

## **SEC Group Scotland - Election 2016, Priorities for construction**

### **A Manifesto For Securing A Better Future For Firms In Scottish Construction**

This manifesto sets out a list of priorities for the construction industry to be addressed by policy makers in the next Scottish government. These priorities are aimed at:

- Removing wasteful practices in order to make the industry more efficient;
- Enabling SMEs to realise their full growth potential;
- Improving standards across the industry.

#### **Priorities**

1. Improving payment
2. Streamlining pre-qualification
3. Reducing carbon emissions
4. Overcoming the skills deficit
5. Achieving savings via a radical change in procurement
6. Improving procurement standards in construction
7. Raising standards

#### **1. Improving payment**

##### **Issue:**

Poor visibility of cash-flow, under-capitalisation of large companies and lengthy supply chains cultivate payment abuse which produces unnecessary cost within projects and, thus, waste.

At any one time over £120 million is withheld by way of retentions in the public sector in Scotland, ostensibly as security in the event of insolvencies or defective work; in practice the monies are used to generate a positive cash flow for the receiving party.

Project bank accounts were recommended in the Review of Public Sector Construction in Scotland. They have been trialled in the public sector and the results of the trials have been very positive. Once progress payments are certified as due they are paid into a ring-fenced bank account. All those involved in delivering the works are paid simultaneously out of the account.

##### **Required Scottish Government Commitment:**

To make construction industry payment practices more efficient through:

- mandating the use of project bank accounts throughout Scottish public sector construction;
- legislation to standardise supply chain payment periods and to protect cash retentions;
- exclusion from public procurement of firms with a poor payment history;
- digitisation of the payment process, using tools (such as Oracle) to facilitate greater monitoring and auditing of payment processes.

## **2. Streamlining pre-qualification**

### **Issue:**

Pre-qualification is a process for vetting the general suitability of firms to carry out construction works. Firms are required by public bodies to be vetted under different schemes (often provided by commercial operators) which generate excessive duplication of bureaucracy and, therefore, waste; small firms are spending (on average) 9 days a year filling out lengthy questionnaires.

The Scottish Government has promoted the use of the Scottish Pre-Qualification Questionnaire (SPQQ) in an effort to standardise the pre-qualification process. However, true efficiency comes from suppliers maintaining a pre-qualification profile on one digital platform which can be accessed by clients or customers as required.

### **Required Scottish Government Commitment:**

To make the SPQQ mandatory across the public sector throughout the supply chain and to make it the cornerstone of a digital platform for the centralisation of public sector procurement. All data provided by suppliers in response to the SPQQ should be kept on the Public Contracts Scotland Portal and updated as necessary.

## **3. Reducing carbon emissions**

### **Issue:**

Existing legislation requires that carbon emissions are reduced by 80% by 2050 and the UK Government has targeted a reduction of 50% by 2025. As much as 60% of UK carbon emissions are from buildings.

### **Required Scottish Government Commitment:**

To adopt the following actions to reduce carbon emissions:

- A carbon audit of the Scottish public sector estate prior to commencing a programme of retrofit (allowing carbon efficiency to be designed into the retrofit programme to help achieve those targets).

- Incentives for carbon efficiency – for example, through modification of local council taxes – should be provided to owners (especially those in smaller companies) of properties in the private commercial and industrial sector to carry out a similar audit and retrofit programme.
- Simultaneously, expertise should be made available to property owners by not-for-profit advisory bodies to enable them to calculate reliable payback figures for returns from investment when investing in carbon /energy reduction technology.
- There should be a statutory duty on owners of commercial/industrial buildings to get their buildings to a good standard of carbon/energy efficiency before they can be let to tenants.

#### **4. Overcoming the skills deficit**

##### **Issue:**

The construction workforce in Scotland has contracted by over 25% from its peak in 2007. This, combined with an increasing age profile, will present a major barrier to growth in Scottish construction. With capital spend on Scottish infrastructure – especially energy infrastructure – likely to rise to unprecedented levels over the next few years, SMEs will be stretched to develop or access the necessary engineering training. This is at a time when the construction industry has become heavily dependent upon engineering skills and know-how.

To deliver sustained growth a priority is to attract new talent into the sector, ranging from young people and apprentices through to adult trainees and experienced workers who move to construction from other sectors and require re-skilling or training to undertake specialised roles.

##### **Required Scottish Government Commitment:**

To set a target to return to pre-recession training levels within 3 years – representing an increase of 50% in the number of engineering apprentices being trained within the sector (other targets to be agreed).

The targets to be achieved through:

- Preventing false employment;
- Specifying engineering apprenticeship quotas within public contracts;
- Highlighting the need for engineering skills as part of the public sector pre-qualification process;
- Recognising the key role of industry trade bodies in Scotland in promoting high level engineering skills.

## **5. Achieving savings via a radical change in procurement**

### **Issue:**

Over 80% of the value of Scottish construction is generated by its supply chains. But the lack of supply chain involvement in early decisions on design and cost contributes substantial waste when designs have to be subsequently modified or abandoned.

Integrated Project Insurance (IPI) is a policy of insurance that will underwrite the cost plan for a project provided that the whole project team has robustly managed the risks involved. It is a financial loss policy that is triggered by overruns on the cost plan. IPI is being trialled on public sector projects with the aim of providing certainty of construction costs and minimising such costs through eliminating wasteful processes.

### **Required Scottish Government Commitment:**

To introduce a programme involving further trialling of integrated project insurance and, once satisfied with the outcomes, proceed to roll out the use of IPI across the public sector. The aim is that public monies should not be released to finance construction projects unless the cost plan has been insured.

## **6. Improving procurement standards in construction**

### **Issue:**

There is a need for a more pro-active approach that challenges bad practice in all matters relating to public procurement in Scotland. In 2013 the Groceries Code Adjudicator Act was introduced. This provided for the appointment of an adjudicator to promote good practice in relationships between the large retail supermarkets and their supply chains. The Adjudicator has the power to impose penalties on supermarkets acting in contravention of published guidance. In Canada the Procurement Ombudsman carries out a similar role in relation to public procurement.

Following the implementation of the Procurement Reform (Scotland) Act 2014, there is a need for effective oversight of both public bodies and the supply chain to ensure that good practice is maintained.

### **Required Scottish Government Commitment:**

To introduce legislation to establish an adjudicator or ombudsman to promote good practice in Scottish public sector construction with effective powers to deal with bad or punitive practices (such legislation could be broadened to include construction procurement by the private sector).

## **7. Raising standards**

**Issue:**

There are no barriers to entry to the construction industry in Scotland. The ease of entry into the industry favours firms having little interest in adhering to the required standards, investing in training and skills and in ensuring the health and safety of their workforce. Many of the construction trade associations already operate arms length arrangements that verify firms' technical competence.

**Required Scottish Government Commitment:**

To set up a joint government/industry taskforce to develop proposals for a licensing scheme for firms operating in Scottish construction. Where relevant, these should build on trade associations' current arrangements.