

NOTE OF CECA MEETING WITH SCOTTISH WATER
AT GARFIELD HOUSE HOTEL
ON 22 MAY 2023 AT 1:30PM

SCOTTISH WATER

Mark Dickson	Director of Capital Investment
Mark McEwen	General Manager Customer Service
Alan Fairweather	Head of Commercial

CECA SCOTLAND WATER GROUP

Mark Bramley	Mackenzie Construction Ltd	Chair
Andy Dalrymple	Mackenzie Construction Ltd	Board Member
Grahame Barn		Chief Executive
Lorraine Watson		Finance & Office Manager

APOLOGIES

Steven McLachlan	RSE	CECA Board Member
Joe Rowan	General Manager Procurement & Supply Chain	
David Ross	George Leslie Ltd	Water Group Chair
Steve Slessor	Morrison Construction	Board Member

ACTIONS

- ❖ Eddie Allan (SW) to be invited to next meeting and Safe Digging Event.
- ❖ Neil Clark (SW) to be invited to Safe Digging Event
- ❖ AF to share Brodies Bonds and Guarantees seminar information with CECA
- ❖ SW to consider possible judge for SCEA Awards
- ❖ SW to share any relevant digital assets for the CECA Scotland Academy

INDUSTRY UPDATE

Grahame Barn provided an overview of the civil engineering sector in Scotland (copy of presentation attached) followed by a general discussion.

A copy of the UK Trends in Costs Annual Report is also attached to this note.

OVERVIEW OF CURRENT POSITION ON SR21 FRAMEWORKS

The Year 2 SR21 Annual Report is due to be published in June.

Mark Dickson provided highlights from the Performance and Prospects Report:

- ❖ Water Quality Performance Indicators are OK. Environmental Performance Indicators are challenging but similar to previous years and will result in future investment.
- ❖ Weather continues to be challenging, causing operational disruption. Working on climate adaptation.

❖ Investment for Year 2 has been very good. 23% above average on SR15. Money in SR21 is less than expected due to customer charges being less than anticipated. This has resulted in £500M less in the period - going to SR27. Scottish Water are now working on baseline investment planning scenarios and will be reviewed twice a year.

SR21 remains a rising investment programme but at a slower rate.

The Urban Water Improvement Plan will see £200M invested in sewer outflows and 1,000 monitors installed throughout the network.

This work is logistically challenging due to the difficult geographic locations. Any further work will be included in the dynamic planning.

EARLY THOUGHTS ON SR27

The pipeline will continue the trajectory of increased investment.

Asset replacement projects totalling approx. £500 - 600M should include:

- ❖ Turriff WTW
- ❖ Bradan WTW
- ❖ Daldowie Sludge Centre

SW confirmed that they are experiencing substantial cost increases and will move to accommodate market costs.

SW to reprocure DV1 and Consultants Frameworks.
Good progress in new partner relationships in DV2.

CECA advised that members had reported an increase in the number of Options E's being used and lack of rebate. SW recognise this issue and agree that the number of Option E's should be minimal and shouldn't be the norm.

CECA also advised that the process for accessing the innovation pot rebate is not clear to members. MM confirmed that the process is available and has been shared with partners. Any problems please contact Mark McEwan in the first instance for the process information.

CECA SCOTLAND ACADEMY UPDATE

CECA Scotland Academy video presentation was shown.

It was agreed that Scottish Water will support the CECA Scotland Academy by providing appropriate social media videos to promote civil engineering to young people.

Scottish Water advised that a small steering group has been formed to look at the highlights arising from the Construction Skills Investment Plan report. An Action Plan with key themes to be shared with CECA.

SAFE DIGGING EVENT

CECA confirmed that the Safe Digging Event, aimed at operatives, will be held on Thursday 17 August 2023 at Sibbalds.

ANY OTHER BUSINESS

AF advised that new systems Unifier and BEZ are working well and benefits are now being seen.

AF offered to share seminar materials on Bonds and Guarantees from Brodies and CMS with CECA.

GB advised that entries for this year's Scottish Civil Engineering Awards are open. The closing date is 30 June 2023 and the awards ceremony will be held on Friday 22 September 2023. Scottish Water were asked to nominate a possible judge for the Awards.

NEXT MEETING DATE

Monday 14 August 2023 at Garfield House Hotel.

Mark Bramley closed the meeting at 1500 hours.

**GRAHAME BARN
CHIEF EXECUTIVE
CECA SCOTLAND**

22 MAY 2023



CECA Scotland Industry Update 22nd May

Grahame Barn
Chief Executive

Workloads and new orders fell in Q1

- In Q1, workloads fell in Scotland for the first time since 2020 Q2, according to 16% of firms, on balance.
- However, 16% of Scottish firms expected an increase in workloads over the next 12 months.
- A balance of 45% of Scottish firms also reported that orders had fallen in Q1.
- All Scottish firms experienced cost increases in Q1; 87% reported costs rising by more than 5%.
- 52% of Scottish firms reported difficulties in the supply of skilled operatives.

INDUSTRY WORKLOAD

- ▶ Very Busy. Decade ahead of growth and sustainable workload?
- ▶ Decarbonisation of the rail network in Scotland by 2035. £3b forecasted investment.
- ▶ Procurement for the dualling of A9 rumoured to be PPP model. Estimated cost £2.5b?
- ▶ Renewables:
 - ▶ Corrie Glas: £1b
 - ▶ Berwick Bank: £1b
 - ▶ Scotwind (Round 1) - 17 successful bidders. 25 GW capacity created with an estimated average of £1bn investment in Scotland per gigawatt of capacity built

Roads in Scotland

- Dualling of the A9 & A96 subject to a Ministerial Announcement in “Autumn”
- Lack of Contractor interest in the project is a political problem
- Active Travel expenditure = 10% of total Transport budget
- Maintenance Contracts in Year 3 of potentially a 12-year framework (8 + 4). Expenditure down significantly on expected levels



Renewables in Scotland

- Tier 1: £4b of Opportunity in North of Scotland in the next decade
- SSE & Scottish Power have significant projects coming to market
- National Grid enhancements and upgrades to transport ScotWind generated power to population areas
- Onshore wind projects have increased in last 18 months



Rail in Scotland

- “Decarbonise” Rail in Scotland by 2035
- CP7 covers a five-year period between April 2024 and March 2029.
- CP7 - “More for less”?
- Ministerial Interference?

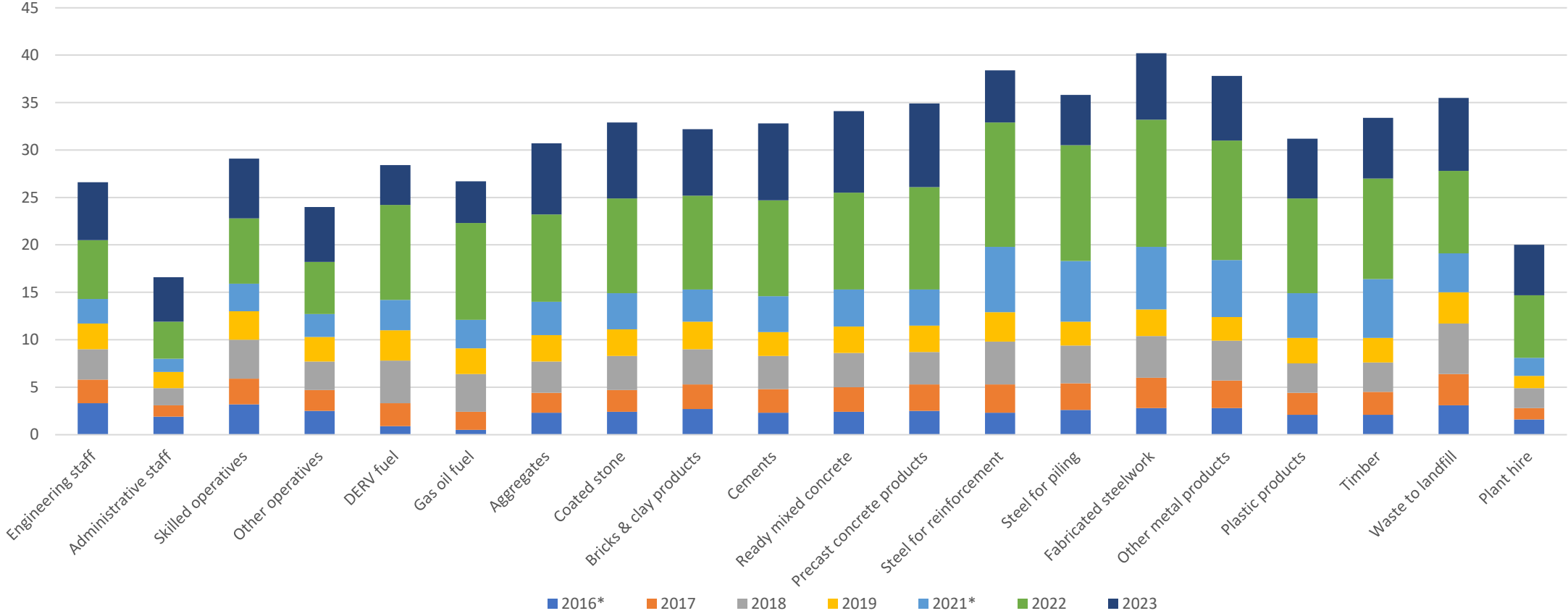




SG Capital Spending Review - Spending Allocations for 2023-24 to 2025-26

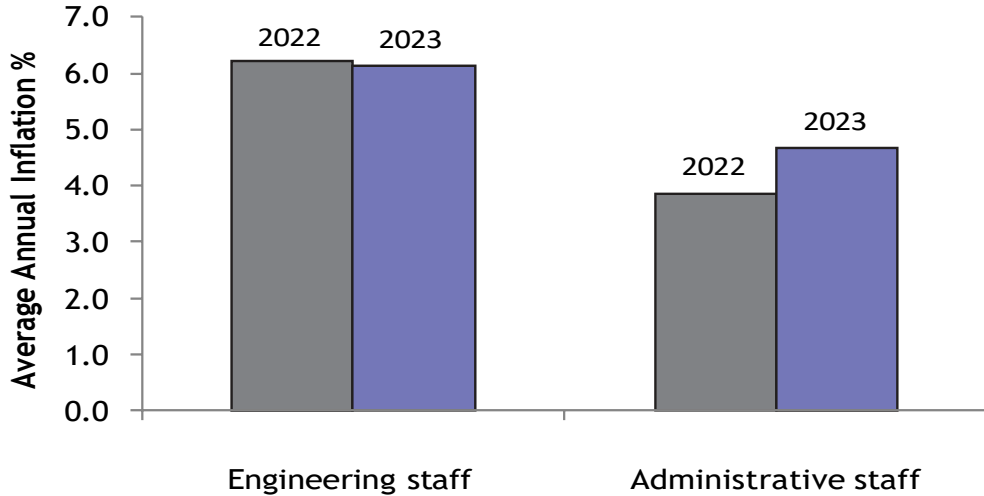
Net Zero & Transport	21/22 budget	22/23 budget	23/24 budget	24/25 budget	25/26 budget	5 - year total
Peatland & Flooding	30.7	39.8	59.8	60.2	71.2	261.7
Scottish Water - Total	600.0	600.0	650.0	675.0	700.0	3,225.0
Maj. <u>Transp</u> Projects	173.0	247.0	238.9	397.6	273.9	1,330.4
Rail Infrastructure	501.0	427.0	442.0	411.0	492.0	2,273.0
Scottish canals	12.2	12.2	12.2	12.2	12.2	61.0
Active Travel	239.9	292.4	374.5	392.0	432.1	1,732.0
M/ways & T Roads (total)	409.4	411.0	337.1	379.2	376.7	1,913.4
Structural repairs	100.0	119.0	98.7	96.7	93.1	507.5
Vessels & Piers	63.1	74.5	170.0	117.1	81.4	506.1

Trends in Civil Engineering Contractors' Costs (2016 -2023)



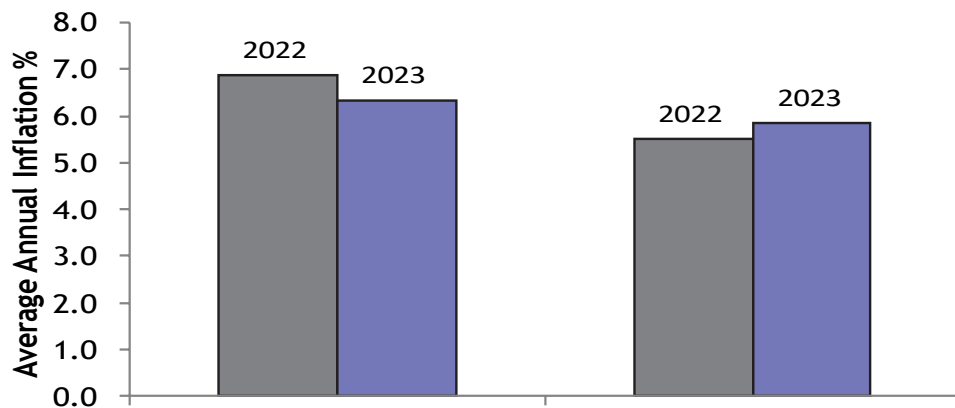
Labour Force Costs

Engineering and Administrative Staff



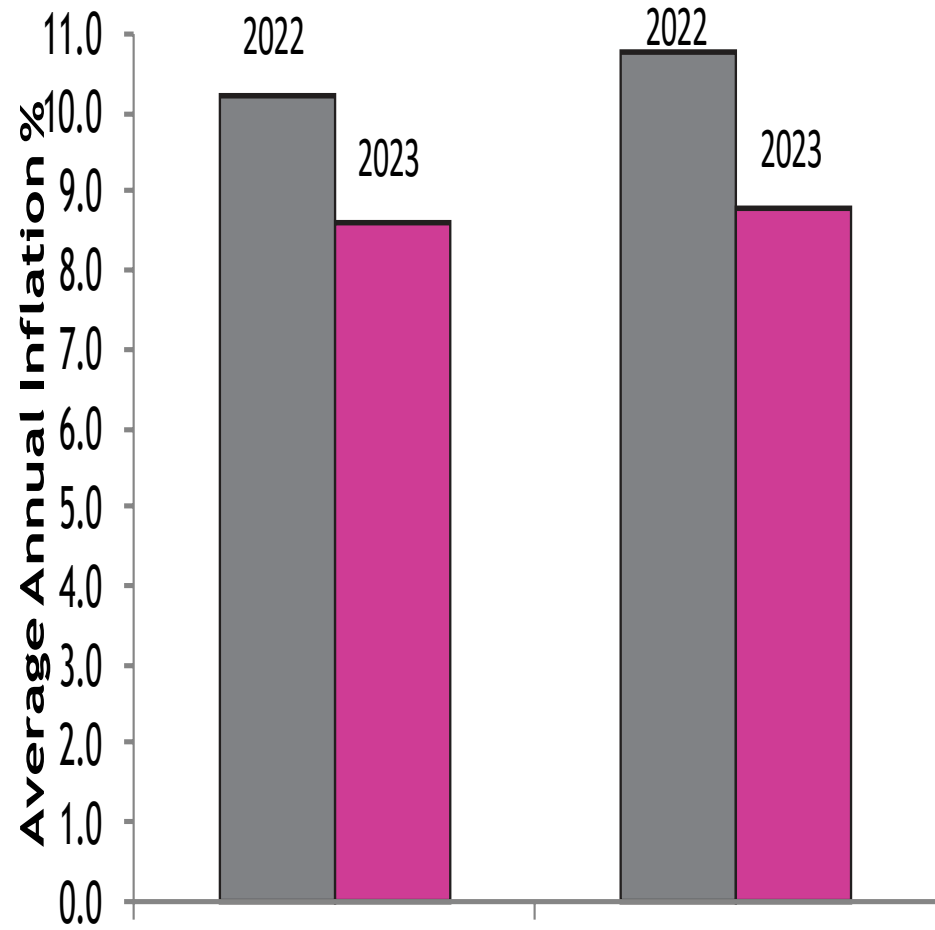
Cost inflation for engineering staff and administrative staff increased on average by 6.1% and 4.7%, respectively, in the 12 months to 2023 Q1. For engineering staff, 44% of respondents reported cost increases of between 5.1% and 7.5%, 13% reported rises of between 7.6% and 10.0% and another 13% reported that costs increased by more than 10.0%. For administrative staff, 23% reported increases of up between 2.6% and 5.0%, a further 33% of firms reported that costs had increased by between 5.1% and 7.5% and 12% reported increases of between 7.6% and 10.0%. 14% of respondents reported that costs for administrative staff were unchanged.

Skilled and Other Operative Staff



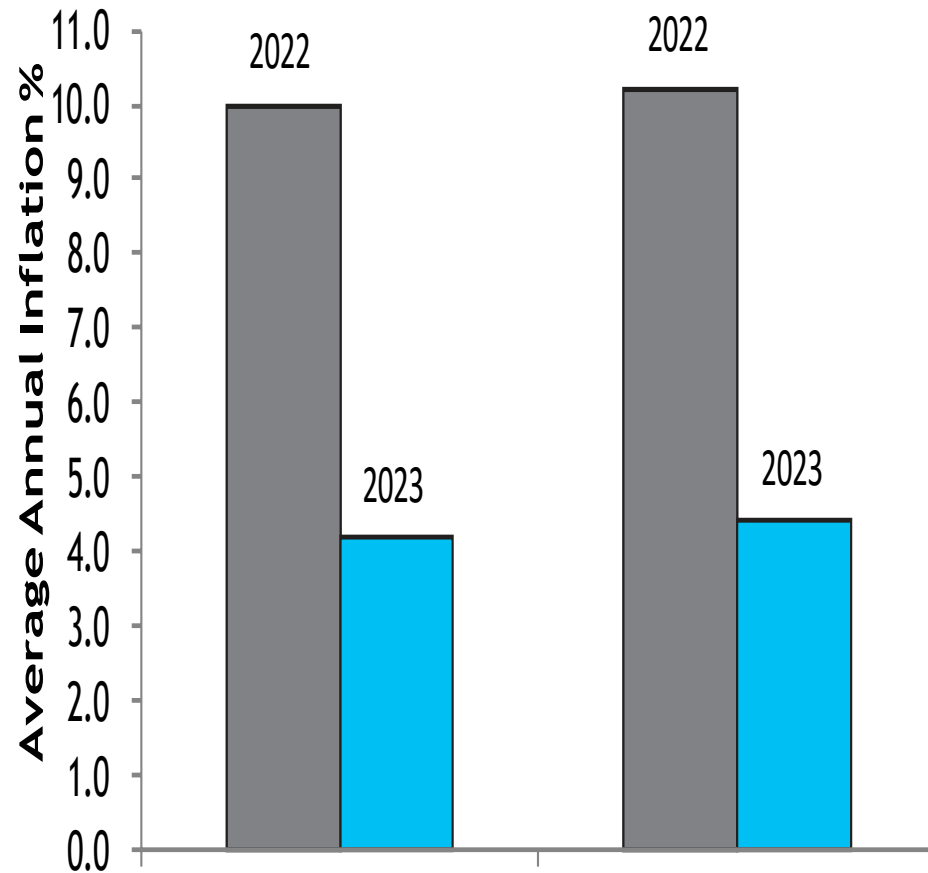
The annual rate of payroll cost inflation for skilled operatives moderated to 6.3% in 2023, from 6.9% and in 2022. 18% of respondents reported that costs had risen by between 2.6% and 5.0% and 45% by between 5.1% and 7.5% compared to a year earlier. 14% of respondents reported that payroll costs rose by more than 10.0%. For other operatives, payroll cost inflation was 5.8%, accelerating from 5.5% in the 2022 survey. 26% of those surveyed reported that costs had risen by between 2.6% and 5.0% and 40% by between 5.1% and 7.5% compared to a year earlier. 12% reported that costs increased by more than 10.0%. 6% of firms and 4% of firms reported declining costs for skilled operatives or other operatives, respectively.

Ready Mixed Concrete and Precast Concrete Products



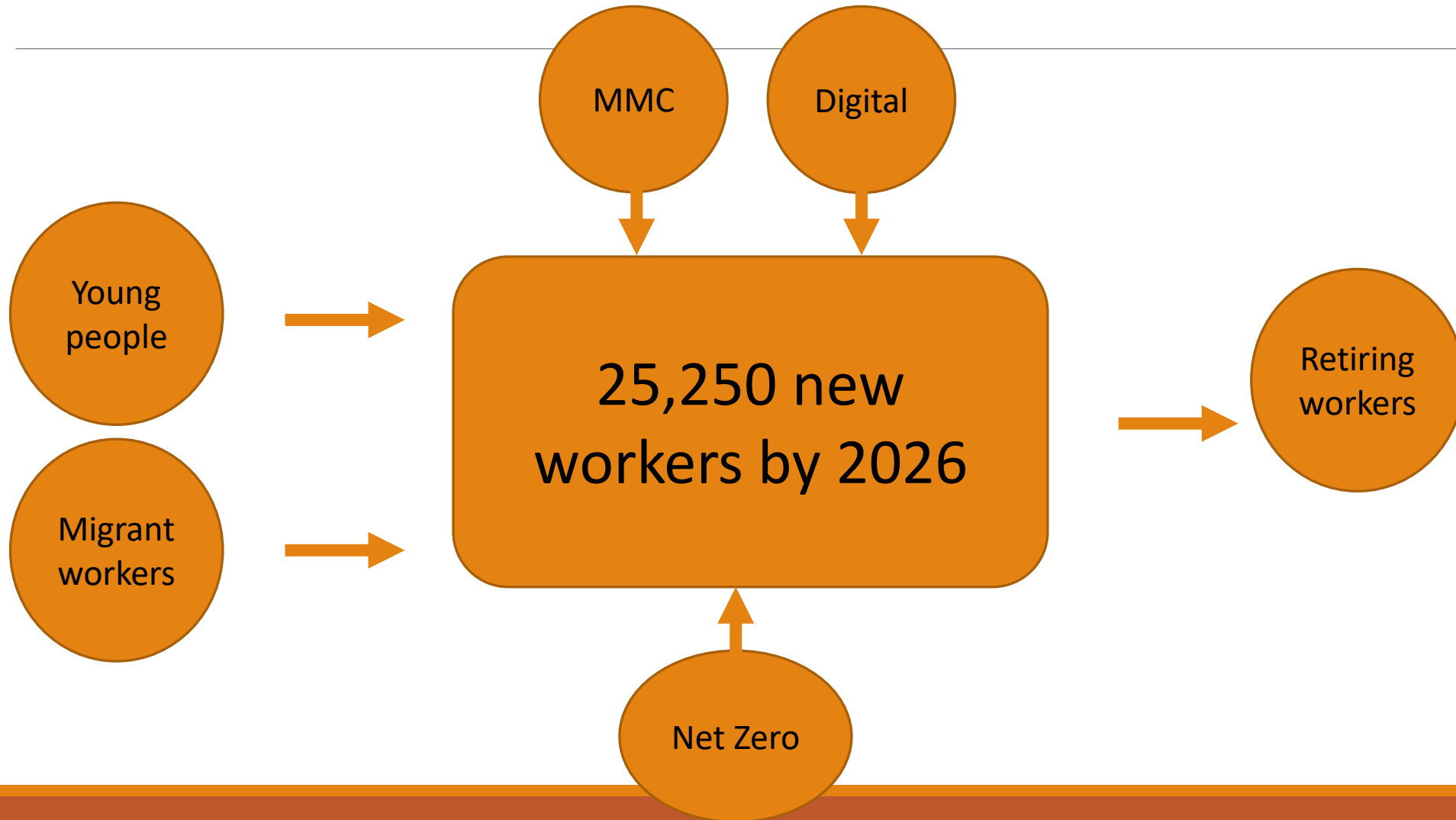
Cost inflation for ready mixed concrete and precast concrete products averaged 8.6% and 8.8% respectively, in 2023. Both moderated from the highest annual rates of inflation ever seen in the survey in 2022: 10.2% and 10.8%, respectively. For ready mixed concrete, 15% of firms reported increased costs up to 5.0%, 43% reported increases of between 5.1% and 10.0%, and 35% of firms reported increases of more than 10.0%. For precast concrete products, 15% of firms reported increased costs up to 5.0%, 39% reported increases of between 5.1% and 10.0%, and 39% reported increases of more than 10.0%. For both ready mixed concrete and precast concrete products, 4% of firms reported an annual decrease in costs.

DERV Fuel and Gas Oil Fuel



DERV fuel inflation averaged 4.2% in the year to 2023 Q1, compared to 10.0% in 2022. 32% of respondents reported inflation of up to 5.0% and a further 19% reported that inflation was between 5.1% and 10.0%. 21% of respondents reported that the cost of Derv fuel decreased on the year. Meanwhile, gas oil fuel costs increased 4.4% in 2023, down from 10.2% in 2022. 24% of respondents reported that costs had increased by up to 5.0%, and 24% that costs had risen by between 5.1% and 10.0%. 21% of firms reported a decrease in costs for gas oil fuel in 2023.

In a nutshell...



Challenges of an ageing workforce

- Large proportion of workers expected to retire within a short time-frame - significant and rapid loss of skills and experience from the sector. How do we pass these skills on to the next generation?
- Despite value of their experience, older workers also report that they feel excluded from training opportunities as they get closer to retirement age.
- Over 50s in construction more likely to leave industry before state pension age.
- Need to offer more flexibility - construction workers in Scotland are more likely to ask their employers for reduced working hours than their peers in England and Wales.

The Gen-Z problem

- Younger people tend to be mission-driven and are not motivated by profit without purpose. Careers must be aligned with their values.
- Morgan Sindall, Gleeds and HBD launched a joint initiative to engage with Gen-Z. Six of their recent graduates took part in a year-long programme of engagement to identify ways to attract Gen-Z and help businesses understand what young people want from their careers.
- Survey of 16 - 24 year olds showed how young people perceived the industry:
 - 20% believe that construction jobs are poorly paid
 - Less than a third think of construction as a career
 - Only 31% think construction is a sector in which they can use and develop their digital skills
 - Three most common words associated with construction: Dangerous, Cold and Dirty



What does this mean in the future?

- 5 years - Decline in new apprentices will result in further shortages of skilled workers
- 10 years - Based on current demographics the workforce will shrink by 25% within a decade.
- 20 years - Ageing UK population puts further pressure on smaller cohort of young people



CECA Scotland Board Priority

Attracting, Securing & Training a Diverse, World Class Workforce

- Work with others to assist members to access a programme of school engagement to promote the civil engineering sector as the career choice for school leavers

However, now a pressing need to attract and encourage new entrants to our sector to fill the range of skilled roles that we need to deliver a rising workload.



CECA Scotland Academy

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ceca

SCOTLAND ACADEMY

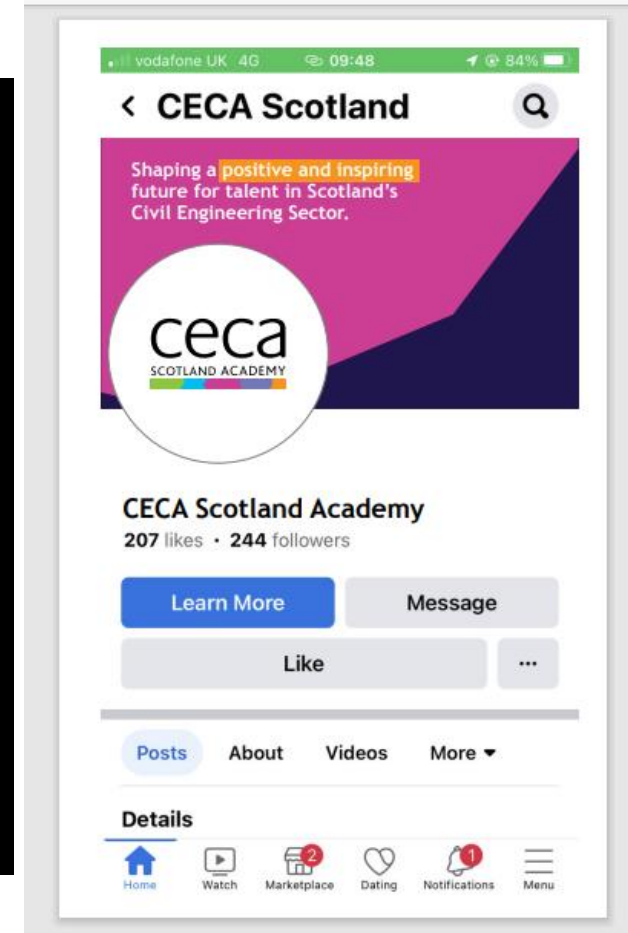


Creating a new pathway into industry for Civil Engineering Operatives



- 6-month practical outdoor course
- Monday to Friday, full time learning
- Knowledgeable and work ready new entrants
- CECA Scotland Academy branded clothing, PPE
- Creating a community of new talent ready to be recruited by the civil engineering contractors and their supply chains across Scotland

Attracting and building a community using digital assets



A qualification and course shaped by industry with Scotland's Colleges

The course:

- Working safely
- Wellbeing & health
- Understanding project information
- Installing road drainage
- Laying kerbs and channels
- Reinststate ground conditions
- Lay and finish concrete
- Getting ready for work
- Industry site taster days



National Pilot



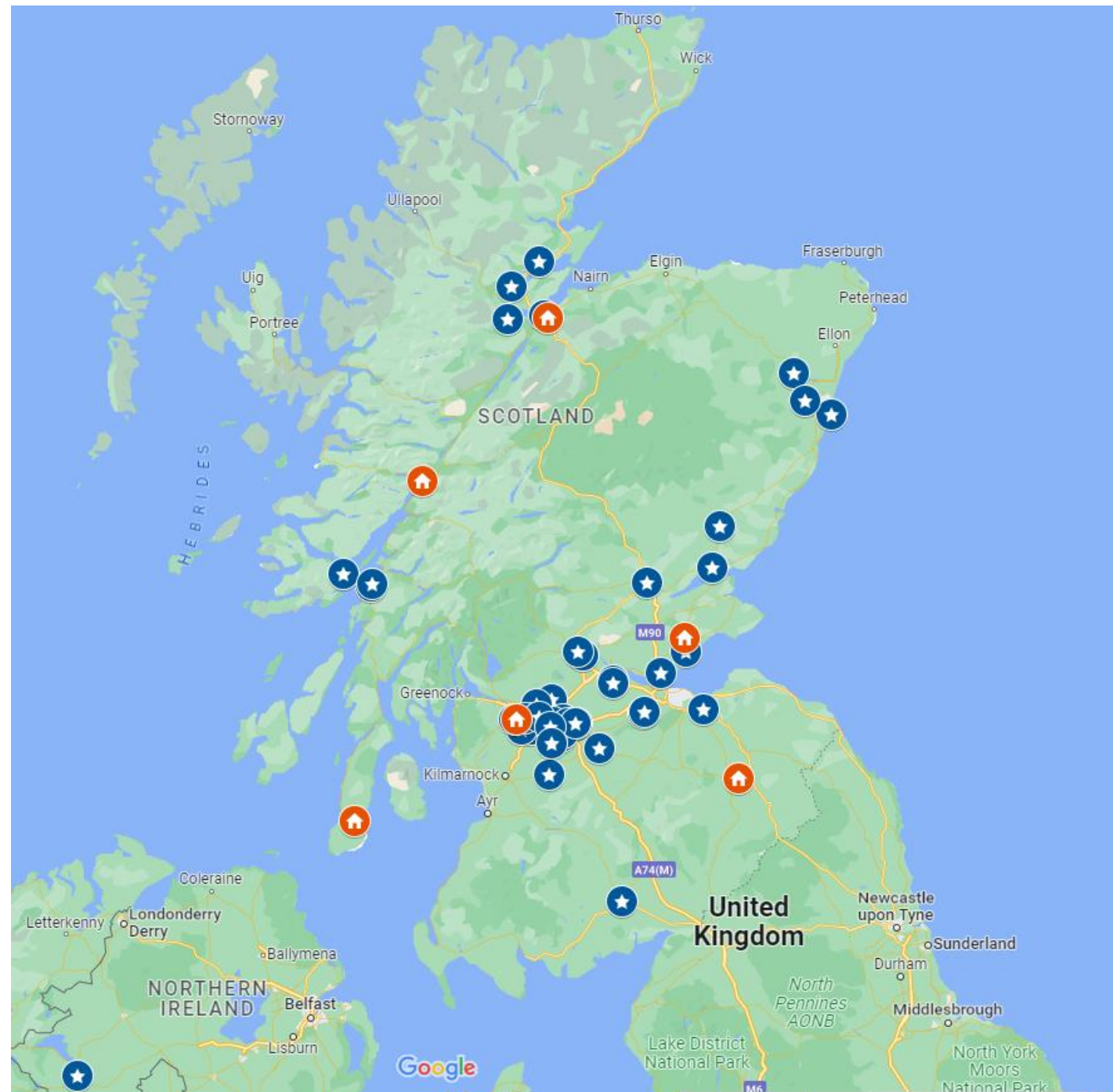
6 Colleges from August 2023

- UHI Inverness
- UHI West Highland
- Fife College
- West College Scotland
- UHI Argyll
- Borders College



Employer demand for Civil Engineer Operatives

(by employer office location not work location, projects will be across Scotland)



Some of the employers



Balfour Beatty





Would you like to know more?

Contact us @

maureen@cecasotland.co.uk