



# PARLIAMENTARY NEWSLETTER

ISSUE 1

WINTER 2003

## CONSTRUCTION INDUSTRY UPDATE FROM THE SPECIALIST ENGINEERING CONTRACTORS (SEC) GROUP

Today's construction industry is wholly dependent upon the high level of skills and complex technology within the specialist engineering sector represented by the SEC Group. The sector embraces telecommunications, power and lighting, security systems, heating and ventilation, air movement and refrigeration, acoustics, ductwork, plumbing, lift engineering, testing and commissioning constructional steelwork, and facilities management. The sector has over 60,000 companies with a workforce of more than 300,000.

### **SEC Group represents the construction industry's premier trade associations:**

Association of Plumbing and Heating Contractors  
British Constructional Steelwork Association  
Electrical Contractors' Association  
Heating and Ventilating Contractors' Association  
Lift and Escalator Industry Association  
SELECT (Electrical Contractors' Association of Scotland)

### This Newsletter

This is the first issue of the SEC Group Parliamentary Newsletter. Its purpose is to acquaint parliamentarians with current issues in the construction industry and the activities of the SEC Group in relation to such issues.

Further information can be obtained from the SEC Group website, [www.secgroup.org.uk](http://www.secgroup.org.uk), or, alternatively, from John Nelson, Executive Secretary, SEC Group, 34 Palace Court, London W2 4HY. Tel: 020 7313 4819, Fax 020 7727 9268 or email [contact@secgroup.org.uk](mailto:contact@secgroup.org.uk).

### Are Local Authorities Applying Best Value in Construction Procurement?

SEC Group has recently delivered a report to Nick Raynsford, Local Government Minister and Local Government Ministers in the Scottish Executive, Welsh Assembly and Northern Ireland Office. The report was based upon a survey of firms within the specialist engineering sector carrying out construction works for local authorities. The overwhelming response from the survey was that construction procurement practices within most local authorities have not significantly changed from the days of Compulsory Competitive Tendering. CCT was characterised by lowest price (to the exclusion of quality) in selection and adversarial relationships. The new regime of *Best Value* places emphasis on selecting firms on the basis of quality as well as price and on developing longer-term partnering or teamworking relationships with firms.

The Office of the Deputy Prime Minister and the Local Government Association have just launched the National Procurement Strategy for Local Government (in England) which requires local authorities to develop strategies over the next few years to improve their procurement practices. Such improvement needs to be closely audited and monitored to ensure that change does take place.

Local authorities should also be changing their *standing orders* which have largely remained unchanged since the days of CCT. Often standing orders are used by many local authorities to justify outdated practices. The SEC Group will meet with the office of the Deputy Prime Minister in late January to discuss the implications of the report. SEC Group has contacted the Transport, Local Government and the Regions Select Committee suggesting that the report may form the basis of an inquiry into local authority construction procurement. The report is available on the SEC Group website.



## Retentions

Retentions is a practice specific to the construction industry whereby a sum (usually up to 5%) is deducted from payments due under construction contracts. Ostensibly retentions are partly deducted as an incentive to contractors to ensure that completed work is defect-free. They have, however, been demonstrated to play no helpful role in this respect. Rather, they amount to an interest free loan. There is much abuse associated with the practice and the burden for providing the necessary funding is primarily on small and medium-sized businesses.

The Trade and Industry Select Committee condemned the practice as "outdated" and "frequently harmful" especially to SMEs.

In its second report on retentions issued on 17 September 2003, the Committee concluded that the total retention burden of £4bn was an intolerable burden for both businesses and taxpayers. Moreover, it had not received evidence of any benefits that would justify this massive outlay of funds. The Committee has urged government procurers to phase out retentions "as soon as possible".

Government procurers are *best practice* clients of the construction industry and they are, therefore, best placed to render the practice obsolete through enlightened procurement policies. Retentions monies could, instead, be better spent by firms on improving the quality of their performance by, for example, allowing them to invest in training and IT. Nigel Griffiths, the Construction Minister has already gone on record as saying that the practice is outdated. The SEC Group agrees with his view that the alternative is for construction procurers to improve their commercial relationships and for the industry to work together on projects as integrated teams.

## Qualification of Firms

It is the SEC Group's objective that customers of the construction industry should be able to readily recognise firms that are able to deliver quality. SEC Group's member associations have developed national schemes of qualification that involve inspection of work carried out by firms. Unfortunately, there are myriad of schemes of qualification both in the public and private sector. This is imposing a massive overhead on firms especially SMEs.

Within the public sector there is **Constructionline** but, also, there are a number of statutory schemes requiring firms to prove their competency. These range from the Construction, Design and Management Regulations (regulating health and safety) requiring appointment of *competent* designers and constructors to the Water Regulations that require plumbing firms to be approved. In the private sector there are many commercial organisations vetting firms in relation to matters such as health and safety and fitness to carry out the relevant work.

All these schemes need to be rationalised. If those belonging to a reputable qualification scheme thereby demonstrating they have the technical capabilities, provide training to their employees and are properly resourced, this should be sufficient to satisfy most requirements.

SEC Group will be seeking support from the Government for taking this issue forward.

## Better Regulation Task Force/Small Business Council report on access to public sector contracts by SMEs

In May this year the Better Regulation Task Force/Small Business Council issued a report on access by SMEs to public sector contracts. The report concluded that SMEs often found it difficult to win contracts in the public sector. This was due to a variety of factors:

- *The preference for longer-term contracts (ie framework agreements) and the packaging of contracts which favoured large companies.*
- *Payment abuse especially where SMEs were sub-contractors.*
- *Lengthy qualification requirements with each public sector body having its own requirements (see previous item)*

The report made eleven recommendations which were submitted to the Treasury. A key recommendation was that public sector procurers should ensure that first line contractors or main contractors adopted best payment practices in relation to their sub-contractors.

Payment abuse in the construction industry is a continued source of resentment amongst SMEs. Along with lengthy payment periods (in some cases up to 3 month payment cycles) and final account disputes over the amount of monies that are due, payment conflict constitutes a substantial overhead for SMEs. Three of the recommendations in the report have been accepted by the Treasury but we await the response from the Treasury on the totality of the recommendations.

## Sustainable Construction

In October the Deputy Prime Minister and the Secretaries of State for the Department of Trade and Industry and Department of Food and Rural Affairs hosted the Better Buildings Summit. This was an opportunity for the construction industry to consider ways of substantially reducing carbon dioxide emissions, energy consumption, water consumption and construction waste.

The Government has established the Sustainable Buildings Task Group to advise it on driving up standards of environmental performance. The Group is expected to report back in February next year.

SEC Group has written to Margaret Beckett to offer its help in the Task Group as part of the Specialist Engineering Alliance - representing consultants, contractors and manufacturers with the sector.



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