurement in the country has driven everything away from direct labour employment. I spend a good portion of my time facilitating work experience placements with secondary schools. We go in at a local level, to primary school level, and we do sessions in science, technology, engineering and maths—STEM. We have 17 apprentices currently employed with us out of a directly employed workforce of 84 or just under 90. We have a big proportion of apprentices, and they have all come out of local high schools. We do not just need people who are looking to become a tradesperson; every one in five of them needs to be someone who wants to come right through the system and develop into a leader or manager over time. It is the people from that skilled trade background who

will lead innovation, not people like me, who came out of university but cannot build things. There has not been enough focus on directly employed labour that is nurtured and cared for by community-based employers.

When I look at planning policy documents and lots of Government policy, community is at the heart and is mentioned a lot, but I would like to see the Scottish Government begin to focus more on moving away from what I call the scourge of the industry, which is the almost migrating labour market. I will give you an example of something that has been really frustrating for our community and our sector up here in Orkney. The local authority had a school investment programme for 2012 to 2014. It spent more than £60 million on new schools. It did a secondary school—that was a big job, and I do not think that any single employer here would have taken it on—and it also built a small hall of residence, a primary school and a swimming pool extension at the sports centre. The Government policy was that the local authority would not get support unless it rolled the work into a single design-and-build contract for £60-odd million. That excluded all local players. A number of us would have competitively tendered for the other £30 million to £40 million-worth of work. We ended up with a primary school whose whole roof had to be netted and then replaced on completion, because cheap, shiny slate had been used and the slates were falling off and endangering the children.

That illustrates the problem that has been occurring with skills in this country. People come in, they do the job, they get paid, they walk away and they have no responsibility. That has been systemic since the Edinburgh schools case, which has been thoroughly investigated and commented on. I saw it. I was working in Edinburgh as a site manager at the time, and I was throwing brickies off my site who had been coming off and on those sites. The problem is that it is all subcontracted labour. No one has responsibility, and there is no real accountability for those people, their skills or their development. It undermines the ability of the industry in Scotland to properly respond to big challenges, because it all comes down to paying the labour the bottom line and getting rid of them at the end of the day.

The life's work of small and medium-sized enterprise direct employers, such as me, is developing a core of good people and nurturing that. That has been lost, because on most big Scottish Government procurement exercises, the community benefits are a tick-box exercise. More community problems than benefits are created by those projects, which has been illustrated here in Orkney time and again.

10:45

Gordon MacDonald (Edinburgh Pentlands) (SNP): I have three quick questions to ask. The construction industry imports around £16 billion-worth of products, of which £10 billion-worth come from the European Union. Is the construction sector ready for the changes to customs declarations that will take place from January, and what impact will that have on the supply chain?

Gordon Banks: I see that my mic has come on, so it must be me to answer.

I suggest that the sector is not ready and that the changes will have a negative effect. There are large importers and small importers, depending on the product ranges that are imported. They will approach the situation very differently—for example, a big importer may have dedicated officers who are able to apply themselves to complying with the new rules and stopping them from having a negative impact on their business. Smaller importers will not be able to do that, because the person who is doing that task is juggling 10 other tasks, so those businesses will be more negatively impacted. I cannot see anything that adds extra burdens being a benefit.

Stephen Kemp: As I said, it is worrying that we often struggle to get British-made relatively locally sourced building material products. As for how certain products will be dealt with, it is exactly as has just been explained; it will very much depend on the company. For example, I mentioned Scandinavian windows. Scotland and Britain are big markets for one or two of those manufacturers and they have Scotland-based sales agents and importers, so I am sure that they will have done a lot of background work and will be prepared.

However, I can see others who rely on third parties and agents falling by the wayside to a degree or finding it much more difficult. Most SMEs in the industry are tied to the merchant system, so we are entirely reliant on the ability and readiness of merchants in their response, but I am not entirely confident in that system right now.

Gordon MacDonald: We have talked about innovation. Safety checks are part of any new product. We are in the process of moving away from the European CE mark to the UK conformity assessed mark. Do we have sufficient numbers of product testing houses in the UK to speed up that process if we are going to look at alternative products?

Bill Ireland: It is unclear what products must have and what they do not have to have, because there is CE-marked stuff and UKCA-marked stuff for the UK market. The notified bodies that regulate and have to approve various bits do not know what the answers are. If they do not know, how will we get our products certified to the right

standards? As far as testing houses go, we are generally using the same standards that we have always used, so that is not necessarily an issue. To a degree, it is more a paperwork exercise—it requires understanding of the new paperwork.

I come back on the import side of things. One of the things that I noted earlier was the issue of practical help. When looking to import or export, you are guided to various Government websites on importing and exporting. What we actually need is specific information packs that say, “You need to follow this diagram—go through this process, fill out this form and that form and get them to here.” We need a helpline where we can ask what to do when something is not on our flow chart. We need people in the Government who are knowledgeable in relation to imports and exports.

Some of the stuff that we buy from suppliers in the UK has been imported by those suppliers. That is fine and is not our problem, unless they have not done the testing. They, too, are SMEs and they come up against problems. That will affect us directly, and we are not directly in control of that. I have concerns about that, which is partly why we have brought in-house to merchant manufacture many things that are essential to us. We do not manufacture the stainless steel or whatever; we have that done in the UK, but it is done to our design, so we are not relying on external foreign imports or supply chains.

On the number of testing facilities, I do not think that the regulations are changing much, and they will not change quickly; I think that we will be aligned for a long time. It would be an error not to align. We have lost the ability to influence, but we are respected on the standards side of things. We are valid and welcome members of all the standards agencies, because we offer input to them. We might have a different certification process in name, but in practice, I think—and hope—that it will remain very similar to CE marking.

Gordon MacDonald: We talked about centralisation in many manufacturing plants—brickworks, sawmills or roof tiles producers. If a new supplier were to be set up in Scotland that would fill some of the gaps, how would we protect it in the future from being taken over and centralised again and a monopoly being created?

Stephen Kemp: As I said earlier, that is the challenge—economics will always play out. However, I suggest that there should be support for new entrants to the industry. We are not just looking at one such case, but at a number. For example, the same large corporation that bought a merchant across the fence from us also acquired my timber frame supplier. The result is that I have all my eggs in one basket. There are changes in the way that companies operate; the corporate

vision of the bigger organisation tends to sway away from, and they forget about, the core local markets, which results in opportunities for new entrants to the same marketplace.

Years ago, we wanted to start producing windows here in Orkney, rather than importing the goods. We wanted to produce, rather than drive pre-glazed windows from the midlands of England up by lorry every week. About 20 years ago, we were taking in about £800,000 to £1 million a year. At the time, Highlands and Islands Enterprise asked us whether we were going to export. We said that we would not, and that we wanted to serve the local market, and to employ two or three people fabricating here rather than having fabrication done in England. HIE said, "Sorry, we can't support you if you're not exporting, because you are a service industry—you are construction."

We need policy that looks towards supporting local businesses and local supply chains, because we are not all going to export; we are seeking to serve local markets regionally in Scotland. At the moment, however, I do not see much support from the enterprise agencies, because they look not just for evidence of the local employment that I would create, but for evidence that we would be seeking revenue from outside the country, and exporting as a benefit.

It would be helpful to take a closer look at how policy could support local manufacturing that serves local sectors and markets. I wear another hat; I am also involved in a local food and drink company that we developed. It has been tremendously well supported by HIE and Scottish Government initiatives. The construction sector is not so well supported in that way, because it is seen as a service industry. The support mechanisms are not there.

Gordon Banks: I agree with Stephen Kemp's answer. To answer your loaded question about how to stop centralisation from happening, I say that that cannot be done in a free market. However, not everybody is waiting for a knock on the door or for someone to stick a cheque through the door in order to take over the business. We need to motivate the right people to deliver products to the marketplace.

Lots of people take pride in and comfort from what they do in starting businesses from scratch—as I did in 1986—in supplying products and creating jobs. There are people who have been with me since 1986. That makes me feel good. I have seen those people grow up; now some of their family members are also employed by me. Not everybody is sitting waiting for a cheque to come through the door, but you will never stop that happening in the kind of marketplace in which we operate. However, if we encourage the right kind

of people, they will not all be driven by the thought of the cheque at the end of the day.

Bill Ireland: It is interesting that one of you said that we are not a command-and-control society. We are, but it is lightish touch. There are essential services that basically stop things being sold—the Competition Commission and taxation, for example. All of that is control. The question is how we use it. It is light touch and nobody really notices it unless they get stuck because of it and think, "Oh my God!"

There are ways of controlling the situation; for example, tie-ins including joint ownership between a local authority and somebody who wants to buy a house, which will be 50 per cent or 51 per cent owned by the local authority—whatever the amount is—to enable people to afford a house.

The same sort of thing is possible with companies. It comes back to whether a company is state owned or not, but there can be independent regulations that restrict what the company can do. That might inhibit investment, but 50 per cent of something that is doing really well is better than 0 per cent of something that is doing brilliantly, or 100 per cent of something that is doing nothing. There is a balance to be struck.

Michelle Thomson (Falkirk East) (SNP): I want to touch on an area that I am amazed has not come up so far—funding and financing. You have given a very articulate description of where you are, but I want to explore a wee bit more how the constraints on resources are affecting your margins, in terms of both your individual businesses and the sector in which you operate, given that many small businesses are already highly debt laden, whether through the coronavirus business interruption loan scheme, the bounce back loan scheme or whatever.

I will also ask about the financing of innovation. Often, SMEs drive innovation, but innovation is perceived to be inherently more risky because it does not have a long-term record. What are your thoughts about how that is financed? I am thinking about all types of finance—not just public sector finance.

What is the general sense of where we are? There are a number of questions. Where are we now? What will we see coming through with small businesses? How many have you seen going to the wall? What about innovation in the sector and financing for that?

I saw Bill Ireland look at me, so he might as well go first.

Bill Ireland: We have never been able to get a bank loan. Until recently, we survived by making money from projects that we were doing that were growing organically. Originally, we had some

investment from the Scottish Government and SSE, which helped us to move forward. Since then, we had nothing until two years ago. We survived on what we had, but that has restricted our growth. We are very fortunate in that hydrogen is on the up at the moment. I have been in this company for 13 years; we have turned over small amounts, but turnover is now increasing and increasing.

11:00

We are currently going through a fundraising round that will allow us to expand beyond organic growth. However, when we have money, banks say that we do not need it and when we do not have it, they say that we cannot have it, because we do not have money or assets.

Michelle Thomson: Is the fundraising from private equity?

Bill Ireland: Yes, it is. The Scottish investment bank has been a shareholder through its 2008 investment in us. That is where we are at the minute; that is the reality that we have to live with. We might have done much better if we had had more funding; again, I note that it comes down to the fact that Government funding comes in only if a project is financially viable so, until we have revenue, Government funding agencies do not give us money.

I suppose that such investment could be seen as being higher risk and lower return; the numbers still have to stack up. With our input, we have made the numbers stack up over the years; we have used our profit to grow the business. Now, that is paying off, because policies are coming out on zero carbon and the hydrogen economy, so everyone wants to throw money at us. That is nice, but it has to be the right money and it has to be on the right terms.

To be honest, we would not be where we are without having done a Scottish Government funded community energy project in Levenmouth. Without that, we would not be around now doing what we are doing. The funding was for a specific project that was shoehorned into the wrong sort of funding, so that we had funding to do what was needed in order to develop the sector.

What we do with innovation projects leads to Ms Thomson's second question. If a project is not commercially viable, it is an innovation or demonstration project, so we have to look for a funding call then tag something on to the project to make it suit that call. We then have to go through the application process and do not know whether we will have funding.

In an innovate UK project, we were looking at ripping the engines and gearboxes out of trucks

with Euro 5, or lower, standard diesel engines and putting in an electric motor and batteries, or hydrogen fuel cell. It was like being back at school. We got 76 per cent, which was not good enough; we had to get 80 per cent in order to get the funding. Germany had three companies doing that two years later, when we would already have had the trucks on the road and running. Many people are now converting combustion engine trucks into fuel cell trucks, but we cannot get enough of them to actually decarbonise the industry. We come up against all those hurdles in relation to funding. Applying takes a long time and a lot of effort. For SMEs, that is a killer.

Government funding agencies should not be afraid of failing, but they are. Everybody is afraid of losing their job or not getting elected because they made the wrong decision, or got something wrong. The Government should set the targets for 10 or 20 years, because the public will have forgotten about voting you in or out by the time the project fails or is brilliant. You should make a decision now and go for it. You might get it wrong, but you should, to an extent, spread your bets. Do not fund at 30 or 50 per cent, but put 80 per cent in there; put big chunks of money into things that you want to happen and that you want to drive. Whether it is for Scotland or local communities, you should be confident about it, because you will learn shed loads more from failing than you will from succeeding.

Michelle Thomson: You are talking about patient capital.

Bill Ireland: Yes—absolutely.

Michelle Thomson: Gordon—I will come back to my original question, which was about funding operations and your general sense of where businesses are with financing. I also asked about innovation in the sector.

Gordon Banks: Let us take funding and finance separately. We tend to think of Government funding. During the Covid crisis, the funding that both the UK and Scottish Governments have put into my industry has been superb and has been absolutely necessary. Unfortunately, I cannot see us having the resource to be able to do that again any time soon.

Applying for Government funding is a very tortuous process, which relates to the issue of imports. SMEs do not have dedicated people or departments applying for funding. They fit that in alongside many other jobs, as well as considering how they are developing a product or service. There is not, in funding bodies, much understanding of how businesses in the construction industry work.

Michelle Thomson: Does that apply to banks, as well?

Gordon Banks: No. I will come now to finance in the construction industry. Bank lending to the construction industry is not seen as a good risk, generally. That might be partly well founded; I know of a number of businesses that are solvent only as long as the next job comes in. Unfortunately, that is how the construction industry has been for decades: if no next job comes in, there is a problem.

We are seeing private equity moving even into my side of the construction industry. Private equity companies are now buying up builders merchants and creating massive chains of builders merchants. Stephen Kemp alluded to the fact that multinational companies that have manufacturing plants, distribution facilities and merchants are fairly common in the industry, but the big multinational companies are now tending not to buy builders merchants. Rather, private equity companies are buying them. There are at least two that are currently actively doing so and impacting on Scotland. There must be something worth while in the industry if private equity companies are prepared to put their money into it.

Earlier, I talked about grey flag and kerb issues. Many SMEs are traditional businesses that will do things using their own resources if they are able. They would much prefer to do that. Some of those companies have been going for 50, 60, 70, 80, 90 or 100 years, and they do not want to get involved in outside funding and financing. They will do it themselves and do not want to be indebted to anybody. Obviously, that is good if there is a good range of businesses that are able to do it. If not, though, that slows down the innovation process and causes problems. However, such businesses are in total control of what they do, and do not have to keep going back to lenders or funders. That, as opposed to trying to attract external money, is certainly the preferred route for some traditional manufacturers in Scotland.

The construction industry is inherently not seen as a good-risk industry.

Stephen Kemp: In Orkney, our position is similar to that of many operators around Scotland. We have a very low median household income—I think that it is the lowest in the country—and we have the second-highest build costs, behind Shetland. Therefore, the margins in building affordable houses are too fine for us to be able to afford to borrow money to do that. That means that we can build only at a rate that we can finance ourselves from our cash balance, which constrains supply of housing. That applies to huge tranches of Scotland.

The construction sector—especially SMEs—is not seen as a safe bet for lenders. Another big challenge is that a bond is generally asked for in operating on public sector contracts. If I do a £10

million contract for a local authority, a housing association or other public sector agency, they will generally ask for a 10 per cent bond, which would be £1 million. I need standard security with the bank of something of about 1.3 times that in value. We already have a standard security for most of our premises for a bond. How can I borrow £1 million, £2 million or £3 million and offer more security to the bank? Lending is difficult for any SME, which constrains their output. That is just an economic fact.

On funding of innovation, I have never seen levels of demand in certain profiles in the market change as much as they have in the past two or three years. We all saw a huge spike in demand when we came out of the lockdown. No one expected people to be queuing up to buy new houses when we went into lockdown, but that is what happened when we came out of it. That is where a lot of the materials-supply constraint has come from; almost every sector experienced huge demand.

What is tricky for me as a developer is looking to the future. If I were to rely on innovation funding to do something really novel in new housing, or new affordable housing, that was not driven just by building standards—which is what I would do anyway—it would take so long to pull that together in order to be able to seek a meaningful level of funding with the right fit that we would probably miss the market anyway, so I would not bother. That is the problem.

Funding generally comes along in tranches. It comes with a set of requirements from an agency, so it is hard to make a project fit with what is available. I speak from experience in the food and drink sector. We did a project with Logan Energy and were close to being successful but it was the same old story: we were 3 per cent or 4 per cent out and were told, “Sorry, you’re not getting through”, so the funding did not happen.

The bigger players inevitably succeed. They have big teams behind their applications. The small and medium-sized industry, which is the engine room, is left behind. That is what is happening in the innovation sector, to be honest. It is difficult for companies of our size. They are equipped, in that they are nimble and can resource projects with very high skills levels. However, they are the least equipped—which is not of their own making—to attract innovation funding for projects.

Michelle Thomson: There is a lot of food for thought in all that.

The Convener: Bill Ireland mentioned the Scottish National Investment Bank. He said that it was a stakeholder. Is not it a body that companies can go to for additional support?

Bill Ireland: It was the then SIB, not the SNIB.

The Convener: I am sorry; I picked that up wrong. Have you thought of the Scottish National Investment Bank as an option, or is it not appropriate for your situation?

Bill Ireland: Yes, we have discussed this with the SNIB. It is interested, but it is busy doing other things and we need to move quickly. It comes back to speed. We are undergoing ridiculously fast change at the moment and we need to move quickly, otherwise we will lose out. The SNIB is interested and might come in on another fundraising round if we do one, but that is where we are at the moment.

The Convener: That is helpful.

Alexander Burnett (Aberdeenshire West) (Con): I refer members to my entry in the register of members' interests in relation to my interests in construction, house building and timber frame kit manufacture.

I thank the witnesses for everything that they have said in their hugely valuable contributions. My question coming into the meeting was about the opportunities for Scotland to grow the domestic supply chain. The witnesses have covered that extensively, so I will narrow the question down a bit.

A couple of the witnesses touched on some of the impediments to growing the supply chain. Gordon Banks mentioned negative aspects of building regulations on the strength of blocks and how they are not appropriate for different types of build. Stephen Kemp mentioned home-grown timber—I note my interest in forestry as well. Storm Arwen has just flattened millions of tonnes of timber throughout Scotland. Very little will now make it into the Scottish construction industry because of the building regulations and standards. That was corrected in Ireland, where the standards were changed.

I ask the witnesses to give any other examples of what they think are necessary changes to building regulations and to put on the record an idea of the scale of the benefits that small changes could have for addressing the problems that we face.

11:15

Gordon Banks: I worked for a major house builder in the past, so Stephen Kemp will be more up to speed on this. However, when building a house there are many regulatory bodies to comply with, including building control, building regs, the National House Building Council, Scottish Water and electricity companies for connections. It is difficult to say that we should reduce regulation when, in some ways, we need better rather than

less regulation—we need not less or more, but better regulation.

As an example, 3.5 Newton dense concrete blocks are perfectly adequate, when roughcast, for the outside skin of a two-storey house. However, it is about getting compliance through not just the bodies that we have talked about but individual companies, which all have their own engineers. They will not build anything without their engineers saying that a particular product will comply and that, if challenged, they can argue that the product is appropriate. There is a bit of misunderstanding in the industry on that one example. I am sorry for getting technical, but many people who heard of using 3.5 Newton blocks for that purpose automatically thought of lightweight blocks and believed that that could not be done. I am reluctant to say it, but there was a lack of knowledge and understanding about what was being promoted. People were frightened that it was a cut in standards that would make them vulnerable and liable at some point in the future. That is a massive social issue and, potentially, a cost issue. We need better regulation—not necessarily less or more, but better.

Alexander Burnett: I certainly agree with having better and more appropriate regulation.

Stephen Kemp, do you want to come in on the opportunity for Scottish timber to be used in construction in Scotland?

Stephen Kemp: As a bit of context, I note that earlier in the year I was involved in a working group that looked at how Government policy might drive the change to net zero in our social housing, which is an incredibly big issue for us all and a big thing for the industry to step up to. An awful lot of discussion has started this year and it was really interesting to be sitting in that group as we started to discuss the embodied carbon of materials.

We are at a good stage with Scottish building standards, in that we have driven up energy efficiency to a great extent and we are decarbonising the primary fuel sources—we are getting there. However, we are vastly increasing the use of polyurethane, which is carbon heavy. I can build a building now and, using a lot less timber, insulate it by sticking in a 4-inch polyurethane outer wall thickness kit. It is cheaper, because I use less timber and, by sticking in the polyurethane, I get the right U-value in the outer wall.

There is no measurement in the building standards to put a carbon content charge on me for the embodied carbon or road miles of the outer wall construction. I can take polyurethane insulation from wherever it comes in Europe, or timber from wherever it comes in eastern Europe, Latvia or Scandinavia. Those materials can come

all the way here and achieve a good U-value, but there is no penalty for using something from 5,000 miles away.

Embodied carbon—including the carbon content of products and road miles—needs to be looked at, but that must be done carefully and sensitively. I am speaking to you from 300 miles away across the sea, so I could be shooting myself in the foot. Scotland has a vast geography and we cannot put an impediment in the way of certain elements of the population just because they have to drive things across 300 miles. It is key that Government policy looks at the issue more on a macro scale that takes account of imports versus exports and the distance to the Scottish border.

I am sure that you are more of an expert on forestry than I am, but there should be an incentive to start planting, so that we develop a really big forestry industry for generations into the future. If we developed our high-quality timber and consumed it locally, with there being a penalty for not using what is on our doorstep, people would be directed to the obvious solution, which is right at our fingertips. It comes down to economics and to Government driving that policy, looking at the detail and sensitively considering what the impact could be.

Alexander Burnett: [*Inaudible.*]—I sat on a working group 15 years ago, and I am afraid that the same issues were being discussed then. Would Bill Ireland like to come in?

The Convener: I am sorry to interject, but we have to finish by half 11. It is unfortunate that you have been the third witness to speak, Bill—you have been a very good witness, so I am sorry to, again, ask you to be brief.

Bill Ireland: I will be very quick. We have been talking about embodied carbon for 20 years. I spent 20 years as a mechanical and electrical systems consultant in the building industry, so I know quite a lot about that, but I then moved into the energy side of things. The work that we are doing on decarbonisation feeds into building regulations and local production. We are decarbonising Arbikie distillery, which involves using wind production; we put up a wind turbine and produce and store hydrogen so that it can be used. The distillery's philosophy is field to bottle, or grain to bottle production—that is one of its sales pitches. That works for businesses, and we can do that and make that happen for communities. That is an example of what we can do.

The UK Government has just said that, from next year, all houses will have to have their own electric vehicle charging point. There are things that the Scottish Government can do and things that it cannot do. EV charging points are within

planning control in Scotland, so it could have done that ages ago. We have loads of electricity in Scotland.

My view is that the majority of passenger vehicles will use electric batteries, not hydrogen, which will not be to my benefit. However, there are 1,500 homes going up around our facility in Wallyford and I doubt that any of them have electric charging points. We are due to have electric vehicles by 2030, but as soon as people start putting in electric charging points, the electrical infrastructure going into those homes will be obsolete because it has not been sized to deal with that.

Those are the kinds of things that we need to think about. We must look at what we are going to be doing, think about what is within the Scottish Government's control at the moment, play with that and make that happen. We will then become experts in putting in electric charging points, battery storage or whatever it is within a home, and we can then export that knowledge and those products and skills. We need to think about what we can influence and push that out there.

The Convener: I will bring in Jamie Halcro Johnston.

Jamie Halcro Johnston: Start the stopwatch. I have two questions for Stephen Kemp, but the other witnesses can come in if we have time. My first question is a bit of an odd one, and you might or might not have an opinion on it.

In places such as Orkney there are companies of one or two individuals or, more likely a larger group, that might buy a plot, build a house, sell it and move on to the next one. I imagine that they will be particularly impacted by supply chain issues, because they do not have the space or the resources to buy in bulk. How might they be impacted, in Orkney or further afield?

Stephen Kemp: I have had one or two of them knock on the door and ask to buy roof tiles, because they have been told that it will be five months before they can get the 10 ridge tiles that they need to finish their house so that people can live in it. It has been a very difficult time for the microbuilders that you describe, across the whole country. I have the luxury of being able to buy all the bulk materials that I think I will need for the next six months and put them in a shed in a yard. I price protect myself as far as possible, but those guys have to rely on things hand to mouth. They go to the merchant to buy two pallets of roof tiles or 10 sheets of plasterboard, and they have struggled. A lot of them have found sympathetic customers who have supported them well and have been prepared to invest a certain amount extra in the product, but it has been an extraordinarily difficult time for an awful lot of one,

two or three-person employers in Orkney and across rural Scotland.

Jamie Halcro Johnston: I will move on to my main question. As you pointed out and as we have covered in the committee before, places such as Orkney are at the end of the supply chain, which causes particular issues. For example, you talked about getting younger people involved in the sector. Obviously, infrastructure, roads, ferries and so on can add to costs. Do you have any comments on what we can do to improve the infrastructure of the supply chain and reduce those costs?

Stephen Kemp: We are lucky to have good mainland-linked ferry services and that prices remain fairly constant and reasonable over the long term, but we have a massive struggle getting out to the outer islands of Orkney. The ferries that we have are not fit for purpose and I struggle to get people to work out there, because they have to chug away on an old boat for two or three hours to get out and back. The island communities at the periphery of Orkney are suffering badly because of the aged ferry fleet. We need to find a better system of moving goods and so on to and from those islands that better serves those islanders and communities.

Jamie Halcro Johnston: If it is harder to get people and materials out there, is there a risk that they may, now or in the future, pay a premium for being on the islands at a time when we want to make sure that people can stay in our outer isles?

Stephen Kemp: We are based in Mainland in Orkney. The Building Cost Information Service price indices are based on analysis of the actual costs of past jobs and, compared to Glasgow, there is an increased cost of between 17 and 20 per cent for jobs in Kirkwall. For the peripheral islands of Orkney, construction costs are another 25 to 35 per cent higher.

That is an excruciating position for those communities to be in, and I would like to see increased levels of support for providing housing and infrastructure and for developing skills on those islands. I have had three or four apprentices from Sanday, which is in the northern isles, in the past five or six years. I would much rather have been building out there, employed those young men and left them there, with skill sets to retain them in the community.

I have been consulted on things such as the island bonds, but I guess that they will not be applicable to Orkney. Once again, it comes down to the availability of resources, of which skills is one of the most important. The Government should support skills at a local level and not just tick the big boxes. Upskilling thousands of people on big infrastructure jobs in the central belt, such

as the A9 dual carriageway, does not help 90 per cent of Scotland. We need real penetration into communities and that direct employment model needs to be made more robust throughout Scotland.

The Convener: I thank all the witnesses for their evidence, which has been very helpful for our inquiry. We hope to report some time in the new year. If you want to share any further information, please send it to us in writing.

Subordinate Legislation

Public Procurement (Agreement on Government Procurement) (Thresholds etc) (Amendment) (Scotland) Regulations 2021 (SSI 2021/424)

11:29

The Convener: We move to agenda item 3, which is consideration of a Scottish statutory instrument, which the committee is invited to note. The amending instrument was considered by the Delegated Powers and Law Reform Committee on 30 November. It noted that the SSI rectifies the errors that were previously identified and that no new points were raised. Do members agree to note the instrument?

Members *indicated agreement.*

The Convener: We move into private session for the remaining agenda items.

11:30

Meeting continued in private until 11:56.

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