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A photograph of two construction workers in profile, wearing blue hard hats and high-visibility yellow safety vests. The worker in the foreground is also wearing safety glasses and holding a tablet. The background is slightly blurred, showing another worker in similar gear.

The SME Construction Landscape in Wales

Risk Factor Analysis

WE ARE INSPIRING CHANGE AND PROVIDING VALUABLE INSIGHT TO FACILITATE THE PROGRESS OF WELSH CONSTRUCTION SMES.

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Foreword

Having worked within the Welsh Construction Sector for nearly two decades, I have gained first-hand experience of the significant pressures faced by Small and Medium Enterprises (SMEs). I have worked closely with many of the exceptional individuals who lead them and experienced the far-reaching impacts that business failures have on the wider industry.

SMEs are integral to the Welsh construction industry and the broader economy. The considerable number of SMEs that have gone into administration in recent years suggests there is a systemic issue within the industry, and not the result of individual business failings. In order to identify opportunities to address systemic issues, CIOB has undertaken research to investigate the underlying reasons for these failures and provide recommendations that will bring about positive change for the future. We have used our unique position to call upon industry leaders to share their views on the challenges they face and what change is needed.

This report is focused on a wide range of common challenges SMEs frequently face. It offers detailed analysis and firsthand insights into the perceived invincibility of SMEs, which, in reality, are often highly vulnerable.

The report highlights the daily struggles faced by SMEs, including complying with ever-evolving regulations, experiencing financial constraints, adapting to the digital revolution, dealing with obstacles in contractual agreements, and contending with the all-too-common "race to the bottom."

This report is presented hopefully as a catalyst for inspiring change by providing valuable insights and recommendations to facilitate the progress of Welsh construction SMEs. It calls for collective action from the government, clients, and other stakeholders, and the SMEs themselves.



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EXECUTIVE SUMMARY

Small and medium enterprises (SMEs) are an integral part of the Welsh construction sector, and a significant contributor to the Welsh economy. At present, SMEs are facing considerable challenges across the sector. This report, developed in conjunction with SMEs, was written to better understand these challenges and to identify opportunities to mitigate or overcome them.

This research is informed by four themed roundtable sessions. The themes were identified as key areas in which SMEs are most likely to struggle: Technical and Compliance; Skills and People, Commercial and Financial, and Pre-Construction and Construction. Each discussion covered myriad topics relevant to these areas.

These roundtables were conducted between February and April 2024 to gather qualitative data from senior construction professionals from SMEs across Wales. Participants contributed a wealth of knowledge, from which we have formulated several recommendations for policymakers and construction professionals. For the purpose of this report, an SME is “any business with fewer than 250 employees and either an annual turnover below £45 million or a total balance sheet less than £40 million”¹

Importantly, key themes were identified across all roundtables: skills gaps across the sector continue to be an issue for SMEs, as does an extremely competitive procurement tender application process.

One participant in the Commercial, Procurement, and Financial roundtable noted:

We need to have healthy contractors and robust contractors. [They] employ so [many] people across the supply chain. But we're discussing the same issues today that we've been discussing for many, many, many years and we've not seen [the] positive change we need.

This inaction has knock-on effects for SMEs. Construction is perceived as a financially unstable sector to work in, and as such people may be more attracted to other sectors. The sector has faced - and continues to face - tight margins, and this is particularly true for SMEs. New Welsh Government legislation has attempted to create positive change. However, participants agreed this new legislation, while well-intentioned and vital, is not having the desired effect quickly enough. SMEs continue to face financial pressure across Wales, with the threat of further insolvencies increasing.

Many SMEs struggle to access the procurement process when compared to larger organisations who can create and hire for roles specifically focused on drafting, submitting, and interviewing for tenders. Combined with other pressures, including stretched project and commercial management roles, SMEs often do not have the time to devote to a tender process they know they are - or perceive themselves as - unlikely to win.

1. Welsh Government, Welsh Procurement Policy Note WPPN 07/21: Small and Medium sized Enterprises (SMEs)-friendly procurement, April 2023.

2. The Chartered Institute of Building (CIOB), Building Up Wales, May 2023, p. 6.



Where SMEs are successful in tender processes, they face other hurdles. Planning permission was one particular challenge and an area participants said they had been talking about for years, as cited in CIOB's 2023 research *Building Up Wales*.² Difficulty in obtaining necessary approvals, such as those from the SuDS Approval Body (SAB), were identified as the main cause of delays in starting works on site. Participants noted that while some policies have been introduced with good intention, a lack of funding and resource at the local authority level has hindered implementation. In particular, SuDS (Sustainable Drainage Systems, the framework enforced by the SAB) was referenced as an example of well-intentioned but poorly and inconsistently implemented policy. This was partly due to a lack of funding and resource at the local authority level, which has historically struggled to recruit.

Siloed working and bureaucracy were also cited as causes for these delays. Projects often had to wait for multiple officers from different departments to approve construction interfaces, each going through their own complicated, multi-layered approval process. Different local authorities have different approval timeframes as well, and this variation across Wales was difficult for contractors to account for in their timelines.

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Planning permission delays are just one area where participants noted they were subject to more risk in procurement, perhaps, than larger organisations. In roundtables, participants noted tender documents were presented with unrealistic timeframes and costs due to client desires, but also they felt they had little to no recourse to push back on this and fight against unfair terms through fear of losing out on the contract. Participants spoke a lot about bids being “compliant” with timelines and finances on the client’s part. Unrealistic tender contracts – particularly Design and Build (D&B) contracts – encourage other organisations to come in and undercut more realistic bids in order to secure the contract. They would often have a pre-determined strategy for commercial and time recovery during the construction phase.

This risk was mostly dealt with by the principal contractor, and participants agreed there was less appetite on the client side to share this risk or make concessions. The contractors’ risk extended to subcontractors, these organisations, however, are often procured later in the process and had more information available to them when considering whether to enter into the contract or not. This could create significant project delays for the Principal Contractor to manage or sully the relationship for future projects.

At the end of a project, unrealistic client expectations may lead to non-release of part or all of the retention sum; SMEs would not be able to deal with many of these, as the cost would add up and impact financial viability. Compounding this risk, SMEs may also be less willing or able, for financial or resource reasons, to undertake litigation to resolve any disputes. As such, this also means they had to “take it on the chin”, leaving significant amounts owing on contracts. This was common practice across Wales to remain solvent and create a pipeline of work, but it does mean many SMEs had implemented hiring freezes to stay afloat.

EXECUTIVE SUMMARY (CONT)

This freeze extended to apprentices, and many participants said, while they saw the value in having apprentices on their staff, they often struggled with fees and with mentorship roles to ensure well-rounded training. These issues also extended to upskilling existing staff, and participants suggested there was a shortage of people around the age of 28-36 who are trained in managerial or supervisory roles in the construction industry due to historic recruitment and apprenticeship struggles. Proposals were made for Welsh Government to take advantage of, for example, forthcoming redundancies from Tata Steel and turn the outgoing staff's skillsets to construction.

These issues are all compounded, however, by an extremely competitive market in which larger contractors are offering better wages, benefits, and more stable jobs on longer-term projects. As a result, the SME market comes off second best against them and faces a dwindling talent pool. Wales also faces a limited recruitment pool: the Construction Industry Training Board (CITB) estimates 2,200 new workers will be needed each year until the end of 2028, with particular pressures faced by trades highlighted by roundtable participants, including bricklayers and architects.³ This is a slight increase from 2023's forecast, which stated the industry needed 1,820 additional workers per year.⁴ As such, the pressure faced by SMEs is likely to worsen over the next few years as competition for resource and projects intensifies.

Participants also agreed larger construction businesses in Wales are "badged to the hilt" with training in a way SMEs are not, and, in the face of new regulations are a more attractive partner for many clients to work with. This led to issues of perception, and roundtable participants thought because of this, larger organisations would automatically be a more attractive prospect to work with. Participants were, however, uncertain about how to prove their competence under new or forthcoming legislation, especially for smaller firms. This led to feelings of confusion about, and a lack of engagement with, new regulations and policies.

Report Structure

The report is structured as follows. Firstly, it will consider the background of the construction sector in Wales, with a particular focus on SMEs and Welsh Government policies designed to support them. Next, the research aims and methodology are outlined, including further information on the roundtable titles, structure, and participants.

3. Construction Industry Training Board (CITB), Construction Skills Network: Wales 2024-2028, May 2024, p. 11.

4. Construction Industry Training Board (CITB), Construction Skills Network: Wales 2023-2027, January 2023, p. 11.

5. Statistics for Wales, Statistical Bulletin: Size Analysis of Active Businesses in Wales, 2021, April 2022, p. 1.

6. Constructing Excellence Wales (CEW), Construction By Numbers 2019, October 2019, p. 2.

7. Welsh Government, Welsh Procurement Policy Note WPPN 07/21: Small and Medium sized Enterprises (SMEs)-friendly procurement, April 2023.

Finally, the conclusion summarises the report, and presents recommendations for policymakers, industry and other stakeholders. These recommendations aim to bridge the gap between Welsh Government policy and its implementation – an issue discussed in the 'Background' section – as well as provide practical advice for the construction industry.

Background

In Wales, 62.6% of all enterprises across sectors are Small and Medium Enterprises (SMEs).⁵ This is much higher for the construction sector, with recent statistics showing 99% of Welsh construction businesses are SMEs, and 96% of them employ fewer than 13 people.⁶ The value of SMEs is recognised by Welsh Government, which claims the Welsh Public Sector (WPS) spends around £7billion each year on procurement, and states:

*The Welsh Government recognises and appreciates the very important contribution they make not only to the development of a healthy economy in Wales but to our society, our environment and our culture upon which we all depend.*⁷

Construction SMEs in Wales face growing pressure from various angles – not all of which are discussed in this report – and as such, they may struggle to leverage the same access to procurement contracts as larger competitors. When coupled with economic pressures such as high inflation driving up material costs, an extremely competitive labour market, and persistent skills gaps in the sector, it may not come as no surprise that the Welsh construction SME sector has experienced significant failures in recent years.

The effects of these failures are not only felt by the owner and employees of the business, but also their clients and the wider supply chain including subcontractors and suppliers. When a contractor goes into administration or collapses, it has subsequent effects for thousands of other people. Many CIOB members have been affected by SME failures in Wales, and CIOB seeks to investigate the reasons for failure and provide a framework to support new and existing contractors as they navigate these risks. This research builds on findings from CIOB's recent *Building Up Wales: professional insights from the construction sector in 2023* report.



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EXECUTIVE SUMMARY (CONT)

Throughout the roundtables, participants commented on various aspects of Welsh policy. Participants were broadly supportive of any policy they discussed. They argued some of the more contentious policies, including SuDS and the Building Safety Act (BSA), were necessary and valuable to Wales's construction industry. That being said, one participant suggested there was a disconnect between Welsh Government policy and its implementation, particularly when it comes to disseminating the information to construction companies including SMEs, and to local authorities who, by and large, are responsible for the policy implementation. This is particularly true of planning policy, where local authority delays were consistently identified throughout the roundtables as primary causes to delays and frustration in construction projects.

Members of the Senedd (MSs) are acutely aware of these implementation challenges. In a recent Plenary session, when debating the Welsh Government's spending priorities for the 2025-2026 budget, Jenny Rathbone MS said:

We are brilliant policy makers and legislators. We are less good at implementation. So, we really do have to work harder at reaping the benefits of our policies and legislation, and ensure that we do a bit better on that front. This is really the biggest challenge that we have.⁸

This disconnect is also evident in the procurement process, which SMEs struggle to access. While public procurement is designed to be accessible for any organisation, burdensome social value requirements for some tenders, often coupled

with unreasonable financial or time constraints demanded by clients, mean many under-resourced SMEs may struggle to access this market.

Welsh Government clearly values the SME market, and indeed the wider construction sector. It publishes numerous Welsh Procurement Policy Notes (WPPNs), which aim to provide guidance on best practice for public sector procurement. There are also frameworks and guidelines published by Welsh Government, which are frequently updated in an attempt to ensure SMEs can access the public market. That being said, this material is insufficient to protect SMEs from unscrupulous developers and clients, and many SMEs may not even know they exist.

Under the forthcoming Social Partnership and Public Procurement (Wales) Act, public sector construction projects over £2m will be subject to "social public works clauses".⁹ While varying from project to project these clauses will be enforced at every stage along the supply chain. Encouragingly, one of the five categories of clauses focuses on "providing opportunities to small and medium sized enterprises... to execute works, supply products, or provide services".¹⁰ While this is a welcome step, there are concerns other requirements including around the "sustainable management of natural resources, reduction of greenhouse gas emissions, and protection or enhancement of the natural environment and biodiversity" may be too expensive and burdensome for many SMEs along the supply chain, and especially so if they are the primary contractor, meaning they may have to take a financial hit to be included in projects or exclude themselves altogether.

Research Aims

This report aims to provide qualitative data to evidence issues and barriers in the Welsh SME construction sector. Across the four key topics, the report aims to bridge the gap between policy development and its implementation in the sector, providing evidence to policymakers and giving a voice to the industry regarding the impact of the policy landscape on their business operations.

In recognition of the integral role SMEs play in the Welsh economy, the mounting economic pressures they're facing, and with concerns about the efficacy of the current policy landscape to support SMEs, this research aims to:

- Outline and better understand the current challenges facing SMEs in the Welsh construction sector;
- Provide evidence to policymakers and make recommendations for tangible policy change, giving a voice to the industry and ensuring the needs of SMEs are considered in the policymaking process;
- Develop recommendations for SMEs and the wider construction sector to improve trading conditions for the construction sector as a whole and make it more widely accessible for SMEs.

Methodology

Four roundtables were conducted to gather qualitative data from senior construction professionals from SMEs across Wales. These were conducted under Chatham House rules, so the participants will not be individually named. Some information on their background, where relevant to the points they made, is given in each roundtable's section. The roundtables each focused on a key theme, based on member experience in the industry, of four key problem areas in which SMEs struggle, especially when compared to larger contractors. These are:

- **Technical and Compliance:** including questions around new building safety regulations; project durations and tender periods; principal contractors in design and build contracts, and planning and SAB approval.
- **Skills & People:** including questions around skilled labour shortages and wider skills gaps; future leaders and succession planning, attracting and retaining employees, and key barriers to moving between blue- and white-collar roles.
- **Commercial and financial:** including questions around competition in the bidding process in both the public and private sectors; contract clarifications and derogations and how well-equipped SMEs are to deal with these, perceived disadvantages of SMEs against larger organisations, commercial management, and funding projects.
- **Construction and Pre-Construction:** including questions around late delivery of projects in Wales; how programme strategies are implemented by site management, how quality is ensured on projects, and how well SMEs are geared to deal manage change and risk and new regulations.

Roundtables ran for around an hour each between 23rd February and 26th April 2024. Each roundtable had four to five open questions, with discussions taking place under Chatham House rules to encourage free-flowing conversation and anonymity in the final report.

Some participants have worked in SMEs in Wales that have unfortunately stopped trading in recent years, so these – and all the participants – have a unique perspective on the challenges faced by SMEs in the current socioeconomic landscape.

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8. Senedd Plenary, Finance Committee Debate: Welsh Government's spending priorities for the 2025-26 budget, July 2024.

9. Welsh Government, Social Partnership and Public Procurement (Wales) Bill [Consultation Draft], February 2021, p. 5.

10. Welsh Government, Social Partnership and Public Procurement (Wales) Bill [Consultation Draft], February 2021, p. 7.

TECHNICAL & COMPLIANCE

This session comprised a range of construction professionals, including a technical and planning consultant, an SME primarily focused on social house building and other SME contractors. The participants deliver projects across Wales, and some work cross-border in England, across both public and private sectors. This led to some interesting comparisons between public sector contracts in both England and Wales.

Project Delays, Tender processes, and client requirements: “Setting people up to fail.”

The first point for discussion was around the timing of projects, and why some projects faced significant delays. The tender process and client expectations were cited as two of the main reasons, with one participant suggesting unrealistic client timelines were baked into tender contracts. Participants noted Wales is “saturated with single stage [contracts]” with unrealistic timelines and short tender periods. These were perceived as “setting people up to fail” and affecting the viability of a project. This is particularly the case for SMEs, who may be less able to afford missing out on a tender after committing it a lot of time and resource, especially relative to larger contractors. If timelines are unrealistic, it may put many SMEs off even going through the tender process, and ultimately losing out on a significant income stream.

One participant even noted their tender would be rejected if it wasn’t entirely compliant with the client’s timeline. This comes back to issues around cost and diminishing local authority resource and funding. Due to this restricted environment local authorities aim to keep costs down as much as possible with shorter contracts and heavy fines for non-compliance which SMEs would struggle to afford, further discouraging them from going through the process in the first place. This is particularly true for heritage and conservation projects, which are often difficult to put to any timescale due to myriad variable factors, including rigorous Schedule of Monument Consent (SMC) processes.

Nonetheless, SMEs were forced to accept these time constraints, regardless of project type or local authority and planning constraints. In so doing, SMEs assumed full risk to ensure projects were completed to clients’ wishes. One participant noted they were not in a position to provide clarifications or tender notes to highlight these concerns, as they may then be excluded from the tender. As a result, they felt left with no option but to “take it on the chin” and hope third party factors such as planning and SMC processes run smoothly. Another participant did state they often add time onto tender contracts, one example being where they said there was “no chance” a project would be finished in the two-and-a-half years the contract outlined and added another six months on to the tender. Despite being “dictated to” on these timelines, failure to make these changes will lead to even more negative outcomes on the project including the aforementioned fines. The participant also hypothesised these unrealistic timeframes were to keep their own “prelim”¹¹ – or preliminary – costs down and pass the risk and penalties of these costs onto the contractor if they do go over the requested timeframe.

Financial Risk sharing: “Dumping the risk onto the contractor.”

Participants spoke about an over-saturation of single-stage tender contracts in Wales, and this trend extends to Design and Build (D&B) contracts. These contracts allow the client, who may have a conceptual design, to employ a single contractor for all stages of a project with a view to building something quickly.¹² Despite this expediency, participants had negative perceptions of these contracts, largely because clients wanted design and construction phases to run concurrently.

Participants agreed design consultants were probably doing “less for more money” and charging clients for a Four Stage¹³ service which they were not providing. This then places all of the risk onto the contractor, who then has to retender the project and ends up charging the client more for their work when there are issues at the design and pre-construction stages that do not come to fruition until later in the project.

According to participants, design consultants are also unwilling – or prevented by contractual limitations – to engage. One participant said solutions could be as simple as the designers visiting the site on a more regular basis or attending coordination meetings. But, due to the nature of the designer’s work, a lack of resource, and their handling multiple projects at once, they are only contractually obligated and paid to attend the site once a month. This lack of engagement and collaboration led to problems.

Participants cited the difficulty of communicating without common technical language, exacerbated by the nature of short online calls and stated that coming to site was the only realistic way to overcome these issues. It was described as a “fundamental flaw [to be] constantly chasing design teams”. Participants also raised concerns about the quality and competency of design teams and architects. Notwithstanding concerns already discussed about an under-resourced market, it was also suggested architects know contractors are likely to change a project design, either through necessity or choice. As such, one participant suggested design teams may not put sufficient effort into a design. Changes in building fabrics in recent years, and a lack of training for architects to understand how these materials work and fit together with other constituent parts, were also cited as contributory factors to frequent design changes. This problem was also exacerbated by the



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forementioned lack of a lead designer on site or a lack of communication and collaboration with design teams for the project. Participants saw this as passing the buck to someone else, primarily the contractor in this case.

Despite this risk, participants agreed they had no choice but to put themselves forward for these projects. This was due to “the market” and having “no other option”. One participant said it was a case of keeping their business afloat with any projects that were available, arguing if they didn’t do it then someone else would, which would cost them a vital income stream. It was also suggested D&B contracts were built or have evolved this way to allow other contractors to come in and undercut tender submissions; likely a larger organisation more able to take the financial hit.

Many participants noted some tender contracts had completely omitted inflation clauses, which were being hastily added back in by SMEs during contract negotiations or as part of the tender application. This created feelings of anger and distrust, with one SME participant who had experienced this questioning whether they should even finalise their application to the £15million contract. Despite this, these contracts are vital “to secure pipeline for... our employees, our supply chain, and the industry”.

This was part of a wider problem with D&B, and indeed other, contracts: if construction contractors are to put in a genuine bid, reflective of the work they can carry out, contracts need to include contingencies for inflation and design faults.



11. LetsBuild, What are preliminaries in construction contracts?, 2023.

12. The Chartered Institute of Building (CIOB), Modern Methods of Construction: Barriers and benefits for Irish Housing, January 2024, p. 34.

13. This refers to the RIBA plan of work, more information on which is available here: <https://www.architecture.com/knowledge-and-resources/resources-landing-page/riba-plan-of-work>



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TECHNICAL & COMPLIANCE (CONT)

The Planning System, Local Authorities, and SuDS: “It’s a fundamental flaw.”

Participants expressed frustration on this front. SuDS (Sustainable Drainage Systems) and its approval body, which, in theory, run concurrently with other planning requirements, were cited as one of the main causes of delays to construction projects starting in Wales. While SAB (SuDS Approval Body) and other requirements like the Construction Environmental Management Plan (CEMP) are vital to the enduring success and environmental impact of a project, they can create significant delays due to resource constraints at local authority level.

Participants also noted a lack of consistency across Local Authorities (LAs), with regulations being understood and implemented differently across Wales. Participants also noted LAs were under-resourced and struggling to meet deadlines or reasonable timeframes, which in turn creates significant delays to the start of construction projects. This was also a concern outlined in CIOB’s Building Up Wales report in 2023, which found that “projects are subject to long, multi-stage approval processes before commencing, during which time budgets need reforecasting to better reflect new, higher costs of materials”.¹⁴

Participants argued projects should go to tender with pre-existing SuDS approval, but due to cost pressures and other factors, they rarely do. To avoid significant delays and increased preliminary costs prior to the start of a project where approval was not promptly granted, contractors are occasionally forced to start a project without SAB approval. This sometimes leads to alterations of the design which means approval has to be re-sought, which in turn led to further delays. This also led to increased costs, as the SAB officer had to be paid again.

Building Safety Act: “You don’t have enough staff to cope.”

Participants agreed that – while this was a vital piece of legislation – sticking to the new rules would add significant time, costs, and resources to a project. Particular concern was raised around building control professionals having to re-register under the new scheme to a fast-approaching deadline, undergoing rigorous CPD to do so, which is putting more pressure on an already building inspection system. Concerns were raised about the staffing levels in building control departments and the re-registration of building inspectors under the new BICOF framework. While a delay to this registration process has already been put in place in Wales, finding building control professionals is still difficult as

they were already an under-resourced part of the industry, and now they are all undergoing mandatory retraining. Questions remain as to how to ensure firms could comply with this and other new regulations, including resource-intensive tasks like documenting and maintaining the golden thread. Most participants, however, said they were ready for these changes. Nevertheless, similar concerns were raised in later roundtables, which paints a problematic picture for the industry in the near future.

Conclusion

Risk is a big factor in tender applications and negotiations, the brunt of which is currently being shouldered by the principal contractor. Given the current climate, and delays at local authority level, there is little to no opportunity to share this risk along the supply chain with smaller contractors as they would either refuse the job or refuse to work with the SME firms again in the future. This presents issues with trust along the supply chain.

Participants spoke a lot about bids being “compliant” with timelines and finances on the client’s part. Unrealistic tender contracts – particularly D&Bs – allowed other, typically larger, organisations with more resources and money to come in and undercut SMEs with more realistically-priced bids. This reinforces a procurement market that is inaccessible, or difficult, for SMEs to operate within, especially those that would struggle to take the same financial hit and, ultimately, lose out on a valuable tender contract.

Concerns were also raised about a lack of clients’ due diligence when choosing a site on which to build. Participants noted Wales faced unique risks, not present in the rest of the UK, in terms of geography and topography, particularly around piles, former mines, and coal tips in brownfield sites. This is particularly problematic in the Welsh valleys. Many larger SMEs are savvy in this area and ensure appropriate surveys have been undertaken before signing on for a project. That being said, many smaller SMEs with a lack of resource, experience, or time may be forced to assume suitable due diligence has been done, with issues requiring remediation work only then becoming apparent during the project. A client’s failure to identify these issues on a site ahead of the project start leaves the risks entirely at the foot of the principal contractor. They may have to factor in costs for “cut and fill reinforcement work”, which were not accounted for in the original tender. This is often due to a lack of understanding or experience from the client and perhaps even poor advice at pre-construction stage. This concern was also raised in the Pre-Construction and Construction roundtable.

14. The Chartered Institute of Building (CIOB), Building Up Wales, May 2023, p. 6.

SKILLS & PEOPLE

Skills and skills shortages were a cross-cutting issue in all roundtables. This session, however, focused specifically on the topic and featured some in-depth discussions around apprenticeships, a lack of suitable mentors, and retaining skilled staff in SMEs, particularly when facing competition from larger organisations.

Skills Shortage, Talent Gaps, and Industry Perception: “We’re not seen as an attractive industry anymore.”

Participants agreed concerns around the industry’s perception – as outlined in *Building Up Wales*¹⁵ – are real and well-founded, and trying to entice new starters into the industry is a struggle. Compounding this issue, many participants agreed it was difficult to take on apprentices due to a lack of mentors in the industry.

While management staffing levels were not identified as significant a skills gap as other areas, with many participants and other SMEs having internal procedures for bringing staff up through the ranks. However, there were suggestions this may become an area of concern if the struggle to recruit young people continues. Failure to do so will leave a vacuum, and one participant noted there was already a noticeable gap of people around 28-36 years old who may be looking to upskill and take the next step in their careers.

Construction SMEs have long struggled to attract traditional or “biblical” construction tradespeople into their ranks. These challenges are partially due to the issues with apprentices outlined above but are compounded by the difficulties SMEs face in competing with the high salaries on offer for these trades from larger contractors. Where these trades have been hired, one participant noted they struggled to go beyond the basics. Giving the example of stone masons and bricklayers, the participants noted they often struggled to do more than “a straight run” and features such as arches or more complex structures were too difficult to achieve. This may be – at least partially – down to the above mentor gaps for apprentices.



We’ve got potentially 2,500 people out of Tata Port Talbot, [who have] worked in a heavy engineering environment in the cold, in the rain, in the wet... and they’ve got precision engineering skills. How do we make that transferable to blue collar trades in the construction industry?

15. The Chartered Institute of Building (CIOB), *Building Up Wales*, May 2023, p. 8.

Somewhat surprisingly, in an increasingly digital world, IT and digital literacy skills were also identified as a concerning skills gap. Some participants agreed some new hires were completely lacking foundational IT skills and struggled with internal management, filing, and customer service systems. Given the increasing prevalence of digital skills in the industry, including Building Information Modelling (BIM) and Artificial Intelligence (AI), as well as regulations such as the Golden Thread, this is another pressing skills gap that needs to be overcome. While these higher-level IT skills may be transferable from other industries, the question remains as to how to encourage these skills into the industry, particularly at SME level. There is also a need to ensure all employees have the prerequisite foundational IT skills to go about their daily jobs in an increasingly digital workplace.

Importantly, one participant suggested the focus should not be solely on “young” people becoming apprentices and joining the industry. Instead, attention should shift to how to bring people of any age into the industry. This is especially true given the wealth of transferable skills, particularly around digital and IT that are needed at SME level in the industry and will continue to increase in demand in the coming years. The same participant identified Tata Steel – and the skilled people there looking for work as a result of forthcoming redundancies – as one area to which the industry and Welsh Government should be looking:

We’ve got potentially 2,500 people out of Tata Port Talbot, [who have] worked in a heavy engineering environment in the cold, in the rain, in the wet... and they’ve got precision engineering skills. How do we make that transferable to blue collar trades in the construction industry?

The participant continued that no matter how much is spent on perception and schools’ programmes, the number of young people joining the industry as apprentices – or into other roles, including white collar – does not change significantly. While Wales has taken unique opportunities to pique peoples’ interest from a younger age, including with a Built Environment GCSE and junior apprenticeship schemes, more needs to be done to address skills gaps, particularly in blue collar roles, and shifting the focus to include more adult learners may be a way to do so.

Participants agreed this could be one of the more challenging areas of the industry, given the struggles in recruiting apprentices and – as one participant outlined – difficulties with finding enough mentors in the business to teach apprentices. This obviously has knock-on effects, as participants agreed there was a gap in the industry of people between the ages of 28 and 36 who would be looking to move up in their careers. This age group, participants suggested, would be more willing to move to larger contractors for more money, and perhaps fewer progression opportunities, or even out of the industry altogether.

The same participant also pointed out they “can’t put three or four apprentices with one mentor”, as they would not receive a well-rounded education and that would be a lot of pressure on the mentor, who would also have to continue going about their normal day-to-day activities. To counter this, a lot of SMEs in the roundtable noted they were running internal management training programmes which looked to overcome these issues and foster environments where people can make the transition from being “on the tools” to site management.



Transition from Blue to White Collar: “Finding good site management is really difficult.”

As mentioned, participants noted a gap of people around 28-36 in the industry, who may want to upskill and transition to management or other white-collar roles. This is due to a historical lack of apprentice entrants to the industry in recent years and is now posing a problem with resourcing and succession planning. The question persists, however, as to how to improve perception of the industry and allay ill-founded concerns that the construction sector is not a sustainable career. These concerns seem particularly common in the SME market, when other larger contractors – or other sectors entirely – may offer higher salaries, more prestigious projects, and a better-rounded benefits package, including a better balance between professional and personal life.

One participant suggested these pre-conceived perceptions lead to a lack of willingness to take risk – especially in today’s economic climate – on the part of many SMEs to invest in these people, through fear they will just take a higher paying job elsewhere at the first opportunity. Participants understood, however, that professionals, particularly those in the 28-36 age group were just pragmatic, and given the frequency with which SMEs in Wales have stopped trading in recent years, it is no wonder they would look to what they perceive to be a more sustainable, well-paying career at a larger firm.

Another participant agreed with this and said that good site managers are currently difficult to find. While there are management training programmes at SME level, as participants outlined in this roundtable, these do tend to be more prevalent at larger contractors, and it is at these larger organisations that good site managers tend to stay. This makes it difficult for SMEs to attract the top talent, as it is extremely difficult to compete with salaries and packages on offer.

In addition to these challenges, many site managers tend – or tended – to work freelance, progressing through the ranks from blue collar workers, to supervisors, to site managers. When new IR35 rules¹⁶ came into effect, some site managers felt unfairly penalised, and as such took steps back down the career ladder as they could earn more by going back on the tools. This is another cause for concern, negatively contributing to a growing vacuum of skilled site managers and leading to the promotion or hiring of site managers who may lack experience in the role, and who may not be ready to take that step. With subcontractors along the supply chain, this has led to projects being delayed because the level of supervision and management is not sufficient to manage all their projects and sitework, and as such build quality is failing. This, however, was identified as commonplace: subcontractors were spreading themselves too thin to stay

afloat, taking on projects they are under-resourced to do well, as it’s “difficult to say no” to lucrative contracts of work, impacting the Principal Contractor.

Digital skills were again cited as a barrier. The lack thereof poses an issue for those who want to progress from blue to white collar roles. This is especially true given the industry’s newfound reliance on technology and digital systems. Further, people who lack foundational IT skills and literacy may be reluctant to learn these skills to move into these roles. So, skilled people are stalling in their career progression, due to the pressure of having to use digital skills in daily activities. This is one reason people may be promoted to managerial roles before they are ready, and one cause of the issues on site outlined by participants.

Trends in Training and Development: “I can’t put three or four apprentices with one mentor.”

Participants noted larger construction organisations were “badged up to the hilt” in a way SMEs were not, and working for a larger contractor came with a degree of comfort and job security. The SME market is arguably more volatile than larger organisations, and as such people working in SMEs may be worried about whether they will still have a job at the end of their current project.

Participants agreed education and training was integral to a trustworthy, well-perceived construction industry. But participants also agreed some training could be simplified and made more accessible. This would allow skilled people – regardless of educational background or attainment – to be part of the industry and upskill themselves where necessary. This is particularly the case given recent legislation around competence and training in the industry. Participants believed, however, this legislation was pushing some people out of the industry. Examples of this trend given included older skilled people who may feel nervous about going “back to school”, or for independent, skilled, sole traders who work on private, smaller-scale projects such as housing extensions, but could be invaluable to larger-scale projects across Wales. On-site training was identified as one example of how to overcome this gap, as people – especially those who are self-employed – may be reluctant, or unable, to miss out on wages while they are undergoing training or assessments. Older, skilled people in particular were cited as “fearful” of having to undergo this training, and as such were leaving the industry in droves (and indeed, this has been accelerated somewhat by the Covid-19 pandemic), once again leaving a dearth of these skilled mentors on site and in the industry. Businesses may also be unwilling or reluctant to allow their staff into these training programmes due to ongoing packages of work, and as such, results in stagnation of resource and low morale among their workforce.

Attracting top talent: “We need to widen the net.”

Participants agreed the construction industry needs to widen the net. As discussed, this may mean shifting the priority away from exclusively bringing “young” people into the industry, instead focusing more on bringing transferable skills into the sector. We have already discussed the possibility of bringing skilled workers make redundant from Tata Steel into the sector. However, as recent CIOB consumer research suggested nearly 22% of people in Wales thought of the construction industry as dirty, and nearly 26% thought it was a dangerous sector to work in. Given these figures, challenges with the perception of the industry will need to be addressed if we are to encourage new entrants into the sector. One roundtable participant claimed that behind banking, construction was the second-highest paying sector in Wales. Roundtable participants overwhelmingly agreed they would encourage their children to work in the industry, whether blue or white collar, and – as many were family owned and run – the SME market in Wales had a “family feel”, with many organisations seeking to promote and upskill their staff internally, leading to long-term, secure careers potentially free from university debt or other barriers.

Brexit was cited as a factor that immediately affected the talent pool, and one that has not improved in the years since the UK left the EU or new immigration legislation was implemented. The Welsh construction sector relies on skilled labour from European countries¹⁷, and Brexit has created a noticeable shortfall in these skills coming into Wales according to participants. Additionally, since leaving the European Union, the construction sector across the UK has lost swathes of funding. That is especially true in Wales, which faces a shortfall of £1.1bn the previous Conservative UK Government’s Shared Prosperity fund failed to replace when EU funding was lost.¹⁸ This means that large swathes of Wales, in particular rural areas, are facing a dearth of projects and funding.

As discussed, there are also gaps among white collar construction professionals. One participant noted their organisation has been looking for two months for an Environmental Manager to no avail. This organisation has broadened its search to other sectors, including science and health, to see if they can find people with transferable skills. These peaks and troughs are commonplace for white collar workers, but the above issues with blue collar workers are starting to threaten the viability of projects Wales-wide.

The construction sector has always been considered a driver and indicator of the economy: as one participant stated, “through good or bad times, the construction industry



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keeps going” in a way that other, more volatile sectors, do not. If, for example, a tech start-up goes into administration and staff are made redundant, they could face a long and protracted job search to find an equivalent role in the same sector. Their skills could, however, be transferred into construction – for example in white collar roles or into Building Information Modelling (BIM) roles. One participant raised the necessity to widen the net and “take talent from other sectors, because other sectors come to [us] and take our talent”. The question remains as to how to encourage these people into the sector, and how we can identify workers with transferable skills from other sectors.

Conclusion

Needless to say, this topic on Skills and People provoked intense discussion, and has been a perennial problem in the industry with no easy solutions. While Wales has recently created a Built Environment GCSE and A Level, this – and other long-term solutions – will not be converted into positive outcomes for a few years.

In the meantime, concerns were raised by participants that they face a dual-pronged challenge of a dwindling talent pool and intense competition from larger organisations with deeper projects and a larger pipeline of work (or at least, that is how it is perceived). The industry as a whole faces significant staffing challenges in the coming years, with dwindling recruitment and poor perception. Concerns were also raised by participants that new and forthcoming competency requirements would continue discouraging people – both new applicants to the industry and more seasoned, experienced staff – from staying in the industry.

16. Herrington Carmichael Solicitors, Off-payroll and IR35 in Construction, 2019.

17. Welsh Government, EU Citizens Living in Wales, December 2020, p. 21.

18. Welsh Government, Written Statement: Loss of funding to Wales as a result of the UK Government’s arrangements for replacement EU Funding, May 2022.

COMMERCIAL & FINANCIAL

This roundtable discussion focused on the practicalities of getting a construction project off the ground, and the implications of poor commercial management for some SMEs. This session also explicitly discussed financial barriers many participants in other roundtables had raised, and how SMEs were comparing against larger competitors with access to more capital.

Agreeing Contracts: “Where there’s a will, there’s a way.”

From previous roundtable discussions, we know many SMEs in Wales struggle to compete with larger organisations. One participant – who works as a client’s representative in an SME of six people – opened discussions, focusing on Professional Indemnity (PI) insurance, having just spent £25,000 on a policy for their organisation. Across the SME market, we are seeing increases in PI insurance, which is unaffordable to many SMEs and principal contractors.

The participant continued that during negotiations between the developer and contractor, they often see developers trying to push contractual clauses and risk onto the contractor that are unfair or impractical. One example given was around instructing and managing change, and the timescales for doing so, which the participant put down to lawyers not having first-hand experience and understanding of the practicalities of a building site and how processes unfold in change.

Both the increase in PI insurance and unrealistic construction clauses, participants agreed, was due to a lack of willingness on the developer’s part to take on any risk in the new building safety regime. This has meant, however, that contractors are now more willing to push back on unfair clauses, certainly on bigger scale projects, and fewer contractors are willing to take on big risk.

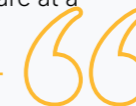
Participants agreed there was no longer much appetite to share risk, with one client representative participant noting they had just stepped away from one large-scale project, at the end of a second stage tender as a result of a disagreement on who would take on responsibility for the risk on the fixed project price. While the participant thought they “could have...got the numbers to work”, the contractor was not willing to carry the risk on a lump sum basis for the duration of the contract.

Participants agreed failed negotiations were becoming more commonplace, but suggested this was more common for larger organisations who had the ability to walk away and did not need the immediate injection of cash. One participant suggested this was not the case for SMEs, who could not afford to say no to such lucrative contracts, or even smaller contracts, to keep afloat. The participant also noted that once an SMEs foot was in the door, there was a particular reluctance to walk away from projects, even if the risk was significant, because of the competitive nature of the tender process and having already spent money and resource hours

to win that contract. This was a particular problem in the public works side, which the majority of participants and large swathes of the SME market in Wales work in due to its constant pipeline of work. One participant stated some public works clauses they had seen were “onerous and bordering on unfair” but were presented with a “take it or leave it” attitude. Participants gave the example of fixed price risk in the face of inflation and material increases, with contractors often having to accept risk here.

Another client did, however, say that while one project in Newport recognised the benefits of using a local SME, the participant’s organisation was unable to provide the level of bond outlined in the base tender document. This SME was, however, able to negotiate this down to a more feasible level but suggested this is because they were the first choice for the project as a well-known, reputable, local firm and the developer was willing to listen and negotiate.

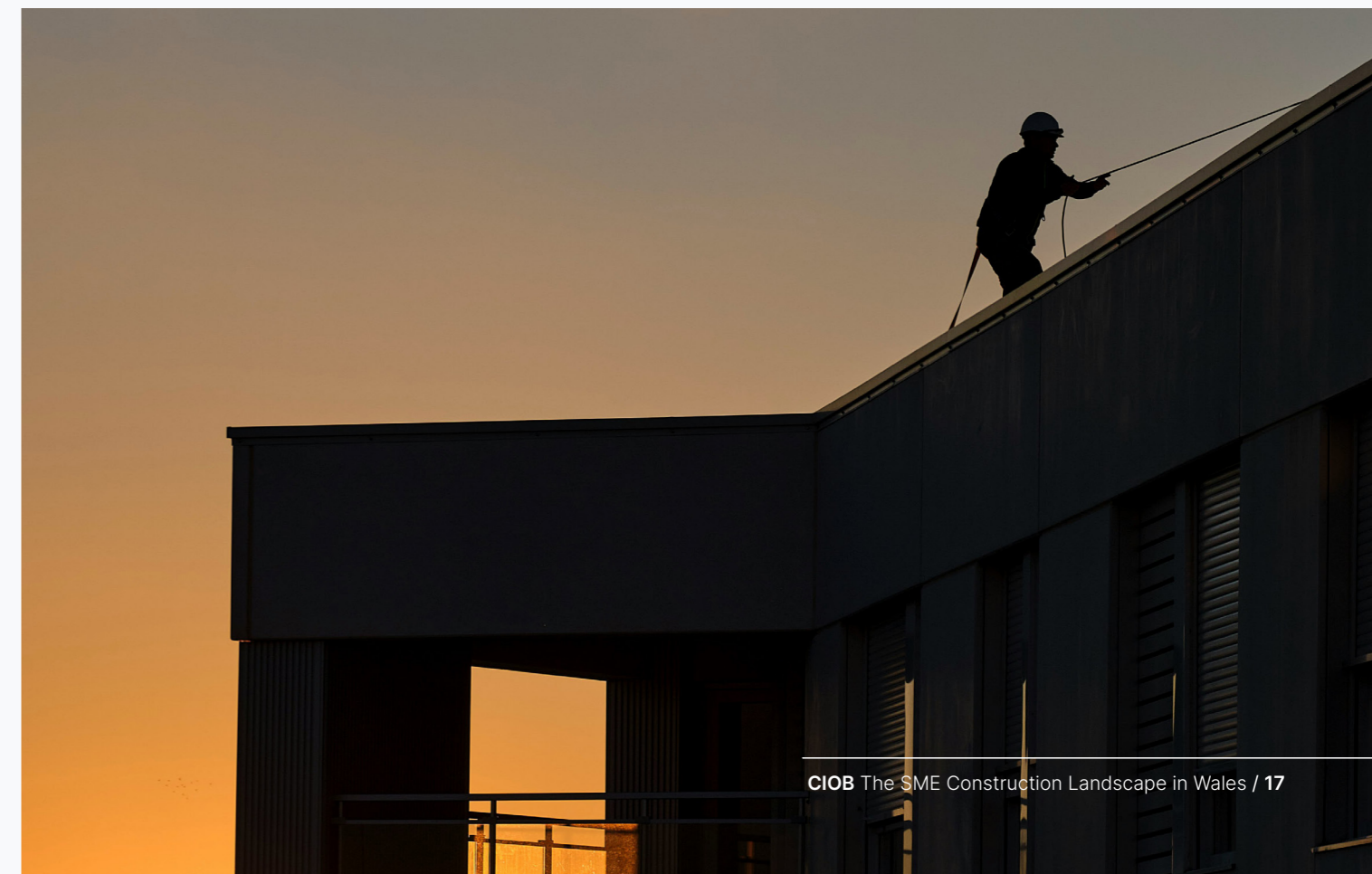
Ultimately, a contract’s feasibility comes down to a client’s willingness to negotiate; if a client wants to use a smaller enterprise as the principal contractor, they have to be geared towards that and build their contracts to make them more accessible for SMEs. So, while some SMEs are at a



Clients may wish to work with SMEs as they are often more agile and able to take decisions quicker than larger organisations. They also know the local market and can take decisions in the interest of the local market and community.

disadvantage when compared to larger contractors, there are opportunities for them to take on long-term packages of work equitably. Clients may wish to work with SMEs as they are often more agile and able to take decisions quicker than larger organisations. They also know the local market and can take decisions in the interest of the local market and community. Larger organisations may also come with more rigorous governance, making them less flexible or equipped to deal with change as efficiently.

One participant, who spoke earlier about working on the client side and having a large tender fall through due to contract terms, suggested the SME market’s reliability on flexibility and agility was all well and good, but sometimes came at the detriment to smaller organisations. This results in difficult conversations around PI, caps on liability, and more, being pushed back and the organisation – perhaps naively – just accepting contracts at face value. This was particularly the case for two stage projects, where the focus initially is on the “easier” initial parts of a project, such as the actual construction. SMEs in particular were unwilling or unable to spend money on legal fees and go through drawn-out contract negotiations until there was a guarantee of a job, by which time it is too late to leave the project as “the foot is already in the door”. Participants noted SMEs were often “glad to win the job”, and would immediately sign up to tenders, only focusing on the payment terms and whether that would be enough to keep them afloat.



COMMERCIAL & FINANCIAL (CONT)

Commercial management in projects: “Have we got that skilled resource?”

The Chair outlined some suggested areas of commercial management that may prove more contentious or difficult for SMEs, including:

- Disputes or claims with clients and stakeholders;
- Cost Value Reconciliation (CVR), the process of comparing the actual cost of construction with its estimated cost;
- Risk and opportunity management, including identification and mitigation of risk and securing of opportunities;
- Entitlement for time and/or cost of a project.

Participants agreed these were all difficult areas to navigate, with one participant arguing that, simply, SMEs were less well equipped to deal with commercial aspects of projects and any issues that arose due to “the quality of resource [available]”, and whether Welsh SMEs – or even Wales as a whole – have the skilled, competent resource to deal with issues in these areas. The participant argued that, having worked cross-border in England, the quality of resource in Wales seemed to be worse than in England. This is especially true of SMEs in the face of a particularly competitive job market against larger organisations with bigger budgets. It was, however, unclear to the participant whether this was an educational issue or an issue with in-house training. The participant claimed commercial managers in London are better placed to safeguard against these issues in contracts in the first instance, and as such they were less likely to cause problems during a project. Issues may also be caused by a lack of derogation between roles: commercial managers were also responsible for project management in Wales, and particularly at SME level, where resources and budgets are already tight. Despite there being some good, accessible tools, including software, to stop these issues, they are only as good as their input and, as such, the lack of resource in Wales and people having to do multiple roles out of necessity means this is often difficult to do properly. The Chair also posited whether the Welsh market was losing these skilled, competent commercial managers to organisations in Bristol and London due to their natural links, and whether the Welsh market was suffering as a result of not being able to compete with larger pipelines of work and higher wages on offer elsewhere.

Another participant agreed with this, and added that – due to the high percentage of public work undertaken by SMEs in Wales – these SMEs were often unwilling to fight against these issues out of fear of losing a pipeline of work. The participant suggested any legal disputes against local authorities, particularly in the south-east Wales bubble, would put a black mark against an organisation that would make it difficult to successfully tender for work in the future. This often led to worse outcomes: while both the contractor and contracting authority (whichever public body that may be), would try to sort out these issues when they arose, the resulting discussions could become quite adversarial and lead to losing outcomes on both sides. This would likely

not have been the case had contractual terms been agreed before the start of the project, which again comes back to the original concern around resource and competence.

Where disputes did arise, a participant suggested SMEs may be reluctant to go through formal resolution processes such as litigation because of Wales’s – and South-East Wales’s in particular – relatively small market when compared to the rest of the UK. The participant said:

If I was managing a QS [Quantity Surveyor], who was constantly falling out with the supply chain and [creating] disputes that required the input of an organisation’s financial director... I would seriously be thinking about his performance... because that’s not the market we’re in and I don’t think we could behave like that and maintain a reputation.

Another participant, who primarily worked on private projects as opposed to public ones, suggested this was the opposite in his market, and Qs were more willing to fight for a more one-sided resolution. As discussed, there may be concerns – particularly among SMEs – that they do not want to lose a client and a future pipeline of work, so make concessions that are not always in the project’s best interest. Participants also returned to a point raised in the Technical and Compliance roundtable, around contract durations being set by the clients. The timeframes for construction were often impractical, with little to no consultation with actual construction companies. One participant noted:

What sort of analysis is actually done... beforehand and before those tenders are sent out? [What] are the contractors doing for their own due diligence before they return the tender? [There] is a bit of a disconnect there really, isn’t there? [If] a detailed programme was put together beforehand and both sides signed up to it, then the failure rate should be a lot less, shouldn’t it?

Participants overwhelmingly agreed with this and noted the issue had become worse over the past ten to fifteen years. Planning permission, particularly around SABS and highways planning, was again cited as a blocker to projects before ground had even been broken.

SMEs were less well equipped to agree favourable terms alongside other commercial matters when compared to larger organisations, but one participant with years in the industry did note that, with experience, you can identify how long it will take you to actually get to site and whether that marries with the timeframe set out by the client. This is due to planning delays, approvals, and other risk factors such as starting a project without adequate design in place. All of these increased risks around costs throughout the contract, and while some larger SMEs were in a position to turn down contracts, as has already been outlined earlier in this chapter, others needed a guaranteed pipeline of work to stay afloat and, as such, would accept more risk.

The question was asked of one participant about how much time they spend reviewing Cost Value Reconciliations (CVRs), which amounted to about a week and a half every month. That also included forecasting and looking at projects that were taken on post-Brexit with the prospect of replacement funding, either from the Levelling Up fund or the Shared Prosperity Fund, from UK Government has not matched previous EU funding. This was a particular struggle for this participant: working with budgets that were set two years ago – some with allowances for inflation, but that are now insufficient but have not been updated to reflect the current economic climate – meant they had to make concessions on some projects and they were “struggling to convert these to real jobs”, and now the funding was insufficient for the client’s aspirations. This leads to further delays, and scope reductions, to ensure the project can still go ahead. This, the Chair summarised, was “a race to the bottom... and a risk to the Welsh market”.

Funding Projects, Late Payments, and difficulties accessing capital: “Cash flow is king.”

The sentiment of “cash flow is king” has already been explored in this chapter. Needless to say, it is the driving force behind the success of a project and a business, and – to keep cash flowing – some SMEs have to accept disproportionate levels of risk. One participant stated “payment terms seem to be getting worse, not better”, with those cuts then being passed onto the supply chain as well. Contractor failures in Wales, it was argued, can all come down to “poor performance on contracts [which results in] not being able to get the cash in”.

Chasing funds – especially after completion of a project – is a “thankless” and resource-intensive task. One participant noted that, despite running the SME and all the pressure that comes with that, they were still heavily involved in chasing payments and cash recovery. There are numerous barriers that lead to delays in handing projects over at completion, which in turn means the resource and labour is stuck and cannot easily move onto another project. Clients deduct an agreed percentage of the value of the works each month to cover the cost of rectifying defects at the end, if the contractor is unable to fix them. It again all comes back to whether a contractor is willing to “have that fight”



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or not for the sake of maintaining a relationship. But, with retention percentage being so high – typically around 3-5% of the agreed contract sum – many SMEs, or construction companies of any size, can seldom afford to take that hit.

As mentioned above, margin levels in construction are not high enough to offset the risk profile. While larger contractors can afford to take the hit and work with smaller margins, that is not always the case for SMEs. While there are options for SMEs, including invoice discounts or factoring¹⁹, these all come at both a financial and resource cost, with a lot of paperwork that is not worth fighting for project after project. These remedies, then, may be inaccessible to many Welsh SMEs.

Project bank accounts were cited as a potential solution, and these were now mandatory – or a condition of funding – on Welsh Government and public projects. Despite this, some local authorities were not “geared up” to get these set up quickly enough for the project, which may add further delays. These bank accounts are not without risk, however, and come with shorter payment terms. If a subcontractor stops trading after being paid on this shorter payment term, as opposed to what used to be the standard forty days, there is no recourse to get this money back.

Given that a large proportion – participants suggested around 80%, though official statistics are unavailable – of construction work in Wales is public sector, these delays are invariably creating issues in a way they might not in England due to the higher concentration of private contracts, which potentially makes it a more attractive market. This, it was suggested, is the area that needs to be looked at by policymakers: ensuring faster payment terms across the public estate, scrapping retentions, and examining changes in contracts. In fact, these are issues the Social Partnership and Public Procurement (Wales) Act will aim to implement in the coming years, but only on larger construction projects over £2million. Questions were raised about how many organisations were operating “on the edge”, and just moving from project to project with little to no financial resilience. This was noted as a particular danger for main contractors, who would be unaware of these issues as they do not appear on a credit check. But these issues are inherited by the main contractor, especially if a subcontractor folds.

Conclusion

Skills was again raised in the Commercial and Financial roundtable, but specifically around commercial managers, project managers, and quantity surveyors. These particular skills gaps created issues for SMEs, who often had to combine these roles due to financial constraints, and meant many SMEs found themselves in difficult contractual positions and unable to solve disputes when they arose. SMEs’ sentiment that they were forced to take contracts with unrealistic time or financial constraints, just to keep a pipeline of projects and to try to stay afloat was cited as another cause of disputes. This affected the long-term sustainability of the organisations, who may struggle to take the hit of any retentions at the end of a project, and they were unable to meet the client’s demands.

19. SME Invoice Finance, Construction Finance, (n.d.).

PRE-CONSTRUCTION & CONSTRUCTION

This roundtable touched on some similar issues to those outlined by participants in the Technical and Compliance session. Discussions here also turned to new, constantly changing regulations, and whether SMEs were ready for upcoming changes.

Project delays and late delivery: **“That’s an age old problem, isn’t it?”**

Building on points raised in the Technical and Compliance roundtable, there are external and internal factors to consider, but – depending on experience – it is often impossible for principal contractors to accurately predict project durations. Assuming internal factors, such as preliminary contract agreements and pre-commencement conditions are handled, external factors are the primary cause of delays on site. This is particularly true of permissions such as SuDS and highways planning, though planning permission timescales vary between local authorities in Wales. Additionally, a participant noted:

Typically, in every local authority you’ll get a bottleneck and that might be the highways officer in one authority, in another it might be the drainage officer, and another it might [be] the ecologist or the conservation officer. So you’ve always got somebody who’s not doing their bit in those sign offs... and not managing their workloads properly.

These hurdles led to participants describing the planning process as “completely unreliable” and “unpredictable”. While statutory time frames by which local authorities must abide exist, when it comes to planning permission being granted, one participant noted there were “loopholes” that could be exploited to skirt around these.

That being said, some local authorities and departments have built up negative reputations. As such, experienced contractors know to build an appropriate amount of time into the project to account for this. Participants agreed this was not necessarily the result of “bad planners” and is more likely due to poor risk assessment. The problems arise from siloes built up within councils, difficulties in communication, and the levels of bureaucracy that have been created.

Delays were also caused by skills gaps on site, and one particular problem is the project manager role, which requires experience and a vast suite of skills. Poor project management skillsets or stretched resources will mean a lot of these issues are managed inefficiently. This often means project managers struggle to understand the “flow” onsite, and to understand the project, which also comes down to senior level management and ensuring key milestones are being hit. Allowances may also have to be made for a lack of skilled resource on site throughout the supply chain, and an experienced project manager will have to “make allowances for not getting the right number of guys to site with the right skills”. This was particularly identified as an issue in West Wales, and outside of the South-East Wales construction bubble.

Discussions then turned back to concerns around contractors being accurately able to predict project timeframes, with one participant suggesting tender proposals – and perhaps construction projects as a whole – were being manipulated solely to secure a contract. The participant continued, noting “there isn’t sufficient quality of information... in tender packs”. This may be a client oversight, deliberate omission, or a lack of due diligence, but it leads to further project delays. One participant gave the example of an “unknown utility running through the site”, though in the Technical and Compliance roundtable we heard about sites being on top of abandoned mines. The participant also noted that, in reference to Design and Build (D&B) contracts, the initial design is not sufficient to actually achieve consent and planning permissions. This, again, created an environment where a “race to the bottom” was facilitated by this lack of information. Some more inexperienced SMEs without the necessary skillset or experience will just take tender packs at face value, and offer a price based on this, whereas more experienced, or larger SMEs with more resources at their disposal, will exercise more caution and ensure there is appropriate risk allowance built in. Failure to do so will lead to disputes with clients and all the issues this causes, as outlined in the Commercial, Procurement, and Financial roundtable.

Some clients will work with contractors, giving them as much information as possible, to ensure a bid is compliant and practical, but others – seemingly mostly in the private sector – may try to hide things from the contractor. There may also be instances where the clients’ procurement teams, who do not have the skills or resources to discuss changes present a “take it or leave it” attitude to their tenders. For the most part, there is a lack of openness and understanding of what’s needed on site, and this will negatively impact smaller, or perhaps less experienced SMEs, who will just take the risk on a tender to secure a project pipeline.

All of these potentials for delay build up and mean SMEs – particularly on the smaller side – face a lot of pressure and cash flow risks because of this.

Upskilling: **“There’s plenty of funding for training, but they don’t know where to channel people.”**

Skills and a lack of resource was – unsurprisingly – raised as an issue in this roundtable as well. Participants in particular noted that, alongside well-documented gaps in the construction industry, there were issues at local authority level. This led to exacerbated delays in planning – and adjacent – permissions, as well as poorly implemented Welsh Government policy.

Participants raised concerns around how to better ensure quality in construction projects. Issues such as failure to clearly define quality expectations in tender documents, lack of robust inspection and test plans, and low standards of work readiness among tradespeople were identified by participants. This low standard of readiness compounded with wider skills concerns, a low skill base or a complete lack thereof, were seen as likely to negatively impact the quality

Typically, in every local authority you’ll get a bottleneck and that might be the highways officer in one authority, in another it might be the drainage officer, and another it might [be] the ecologist or the conservation officer.

of a project. Participants noted that, more and more, they were unable to get the right trades to site throughout the supply chain, even in common trades such as bricklaying. Where these skills were in place, work was often hastily done due to a lack of skill or a thinly stretched workforce.

A lack of joined up thinking was also noted on housing, and in particular on the new Welsh Housing Quality Standard (WHQS), where local authorities cannot offer funding to contractors to undertake quality remediation and retrofit projects on properties without particular skills and competencies, but when they are asked, local authorities are uncertain as to the specifics of what they will need. To get an answer, they would have to undertake detailed surveys on thousands of properties, each with its own specific needs, and there is not enough resource or funding to do that. This lack of joined-up thinking and constantly changing regulatory environment led to a reluctance among SMEs to upskill their staff, especially where there is “insufficient guidance... on how to adopt and run these projects”. As discussed, this reluctance is due to the loss of income and long staff absences associated with upskilling. This will continue without long-term, joined-up policy making between Welsh Government and local authorities, as well as sufficient funding and resource for the latter. While there is funding for construction contractors to undertake this training, they are unwilling to take a risk to put their staff through this training without confirmation the skills will actually be valuable.

This also extends to new legislation such as the Building Safety Act (BSA), where Wales has slightly differentiated its legislation from England. Many SME participants – particularly those who work cross border in England – noted there were difficulties when it came to implementing the differences and could have done with some more guidance and support from Welsh Government in this regard.

One such difference was the Building Safety Regulator (BSR) will not include the HSE in Wales as it does in England. Given concerns around local authority resourcing and delays in other aspects of the construction process, participants were particularly worried about this and the effect it would have on their projects.

PRE-CONSTRUCTION & CONSTRUCTION (CONT)

Ensuring quality in construction:

“If you’re going to drive behaviours, you’ve got to do it through policy.”

“Even in the last four years, and the requirements to now have photo evidence, at every stage on every plot, I think is a big driver in quality.”

The above quote from a participant is in reference to Part L of building regulations, and the necessity to “provide clearer information on the as-built specifications to all parties involved”²⁰ and prove the contractor has met their contractual terms at each stage of the project. Despite concerns raised throughout all four roundtables around Welsh and UK Government legislation and its sometimes troublesome implementation, the participant noted there are good policies that are beneficial to the construction sector and the wider built environment, and clearly to end users of those assets. The same participant noted policy is, obviously, a way to improve the sector and drive behaviour change. In the Technical and Compliance roundtable, it was noted SuDS is a good policy, but suffered from poor implementation and was a particular bone of contention for many construction projects, and that was a sentiment shared here:

SuDS is a great policy. I think the implementation of it is challenging because the resource isn’t there sometimes to manage it, and the way it’s dealt with between authorities is completely inconsistent.

Another participant noted, however, that without a proper drive for behaviour change, and in the face of increasing costs, that building regulations, instead of being seen as a minimum requirement for a finished project, were becoming the standard to aim for on some sites. This meant a finished asset would not have inspection and test plans in place, and while it may be viable according to building regulations, “common defects around bricklaying or dry lining” were becoming increasingly common. This was, however, led by the skills or lack thereof on site and the financial implications of building to a higher standard, including social value or environmental standards, instead of a lack of willingness on the construction sector’s part.

Moreover, building regulations are constantly changing. Larger SMEs were better equipped to deal with these frequent changes and stay abreast of new developments, and quickly implement changes. For example, implementing the air tightness of a property, and developing testing procedures to ensure this was in place and part of everyday work before it was necessary. Some smaller SMEs with less resource were less knowledgeable about these developments and as such have been caught short, skipping over inspection and test plans to meet the minimum requirements outlined in building regulations. This lack of testing on site may also mean remediation works need to be undertaken after construction has finished, or that a client may well be entitled to retention

payment if an asset fails testing. This, once again, creates a system in which SMEs risk being penalised for an unavoidable lack of resource or funds.

This regulatory pressure also means some projects are more difficult than others: while one participant said their organisation had a significant pipeline of work, they knew their next project would be built under new building regulations. This required some “guesswork”, as to what would need to be done to hit the ground running, and at times this meant projects went above and beyond the minimum requirements outlined. While that is a good thing, it is also expensive.

This everchanging regulatory environment also meant for Design and Build (D&B) contracts, designers were reluctant to put explicit specifications on drawings, which could potentially leave costs open-ended and render a project unviable. This required a change to the company’s mindset, which meant they had to start telling designers to allow for specific products – or equivalent – in projects, which continues to increase costs. This also means that, on social housing projects for example, “grant funding has nowhere caught up to [deliver] what [the building regulations and Welsh Government legislation] is asking”. While participant’s organisation could take the risk financially, many other organisations without that pipeline may be unlikely to.

Another participant agreed with this and expanded that “client involvement” also contributed negatively to the quality of a building. Primary contractors and clients often did not outline the scope of the scheme and finishing touches – down to minutiae such as “the pointing or the decorations”. This meant the end of the project was often consumed with the subcontractors rushing to get everything up to the client’s satisfaction, which would not have been an issue had it been outlined and defined in the original tender contract.

This lack of “being on the same page” and its negative effects on quality were also identified in specific roles, includes Clerks of Work. While this role is invaluable in ensuring a safe, quality final product, sometimes these roles have previous experience in a trade such as bricklaying or carpentry which means they pick on these things to change, often against client or primary contractor’s wishes. This leads to a blurring of lines between the approved design, and what the Clerk of Work thinks the design should be, and often leads to confusion among the subcontractors at the end of a project. Participants also noted some differentiation and siloed working among different local authority teams. The example was given on permeable paving, which a local authority’s highways officer may not be willing to grant, but the SABS officer from the same local authority is going to approve, which can lead to confusion and the principal contractor taking on risk in this aspect. However, significant planning delays mean a lot of guesswork has to be undertaken during the design stage; while planning permission may have been granted, the SuDS may not.



This again comes down to a difference in policy and its implementation, with one participant comparing over-burdensome regulations to “death by 1,000 cuts”. While the policy and regulation aims are good, “SMEs are voting with their feet” and taking on less burdensome projects.

PRE-CONSTRUCTION & CONSTRUCTION (CONT)

This leads to layers and layers of regulation, that SMEs may struggle to adapt to and account for delays on, which means fewer SMEs are willing or able to take the risk on being principal contractors on housing and other construction projects. This again comes down to a difference in policy and its implementation, with one participant comparing over-burdensome regulations to “death by 1,000 cuts”. While the policy and regulation aims are good, “SMEs are voting with their feet” and taking on less burdensome projects – particularly outside of housing, which is a Welsh Government priority – or not taking the risk on being principal contractors, instead opting for smaller subcontractor roles. This is problematic for the construction sector, as these SMEs are less likely to earn enough money to grow and upskill their staff, and Welsh Government targets will not be met.

The Building Safety Act and SME preparedness: “SMEs adapt, until one day they don’t.”

Discussions then turned once again to the Building Safety Act, specifically around the digital golden thread legislation, Part B (fire safety), and Regulation 38. The question was raised as to whether SMEs were equipped to satisfy these requirements, and participants were quick to respond that, simply, they were not.

Participants suggested that, despite the high-profile nature of the Grenfell disaster and the inquiry surrounding it, the legislation adopted as a result of this is less well-understood.; previous roundtable participants highlighted concerns around this new regulation and how SMEs would comply with it. Earlier in this roundtable, and across other roundtables, participants noted SMEs were more likely to be struggling for resource, which meant they were unable to keep abreast of developments in regulation, and the Building Safety Act was no exception, despite its high profile nature. Recent CIOB surveys of UK members found only 17.2% of respondents answered “yes” when asked if they and their supply chain fully understand the requirements of the Building Safety Act, and only 40.6% said their business does even if the rest of the supply chain does not.²¹ This was a sentiment shared with roundtable participants in this research, and is particularly problematic given differences in Welsh legislation to the rest of the UK which may increase confusion, particularly for SMEs who work cross-border or have aspirations to do so. Participants in the Skills and People roundtable noted there was a significant gap in foundational digital skills, meaning SMEs are particularly at

risk of not having the necessary skillset to keep and maintain a golden thread. Many organisations that are aware of the legislation are feeling “petrified” of the potential level of liability that will be on them moving forward, and the massive cultural shift this legislation will create. One participant continued to raise concerns:

There’s a lot of talk about... competence and the need for everyone involved in delivering a project [to be] competent. But when it comes to builders, tradespeople, that definition [of competence] isn’t actually there yet.

Participants were also concerned the legislation was not prescriptive enough, and construction professionals were unsure if they needed a particular accreditation. One participant did suggest that, given the nature of the heights of buildings some SMEs typically work with, the impact was not there immediately. That being said, there is insufficient guidance as to how to “adopt and run” projects covered by the act. While the participant was aware UK and Welsh Government had put out some guidance on the act and its implications, there were concerns from most roundtable participants this guidance was not reaching the right SMEs. A participant did say this amounted to a “wait and see” situation, meaning that their organisation was having to take anticipatory steps to begin creating good practice, such as ensuring clients sign fire risk assessments. While that is a relatively easy step to undertake, there are others that are proving more difficult and costly. One example given was the necessity for fire doors and barriers to be installed only by certified professionals. One particular project that should have been a simple, straightforward job, ended up costing around £100,000, because there was only one company licenced to install the fire barrier and they were “charging an absolute fortune for it.” This, the participant continued, is where SMEs and other contractors are going to struggle, because the certified, tested, and authorised products are likely to be more expensive, as is their installation, and the regulatory authorities are unwilling – or unable in this new legislation – to certify anything else is safe. This was also being driven by insurers requiring specific brands of product, because that is what has been tested. Because of that testing, the product is likely to be more expensive than an equally good, but cheaper, alternative.

One proposed solution to this was to move away from Design & Build contracts, which, as outlined in the Technical and Compliance section, participants suggested has become

the most common procurement contract There may also be opportunities to use more Modern Methods of Construction (MMC) and offsite manufacturing in such contracts, at the client’s discretion.²² There are hurdles to this, however, including client perception and the current costly nature and lack of experience and skills in offsite manufacturing. SMEs are, however, already being forced to move away from D&B contracts, as participants suggested they are being incorrectly used by clients and industry to bring the project costs down and maximise profits. SMEs are also expected to be “designing... with the skillset of designers”, a resource many SMEs did not readily have. This is to ensure compliance and, despite the additional design skillset requirements of these contracts they are advertised as “conventional procurement exercise[s]”.

One participant noted that, to avoid design concerns and to develop good practice, they were increasingly getting involved in more complex, larger-scale housing projects in later stages of the project. This meant the principal contractor had an opportunity to work with the client and the designer (which the client had appointed), up to Stage 3 or 4 and then pricing it. This meant pricing was fair, and there were less likely to be issues with elements of the design later in the project.

Conclusion

Participants agreed projects faced significant delays due to local authority bureaucracy, siloed working, and a lack of resource in planning departments across Wales. Similar to commercial managers, project managers were often seeing their roles combined with others at SME level, which in turn led to further delays on site. Project managers are also roles that require a lot of experience and a vast suite of skills, which are not coming through from university education, meaning there is a significant gap of qualified site managers that can understand the “flow” on site. This is also a cause of delays, as this lack of experience meant skills gaps were worsening on site, as project managers struggled to ensure “the right number of [people] with the right skills” on site.

There’s a lot of talk about... competence and the need for everyone involved in delivering a project [to be] competent. But when it comes to builders, tradespeople, that definition [of competence] isn’t actually there yet.



21. Construction Management, Building Safety Act: still no digital clarity, September 2024.

22. The Chartered Institute of Building (CIOB), Modern Methods of Construction: Barriers and benefits for Irish Housing, January 2024, p. 37.

CONCLUSION & RECOMMENDATIONS

Roundtable discussions highlighted numerous issues faced by construction SMEs in Wales. SMEs are particularly prone to risk in tender applications and negotiations, which clients and other organisations in the supply chain are unwilling – or unable – to share. With fewer resources to argue their case and the need to ensure a pipeline of work many SMEs often accept unrealistic or unfair terms in order to secure contracts.

If they do not agree to undertake the project with those terms, they will miss out on the contract altogether in favour of larger organisations who can afford to deliver projects with smaller margins and the SME may struggle to stay afloat. This was cited as a significant cause of disputes and affected long-term sustainability of some SME organisations. In these cases, retention payments if they are unable to meet client demands are likely to cause further financial pressure and create a race to the bottom.

Roundtable discussions also highlighted a disconnect between policy creation and implementation. This disconnect has also been recognised by Members of Senedd in the past. This especially true of procurement policy. Welsh Government policy development in this area is welcome, and takes good steps towards ensuring an equitable, accessible procurement market for construction companies regardless of size, age, or other factors in Wales. However, issues arise when in policy implementation, overseen by under-resourced, under-funded local authority teams, who perhaps do not understand new legislation or are even unaware of it.

Over burdensome regulations, particularly in the social housing construction market, mean SMEs are starting to “vote with their feet”, taking on less burdensome projects or opting to take on smaller, subcontractor roles, side-stepping the risks assumed by principal contractors. This is problematic for the construction sector, as these SMEs may struggle to earn enough money to grow and upskill their staff. Given the worsening skills shortages, limited or stalled growth within the sector may mean Welsh Government housing, social value, and environmental targets will not be met.

New regulation is also putting undue pressure on SMEs, many of whom are unaware of forthcoming changes. New legislation such as the Building Safety Act, despite its high-profile nature, was unclear to some participants, who struggled to understand the regulation and the practical implications it will have on their daily work.

Additionally, participants noted SMEs are more likely to have limited resources, and as such would struggle to commit any resources to understanding new legislation. Recent CIOB surveys of UK members found only 17.2% of respondents answered “yes” when asked if they and their supply chain fully understand the requirements of the Building Safety Act, and only 40.6% said their business does even if the rest of the supply chain does not. This was a sentiment shared by research participants and is particularly problematic given the differences between Welsh legislation compared to the rest of the UK, which may increase confusion. While professional bodies like CIOB have a role to play in ensuring members are kept abreast of new regulation, Welsh Government must also ensure they are engaging with these bodies and directly with industry to facilitate compliance.

With these risks in mind, CIOB proposes some recommendations below that would go a long way to solving some of the issues faced by SMEs. This is not an exhaustive list, and throughout this report there are suggestions as to areas of improvement for all parties, including policymakers. CIOB is ready to work with all stakeholders and interested parties to discuss this report’s findings, its recommendations, and other ways to improve the built environment and construction sector for society’s benefit.

Recommendations for Policymakers

01/

Reform the tender process to remove or lessen stipulations around time and cost. This would create a more open bidding process in which contractors can propose suitable timelines, ensuring the best asset is handed over, with all preliminary and pre-construction work included. This would also encourage engagement from SMEs in procurement and tender processes instead of excluding or forcing them to work to difficult tender timeframes and low payments.

02/

Devolve more powers to local authorities and examine progressive means of generating funding for local authorities. Local authorities in Wales each face unique challenges and should be given more powers to deal with those issues, including examining council tax reform and potentially devolving the crown estate. This would help local authorities get the funding and resource they develop according to local needs. It would also improve approval timescales and create consistency between local authorities.

03/

Review training and competency frameworks to make them more accessible to workers, focusing on shorter modules. Welsh Government should encourage employers with financial incentives to upskill their staff and keep workers in the SME sphere. This training and competence framework review should encompass new regulations, ensuring there is clear guidance for construction professionals across Wales on the latest regulatory changes, including the Building Safety Act and Welsh Housing Quality Standard (WHQS).

04/

Welsh Government, Business Wales, Working Wales, and other skills partners should work with the construction industry to develop long-term plans, particularly around the WHQS and retrofit industries to develop confidence in the construction industry and create a green skills revolution. Additionally, Welsh Government needs to support employers to look beyond apprentices, as these are not keeping up with demand. This will future proof the construction industry and ensure skilled resource is sufficient.

CONCLUSIONS & RECOMMENDATIONS (CONT)

Recommendations for SME Contractors

Notwithstanding the difficult situation of many SMEs and the myriad factors out of their control, these recommendations for best practice aim to support SMEs to navigate these challenges. *CIOB Academy* also has wide-ranging materials including CPDs and training modules covering areas this research has identified as problematic, including contracts.

- 01/ Management of Risk:** Contractors should develop a detailed risk register, with associated costs, that forms part of the contract sum analysis as a "Risk allowance". Clearly articulate in writing any risks that are excluded from the contract, and any clarifications or assumptions that have been made.
- 02/ Detailed Programme Documentation:** Contractors should provide a comprehensive project programme, outlining specific timescales for obtaining consents, procurement periods, and deadlines for instructions. This documentation should be robust enough to support any Extension of Time (EOT) claim if needed and should be reported as part of the Contractors Report. Maintain meticulous records and focus on recovering lost time through proactive reporting.
- 03/ Adherence to Contract:** Strictly follow the mechanisms and procedures stipulated in the contract. Be aware of Contract amendments and specified periods to respond.
- 04/ Clear Scope of Services for Designers:** Ensure clear Scopes of Services are agreed upon for designers prior to novation, ensuring appropriate fees and inputs are secured.
- 05/ Cost Management and Cash Flow:** Maintain a rigorous focus on Cost Value Reconciliation (CVR) and cash flow management to ensure sufficient working capital is available for ongoing expenses.
- 06/ Inspection & Test Plans:** Develop thorough Inspection and Test Plans are aligned with supply chain protocols. Align with the clients' Quality Supervisor to agree the number and frequency of hold points. Keep the plans updated and live through the construction period.
- 07/ Client Diversification:** Reduce dependency on a limited number of clients by actively seeking and securing new business opportunities.
- 08/ Professional Legal Advice:** Seek professional legal advice to fully understand contractual obligations and associated risks. Carefully review and negotiate contract terms to ensure fairness and minimise liability exposure.

Recommendations for Clients and other stakeholders

- 01/ Tender Process:** Refrain from specifying timescales during the tender process, as these could compromise the contractor selection process. Obtain bids from multiple SME building contractors to facilitate a comparative analysis of their pricing, risk deliverables, and proposed timelines. Emphasise the overall quality and value offered by the contractor rather than solely focusing on the lowest bid, thereby avoiding a race to the bottom.
- 02/ Contract Type:** Explore and thoroughly consider alternative contracting methodologies other than Design and Build (D&B) contracts, as they may suit the project requirements better and potentially mitigate risks associated with SME contractors.
- 03/ Due diligence process:** Conduct a comprehensive and rigorous due diligence process prior to selecting a site for development in Wales. Clients should ensure this process considers the unique and significant risks present in the Welsh market.
- 04/ Risk Register:** Develop a comprehensive risk register with associated costs, which should be included as part of the contract tender documents. This register must clearly outline the identified risks and their responsible parties.
- 05/ Programme:** Monitor the progress of the construction programme closely, paying particular attention to potential risks that may arise throughout the process. Form an independent view and do not rely on the Contractor's view alone.
- 06/ References and Financial Stability:** Where possible, evaluate the track record of the contractor. Ensure the financial stability of the contractor by assessing their capability to handle the project's requirements. Request financial statements, evaluate credit ratings, review payment processes, and ascertain their ability to secure materials and labour without causing delays.
- 07/ Contract:** Ensure all terms, conditions, and project scope are clearly defined in a written contract. Engage independent, suitably qualified professionals to review the contract, ensuring its fairness and adequacy in protecting the client's interests. It is essential to establish agreed-upon mechanisms for addressing inflation, thereby minimising the potential impact of changing economic conditions on the project.
- 08/ Quality Control:** Conduct regular inspections throughout the construction process, to maintain quality control and promptly address any issues that may arise. Clear and consistent communication during inspections between the client and the building contractor is vital. It is essential to provide competent quality supervision at the required frequency and identify critical hold points in advance.
- 09/ Prompt Payment:** Agree reasonable payment terms and ensure prompt payment for the goods and services provided. Use Project Bank Accounts (PBAs) as advised by Welsh Government.

For further guidance, download the [CIOB Client Guide](#)

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