EXPLANATORY MEMORANDUM TO

THE INDUSTRIAL TRAINING LEVY (ENGINEERING CONSTRUCTION INDUSTRY TRAINING BOARD) ORDER 2009

2009 No. […]

1. This explanatory memorandum has been prepared by the Department for Innovation, Universities and Skills and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 This Order will enable the Engineering Construction Industry Training Board (ECITB) to raise and impose a levy on employers in the engineering construction industry. This Order sets out the rate and exemptions from that levy.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 Section 11 of the Industrial Training Act 1982 (ITA) enables an industrial training board to submit, to the Secretary of State, proposals for the raising and collection of a levy to be imposed for the purpose of meeting the board's expenses. That levy is to be imposed in accordance with an order made by the Secretary of State. This Order gives effect to levy proposals submitted to the Secretary of State by the ECITB.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

The Parliamentary Under Secretary of State for Skills has made the following statement regarding Human Rights:

In my view the provisions of the Industrial Training Levy (Engineering Construction Industry Training Board) Order 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 Industrial Training Boards (ITBs) are set up under the ITA to ensure that the quantity and quality of training are adequate to meet the needs of the industries for which they were established.

7.2 There are currently ITBs covering the construction and engineering construction sectors and both are Non-Departmental Public Bodies. They provide a wide range of services and training initiatives including: setting occupational standards; developing vocational qualifications; delivering apprenticeships and paying direct grants to employers who carry out training to approved standards.

7.3 Employers in the construction and engineering construction sectors have consistently supported statutory underpinning for their training arrangements. They argue that the nature of their industries mean that individual employers are unable or unwilling to accept the responsibility of training their own employees. They believe that a national pool of labour, collectively funded by all employers, is the only way the industries' skill needs can be met.

7.4 An order to establish a third ITB covering the film industry came into force on 7 December 2007.

Levy Arrangements

7.5 The ITA contains provision for a levy to be imposed on employers to finance an ITB's activities. It is for the ITB to make proposals for the rate of levy for the industry it covers and for the Secretary of State to make an order giving effect to the proposals.

7.6 This Order gives effect to proposals submitted by the ECITB for levies to be collected by them in 2010, 2011 and 2012. Levy rates are decided by the employer members of the ITB in the light of the Board's policies and plans and they must cover the costs of the Board's plans for the years in question. The levy rates are set out in article 8 of this instrument for different categories of employees. There are different levy rates to be applied in respect of "site" and "off-site" employees. People engaged under contracts for services are included as "employees" under the ITA. There is no ceiling to the amount of levy paid by an employer which is calculated by reference to the emoluments paid by them to their workers (broadly these are salaries, fees and wages).

7.7 The Order also sets out the employers on whom the levy can be imposed. This includes every employer whose main activity is included in the definition of the engineering construction industry as set out in the ITB's founding legislation.

7.8 In deciding whether workers should be classed as "site" or "off-site" employees for the purposes of levy assessment, the key consideration is whether they work wholly or mainly at a place where certain activities (which are defined in the Board's founding legislation) are carried on. For example, the activities of fabrication, assembly, construction, erection or installation of any chemical, electrical or mechanical apparatus, machinery or plant of a chemical works etc. If this is the case, they would be classed as "site" employees. People engaged in occupations such as planning or design could also be classed as "site" employees if they work wholly or mainly at a site where such activities take place. All other employees are classed as "off-site" employees for the purposes of this order.

7.9 The ECITB's proposals involve a levy greater than 0.2% of an employer's relevant emoluments. Consequently, to make this Order, the Secretary of State must be satisfied that the proposals are necessary to encourage adequate training in the industry and that one of three conditions is met. The prime condition is that the Secretary of State must be satisfied that the ITB has taken reasonable steps to obtain the views of employers who are likely to be liable to pay the levy. Also, that these employers agree that the proposals are necessary to encourage adequate training. These employers must be i) more than half in number of those likely to pay the levy and ii) likely to pay more than half in value of the total levy to be paid as a result of the order.

7.10 **Note:** Two changes were made to the ITA by the Further Education and Training Act 2007 (FETA).

i) In previous years ITBs submitted levy proposals annually. However, as levy rates have stayed the same for a number of years, the ITA was amended to require the ITBs to submit levy proposals for a three year period. This reflects the need for a more strategic relationship with the

ITBs, allows them to take a longer term view of their finances and reduces the bureaucratic burden, especially on Parliamentary time.

ii) At the same time, changes were made to the manner in which support for levy proposals can be demonstrated. Up until this year, in order to establish the level of support for their levy proposals, ITBs were only able to consult with representative employer organisations rather than directly with employers. However, as fewer firms chose to join associations, it became increasingly difficult for the ITBs to demonstrate support. As a consequence of an amendment made to the ITA by FETA, ITBs can take a range of "reasonable steps" to ascertain the views of employers. ITBs are now able to ascertain the views of employers in one of four ways:

a) By consulting the organisations which represent employers (as previously)
b) By consulting the employer organisations and also consulting all other employers who are likely to be liable to pay levy but are not represented by organisations
c) By consulting the employer organisations and obtaining a sample of the views of other employers who are not represented by organisations
d) By sampling the views of all employers

Consolidation

7.11 None

8. Consultation outcome

8.1 The ECITB consulted formally on the levy proposals under the new arrangements between April and October 2008. They engaged an independent research company to take a sample of the views of all employers who are likely to be liable to pay the levy. The results show that 68% of levy payers are in favour of the proposals and together they will be likely to pay 85% of the value of the levy.

9. Guidance

9.1 ECITB will issue guidance to employers explaining how levy is assessed and how funding and grants can be claimed. Guidance is also available on-line from their website (www.ecitb.org.uk).

10. Impact

10.1 The impact on business, charities or voluntary bodies is as follows:

i) on business – the proposals are expected to raise £19.27 m in 2010, £20.23 m in 2011 and £21.24 m in 2012 from the sector. In 2008, for every £1 raised in levy, ECITB has calculated that £2.52 was returned to the industry. This comprised a direct return of £78p (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £1.74 linked with productivity gains and completion values of apprentices, the provision of trainee recruitment and selection, advice on training, the provision of schemes for recording achievements and the development of industry standards.

10.2 The impact on the public sector is negligible as the levy is funded from the industry and ECITB receives no grant in aid. Charities are exempted from the levy.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is determined by the ITA which requires levy proposals to include an exemption for small companies. The exemption level is set according to an employer's total emoluments rather than by the number of employees. This reflects the nature of the industry where employers make extensive use of labour only subcontractors and may directly employ few people. This Order proposes an exemption level for an employer whose payments to site employees are less than £275,000. This equates to an employer who employs 15-20 people. The corresponding exemption level for off-site employees is £1m. In 2008, 161 establishments (40.5%) were exempted from paying the levy because they fell below the exclusion thresholds. Small firms are, however, eligible to claim grants towards the cost of training their employees.

11.3 The basis for the final decision on what action to take to assist small business is the proposals made by ECITB to the Secretary of State following their consultations with the industry as described in 8 above.

12. Monitoring & review

12.1 As an NDPB, ECITB's performance is subject to annual review by DIUS. The 2009 Order is expected to enable ECITB to raise £19.87m in 2010, £20.86m in 2011 and £21.90m in 2012.

13. Contact

Tim Down at the Department for Innovation, Universities and Skills Tel: 0114 259 3235 or email: tim.down@dius.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
Department for Innovation, Universities and Skills	**Impact Assessment of the Industrial Training Levy (Engineering Construction Board) Order 2009**	
Stage: Final	**Version:** 1	**Date:** 3 December 2008
Related Publications: The Industrial Training levy (Engineering Construction Industry Training Board) Order 2009		

Available to view or download at:
http://www.DIUS.gov.uk

Contact for enquiries: Sectors & Equality Team, DIUS **Telephone:** 0114 259 4291

The ECITB has submitted proposals to the Secretary of State for Innovation, Universities and Skills to raise a levy from employers as provided under the Industrial Training Act 1982. The engineering construction industry argues that, without collectively-funded training, paid for by a statutory levy on all employers, there is a serious risk that insufficient training will be carried out to meet the industry's needs. This could result in skills shortages, wage inflation and a less competitive construction industry. The smallest employers are exempted from the levy.

To enable ECITB to impose a levy in order to:
- share the cost of training between firms
- secure an adequate supply of properly trained workers at all levels in the industry
- meet the administrative expenses of the Board

What policy options have been considered? Please justify any preferred option.

Option 1 - reject the levy proposals. This would mean that the ECITB would have no levy income after the financial year ended December 2010 and the only money available for operating purposes would be its reserves, which would soon be exhausted.

Option2 - approve the levy propoosals and enable the ECITB to raise the income it requires to continue to provide incentives by the way of grants for employers who train and to deliver the training services required by the industry.

The achievements and performance of ECITB and its administration of the levy are reviewed annually by DIUS.

14th January 2009

Summary: Analysis & Evidence

Policy Option: 2	Description: **Impose a levy**

COSTS

ANNUAL COSTS	Description and scale of **key monetised costs** by 'main affected groups' (over 3 Years)	
One-off (Transition) **Yrs**	Completion of assessment returns	£204k
£ 0	Levy Payment	£58.0m
Average Annual Cost (excluding one-off)		
£ 19.40m	**Total Cost** (PV)	**£ 58.20m**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS	Description and scale of **key monetised benefits** by 'main affected groups' (over 3 years)	
One-off **Yrs**	Recruiting and developing new entrants	£33.20m
£ 0	Re-skilling and Qual Workforce	£16.01m
Average Annual Benefit (excluding one-off)	Supervisory and Management Training	£20.46m
£ 23.23m	**Total Benefit** (PV)	**£ 69.67**

Other **key non-monetised benefits** by 'main affected groups'

The ability of the industry to recruit from a pool of skilled workers reduces recruitment and labour costs.

The experience in other countries is that training levies increase the training done by 20%, for ECITB this would result in an additional 237 NVQs p.a. Small firms do not pay Levy yet may claim Grants for training. Reduced skill shortages reduce pressure on wage rates within the industry

Price Base Year 2008	Time Period Years 1	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ 11.47m**

				Great Britain
				1 Jan 2010
				ECITB
				£ 111k
				Yes
				N/A
				£ N/A
				£ negligble
				No
	Micro	Small	Medium	Large
	Yes	Yes		

negligible	negligible	negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sh

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

ECITB – Note on template figures [DN Peter to update figures if necessarry]

Costs and Benefits Analysis

The costs and benefits shown on the summary page are calculated on the following bases.

- There are estimated to be 411 employers in scope to the industry
- The cost to the industry of completion of levy returns is based on
    - All firms complete an assessment return in order that their levy liability can be calculated. It is estimated that this is a small direct cost amounting to no more than an hour for a small firm up to 8 hours for the largest,
    - Payment of the Levy Bill will take 1 hr
    - Firms eligible to claim grants are required to complete claim forms and it is estimated that this cost amounts to 0.5% per £1000 claimed.
    - The completion of the form is carried out by a professional costing £50 per hour
- The Enforcement costs of £**111k** this year are exceptional as they include the legal fees for a major appeal which is still ongoing and highly unrepresentative of a "normal" year.
- The support given by the Board to each of its key areas of support rises in line with the increase in levy income.
- The support given by the Board to each of its key areas of support rises in line with the increase in levy income.
- Space constraints in the summary sheet means that some benefit headings have had to be combined on a pro rata basis, to show the total value of benefits. The detailed breakdown is shown below.

		20010	2011	2012	Total
Costs		**All Figures £m**			
Cash					
Payment of Levy		19.30	20.20	21.20	**60.7**
Completion of Levy Return/Grant Claims		0.07	0.07	0.07	**0.21**
Total		**20**	**20.9**	**21.9**	**60.91**
Discounted (Discount rate 2.9%)					
Payment of Levy		19.30	19.63	19.07	**58**
Completion of Levy Return/Grant Claims		0.070	0.07	0.06	**0.2**
Total		**20**	**20.31**	**19.73**	**58.2**

		All Figures £m			
		20010	**2011**	**2012**	**Total**
Benefits					
Cash					

Recruiting & developing new entrants		7.90	7.90	8.20	**24**
Reskilling existing workforce		3.50	4.50	3.60	**11.6**
Supervisory & Management training		4.80	5.00	5.00	**14.8**
Qualifying the workforce		1.30	1.00	1.00	**3.3**
ECITB Train to Gain Compact		6.00	6.00	6.00	**18**
Total		**23.5**	**24**	**23.8**	**71.7**
Discounted (Discount rate 2.9%)					
Recruiting & developing new entrants		7.90	7.68	7.74	**23.32**
Reskilling existing workforce		3.50	4.37	3.39	**11.26**
Supervisory & Management training		4.80	4.86	4.72	**14.38**
Qualifying the workforce		1.30	0.97	0.94	**3.21**
ECITB Train to Gain Compact		6.00	5.83	5.67	**17.5**
Total		**23.5**	**23.71**	**22.46**	**69.67**
NPV					**11.47**

An alternative method of looking at the issue is to examine the value of the additional activity delivered to the industry by the existence of the board in terms of the additional Qualifications to be delivered as a consequence of the existence of the Levy/Grant system; together with the value of services to the industry provided by ECITB which would not have been provided in its absence.

The proposed levy is expected to deliver 499 NVQ Level 2 achievements and 1187 NVQ Level 3 achievements per annum. The experience in other countries where levies have been introduced indicates that some 20% of these would not have been delivered in the absence of a Levy. The Mackintosh report on the NPV of Apprenticeships shows the NPV of a Level 2 NVQ as £13,012 and that of a Level 3 as £33,894.

Therefore the ***additional*** NPV per annum to be delivered to the industry as a consequence of the additional NVQs funded by the levy is as follows.

NVQ	Additional Number	NPV (£)
Level 2	100	1,297,426
Level 3	237	8,041,148
	Total	**9,338,574**

IMPACT ASSESSMENT

THE INDUSTRIAL TRAINING LEVY (ENGINEERING CONSTRUCTION BOARD) ORDER 2009

The Issue and Objective

1. The measure gives effect to one of the provisions of the Industrial Training Act 1982, which empowers the Secretary of State to set up industrial training boards (ITBs) to ensure that the quantity and quality of training are adequate to meet the needs of the industry for which they are established. It enables the Engineering Construction Industry Training Board (ECITB) to impose a levy on employers, other than the smallest, whose activities fall within its scope (as defined in the Industrial Training (Engineering Board)) Order 1964 (amended by the Industrial Training (Engineering Construction Board) Order 1991).

2. The context of this legislation is unusual in that it is to all intents and purposes self-imposed, and this should be taken into account in any judgment of the way in which it impacts on employers in the engineering construction industry. Against the tide of what was then Government policy of transforming ITBs from statutory to non-statutory organisations, two industries (of which this is one) have, through their representative organisations, persuaded the government to retain their statutory basis, including the

power to impose a levy. This is to address particular industry characteristics which are outlined in paragraph 4.

3. The industry has had a levy/grant arrangement for some 40 years. In previous years levy proposals were submitted annually. As a result of amendments to the Industrial Training Act 1982, which came into force in 2008, levy orders will now cover a three year period. This current order will cover the years 2010 to 2012.

4. The Industrial Training Act 1982 also empowers ITBs to make grants to those employers whose training courses are approved by the Board. An employer who provides no training will have to pay a levy but will get no grant from the Board; an employer who undertakes approved training will pay the levy but may receive grants towards the cost of training. In this way an employer will have an incentive to see that employees receive training and in particular to see that the quality of training is of a standard approved by the Board.

5. In addition to the payment of direct grants, the ECITB funds and manages a range of training programmes, including an apprenticeship scheme and up-skilling training for new entrant and existing adult employees in craft, technician and supervisory management skills. Engineering construction is an industry with considerable movement of labour between employers and projects and a high degree of labour-only subcontracting. These programmes are designed to benefit the industry collectively by providing a pool of skilled labour from which all employers benefit. The Board also provides a free training consultancy service to the industry and develops standards of competence and associated national vocational qualifications and training specifications. It also awards qualifications, often in partnership with other organisations.

6. It is for the Board to make proposals for the particular levy arrangements and rates for the industry. Levy proposals are submitted by ECITB and are subject to Ministerial and Parliamentary approval. This IA concerns the levy arrangements for the three years: 2010 to 2012.

7. The measure is designed to:

- share the cost of training between firms;

- secure an adequate supply of properly trained workers at all levels in the industry;

- meet the administrative expenses of the Board.

Risk Assessment

(i) The problem and harm

8. The statutory Industrial Training Boards (ITBs) which had been set up by the Industrial Training Act 1964 were progressively wound-up between 1981 and 1992 and replaced by new employer-led organisations without a statutory framework.

9. However, employers in the engineering construction industry have consistently put forward a strong case for the continuation of statutory training arrangements for their sector and ministers have agreed to retain a statutory ITB. The ITB is governed by the Industrial Training Act 1982, which includes the power to raise a levy, imposed by an Order which gives effect to proposals submitted by the Board and requiring the approval of both Houses. The smallest employers are exempted from the levy.

(ii) The risk

10. The industry argues that without collectively funded training, paid for by a statutory levy on all employers and administered by the ITB, there is a serious risk that insufficient training will be carried out to meet the industry's skill needs. With a significant movement of labour between employers and projects there is a danger that an individual employer would have little incentive to train their workforce as they will not reap the full benefits of the training and any training they do provide confers external benefits on other employers (from subsequently employing a trained worker).

11. Without a compulsory levy, companies may seek a competitive tendering advantage by declining to train employees and thereby avoiding the associated costs which would be reflected in tender prices. Over time this would result in a decline in the skills level within the industry, skills shortages and wage inflation with a subsequent impact on business performance leading to a less competitive engineering construction industry. Paragraphs 31-48 below demonstrate how the compulsory levy is alleviating the risks and ensuring the industry has the training it needs to sustain current and future business.

Issues of Equity and Fairness

12. The context of this legislation is unusual in that it is to all extents and purposes self-imposed by the employers in the engineering construction industry.

13. It runs contrary to the current position of non-statutory training arrangements in most industry sectors but is nevertheless employer-led and employer-funded in accordance with employers' wishes.

Small Firms Exemption

14. In accordance with the Industrial Training Act 1982 Section 11 (3), levy proposals must include proposals for exempting from the levy any employer who, in view of the small number of his employees, ought in the opinion of the Board to be exempted. In consultation with the industry, provision has been made for the exemption of small firms from payment of the levy as follows:

> Establishments whose combined payroll / labour-only payments to site workers are £275,000 or less are not liable to pay the levy.
>
> Establishments whose combined payroll / labour-only payments to their off-site workers are £1 million or less are not liable to pay the levy.

These exemptions will apply for each of the three years of the Order.

In 2008, 161 establishments (40.5%) were exempted from paying the levy because they fell below the exclusion thresholds.

Options

15. There are two options:

Option 1 - reject the proposals. This would mean that the Board would have no levy income after the financial year ended December 2009 and the only money available for operating purposes would be its reserves, which would soon be exhausted.

Option 2 - approve the proposals and enable the Board to raise the income it requires to continue to provide incentives by way of grants for employers who train. Also to deliver the training services required by the industry.

Identify the Benefits

16. The options have the following benefits:

Option 1 - employers would not have to pay the training levy but, according to the industry, the particular employment patterns in the sector i.e. the itinerant nature of the workforce and use of labour-only subcontractors, mean that employers individually might not be prepared or might be unable to undertake adequate (either qualitative or quantitative) training.

Option 2 - with its operating income secured the Board would be able to continue to organise, manage and fund the range of training services that have been developed on the industry's behalf. The cost would be shared between firms.

Quantifying and Valuing the Benefits and Costs

17. The monetary benefits for each option are:

Option 1 – Do nothing

<u>Benefits</u>

No levy costs for employers
No administration costs for employers
Potentially, no costs associated with training (such as fees, books, travel, subsistence, accommodation and lost income) if employers chose not to train employees
Money not spent on levy would be available for other activities

Option 2 – Impose the levy

<u>Benefits</u>

The value to the industry of ECITB's services was recently calculated to be £2.52 returned to industry for each £1 paid in levy. This includes the direct payments of grants and training programmes and the provision of other services e.g. training consultancy, research & development of training standards, qualifications and materials. There is also the availability of a skilled pool of labour from which all employers benefit.

18. The costs of the options are:

Option 1 – Do nothing

It is very difficult to provide meaningful costs but the industry argues that the impact, over time would include:

Costs

- Industry estimates a significant reduction in the volume of training carried out.
- This will result in greater skill shortages leading in turn to pressure on wages, project over runs on both cost and time.
- Some of this demand will be met by migrant workers particularly from Eastern Europe in the short term however as the economies of Eastern Europe expand it is likely that many of the migrant workers will return to their home countries potentially resulting in greater skills shortages in the future.
- Additionally, the shortage of qualified craftspeople will inevitably result in more unqualified people entering the sector as part of the "Black Economy" with resulting issues of health and safety and quality of finished product.
- Inadequate competence and skills has been cited as the root cause in major plant failures at home and overseas, resulting in loss of life and injury as well as significant financial loss. The adequate training of people mitigates the risk of the occurrence of such events.

Option 2 – Impose the levy

An estimated £19.27m would be raised in net levy (i.e. levy to be received after allowing for bad debts) from the industry in 2010, £20.23m in 2011 and £21.24m in 2012.

Business Sectors Affected

19. Employers in the engineering construction industry as defined in the Industrial Training (Engineering Board) Order 1964 (amended by the Industrial Training (Engineering Construction Board) Order 1991).

20. Number of employers in sector in 2006/07 - 397 (total employees – 71,396 of which 16,087 were employed under labour-only agreements). Employers are not required to register with the ECITB; rather it is for the ECITB to identify those that fall within its scope. 161 (40.5%) establishments fell below the exemption thresholds and thus were not be liable to pay the respective levy in 2006/07.

Compliance Costs for a "Typical" Business

21. The compliance cost for business is:

- the cost of training not previously carried out but which has been encouraged by the imposition of the levy (see note below).

- the cost of completion of the annual levy assessment return

- the amount of the individual levy assessment

- the cost of processing the levy bill

Less

- the benefits of training grants and programmes and other Board services including free training

- productivity from apprentices

- completion value of apprentices to employers (this represents the costs of organising the apprenticeship programme from recruitment through to completion, which but for the existence of the ECITB would have to be borne by the employer).

Note: The purpose of the Industrial Training Act 1982 is to encourage adequate training in any given industry. The imposition of a levy/grant mechanism means additional training costs are incurred in the short term. The cost of training is made up of training fees paid and productivity loss of the trainees attending the course. This cost is difficult to calculate exactly but is estimated to be more than offset by

the future productivity and capability gains of the employees. There is little scope to demonstrate the impact of the levy in isolation since there are no direct industry comparators who are not covered by the levy legislation. However, evidence from Malaysia and Australia suggests that a levy increases the level of training by 19 – 20%.

22. All firms are required to complete an assessment return in order that their levy liability can be calculated. It is estimated that this is a small direct cost amounting to no more than an hour for a small firm up to 8 hours for the largest, at £50 per hour. We have assumed that it takes 3 hours on average to complete an assessment return form.

23. Compliance costs vary from company to company, dependent on its payroll and use of labour-only workers. For the purpose of the costing examples that follow, we have assumed that it takes an hour on average at £50 p/h to complete the forms.

24. A range of examples (based 0n 2007 data) has been provided at Annex 1. The estimates are based wherever possible on statistical information published by the ECITB. Where this was not available assumptions have been obtained from the Board.

Other Costs

25. No other costs have been identified. Neither option has a cost for the Department or the Government.

Results of Consultation

26. The ECITB and its statutory levy system have been retained at the express wish of employers in the sector and their representative organisations. The levy provisions contained within this Order were proposed by the Board and have the support of the industry as required by the Industrial Training Act 1982.

Consultation with Employers

27. Before the Secretary of State can make a levy order he must be satisfied that ITBs have taken reasonable steps to ascertain the views of those who are likely to be liable to pay the levy and that the proposals have the support of the majority (more than 50%) of employers who together will pay more than half of the total levy.

28. Until this year, ITBs were only able to consult with employer organisations on levy proposals rather than directly with employers. However, as fewer firms chose to join associations, it became increasingly difficult for the ITBs to demonstrate support. As a consequence of an amendment to the ITA, which came into force earlier this year, the definition of what constitutes 'reasonable steps' has been widened. This enables ITBs to ascertain the views of employers in one of four ways:

e) By consulting the employer organisations as previously
f) By consulting the employer organisations and also consulting all other employers who are likely to be liable to pay levy but are not represented by organisations
g) By consulting the employer organisations and a sample of the other employers
h) By sampling employers who are likely to be liable to pay levy including those who are not represented by organisations

29.ECITB chose d) and The Leadership Factor Limited, which is an independent research company within the meaning of paragraph 2 of the Regulations, sampled employers who are likely to be liable to pay the levy. The results show that 68% of levy payers are in favour of the proposals and together they will be likely to pay 85% of the value of the levy.

Summary and Recommendations

30. On the basis of expected costs and benefits, option 2 is the preferred option.

31. The conclusion is also sensitive to the belief that employers are best-placed to decide which training arrangements best suit their needs. As required by the governing legislation for Industrial Training

Boards, they have been consulted on and support the levy proposals in question.

Enforcement, Sanctions, Monitoring and Review

32. The achievements and performance of ECITB and its administration of the levy are reviewed annually by DIUS.

How the Government satisfies itself that ECITB represents good value for money

33. There are a number of mechanisms in place:

- ECITB regional fora are made up of industry and trade union representatives and other stakeholders – see below.
- Customer Satisfaction Survey – see below.
- The ECITB sets and awards qualifications approved by the QCA and SQA.
- Government observers attend ECITB Board meetings.
- ECITB Annual Report and Accounts are subject to annual scrutiny by the National Audit Office and are laid before Parliament
- ECITB's systems and processes are subject to the scrutiny of its Audit Committee and internal audit function (which is outsourced to professional auditors)
- Various public funding and other agencies (e.g. LSC, Scottish Enterprise, and QCA) regularly undertake financial and quality audits of ECITB's activities.

Demonstrating the value added by the levy/grant system

a. Identifying and meeting skills needs

34. The Levy/Grant system is an integral part of ECITBs' plans for delivering against the priorities agreed with industry and other key stakeholders, both in funding terms and in providing grant incentives in support of these priorities. In 2003, following the recommendations from the Government's Quinquennial Review and the Board's own strategic review of its services and performance, ECITB has developed a regional service delivery structure. This enables ECITB to deliver its services to match industry requirements in each region. The Board had organised its regional structure into nine ECITB 'regions'. This ensures that the varying requirements of the industry across the UK are represented in both the formulation of policy and the delivery of services. The nine 'regions' either represent geographical areas where there are high levels of engineering construction activity, or specific and significant industry sectors, which have particular requirements. The regions are:

Scotland
North East England
North West England
Yorkshire & Humberside
Wales & South West England
The Midlands
South East & East England
The Offshore Industry
The Offsite Industry

35. Each region has Forum comprising industry employers. The Forum's normally meet three times a year, under the chairmanship of a Main Board member (the Regional Chair). Through this structure ECITB concentrates on identifying and meeting regional skills requirements, and is able to address particular recruitment and training needs. ECITB also works closely with other key regional stakeholders, such as industry clients, Regional Development Agencies, local government agencies, funding bodies, local authorities, training providers, trades unions and the workforce.

36. Each region, through its Regional Forum and Chair, has the authority and responsibility to devise its own objectives and plan within the overall ECITB strategic framework in terms of training outcomes on an annual basis. The regional plan will include training targets, mix and methods required to meet its needs together with leveraged funding arrangements. Such targets and objectives may vary between regions. Furthermore, each regional plan will determine the training providers and partners engaged to deliver regional outcomes, subject to satisfying relevant procurement requirements.

37. An annual regional plan and budget is submitted to the Main Board (via the Management Board) for approval. Once approved, ECITB staff are responsible for the delivery of the regional plan within the agreed budget, and the operational manner in which this occurs.

38. ECITB group their products and services into four main areas: Recruiting and Developing New Entrants to the Industry); Re-skilling and Skills Enhancement for Existing Workers; Leadership and Management Programmes and Qualifying the Workforce (Competence Assurance).

b. Recruiting and Developing New Entrants

39. The ECITB manages a modern / advanced apprenticeship scheme covering 17 skill areas, including craft and technician roles, engineering design and supervision. It also accredits and supports training providers and employers who train apprentices for the industry. Completion rates average more than 65%, delivering highly skilled new entrants to the industry each year.

40. In 2007 the ECITB successfully introduced a new way of delivering apprenticeships that has increased employer engagement and resulted in around 612 apprentices recruited onto ECITB apprenticeships. This gives a total apprenticeship population of over 2,000, almost 10% of the workforce.

41. To support increased skills needs, ECITB has launched two new apprenticeships programmes in Design & Draughting and Project Control and reintroduced an apprenticeship framework in Non Destructive Testing.

42. It has been calculated that for private contractors it would cost up to £60 - 80,000 to put a learner through the 3-4 year Modern Apprenticeship. The ECITB can achieve this for approximately half this cost due to the benefits of economies of scale and the ECITB's apprenticeship models. This involves a four way partnership between the employer, apprentice, ECITB and accredited provider. This improves efficiency, quality of training and learner retention, shares the costs of training between the parties, and develops the supply chain of accredited training providers to meet employer needs. These benefits and objectives which are in line with current Government policy.

c. Re-skilling and Skills Enhancement for Existing Workers

43. In 2006 ECITB introduced the TECSkills (Training in Engineering Construction Skills) programme to replace the long-standing National Skills Development Scheme (NSDS) and also to widen the discipline mix available.

44. The interest in TECSkills has exceeded expectations. As a competency and training framework it is absolutely up to date, and is based on the latest occupational standards as the platform for development. It has been taken up by industry learners throughout the UK in particular in the Offshore industry where a large cohort of ex-servicemen are being re-trained, and in the Midlands where Doosan Babcock adopted the TECSkills programme for training a large number of new entrants to the industry. 565 learners registered on TECSkills programmes in 2007, brining the total learners in the scheme to 656 at 31st December 2007.

d. Leadership and Management Programmes

45. In 2006, the ECITB's Technical, Supervisory and Management Programmes were reorganised and brought together under the control of one programme manager. In total, ECITB offer over 70 different programmes. In 2007, 2,157 learners participated, significantly exceeding the target of 1,100. ECITB also launched a new version of the Supervisory, Management and Technical Development (SMTD) programme, together with an on-line version of this programme specifically developed for the offshore industry.

e. Qualifying the Workforce (Competence Assurance)

46. In 2007, the ECITB Awarding Body service registered almost 4,000 individuals for National and Scottish Vocational Qualifications and 3,000 N/SVQs were completed in the year. ECITB also supports the Client Contractor National Safety Group (CCNSG) in delivering one of the country's leading safety passport schemes through the provision of management and administration services. The ECITB also

manages and administers the ACE initiative on behalf of the industry. This initiative validates and recognises the competence of the onsite onshore craft and technical workforce.

Quality Assurance

47. ECITB received a full inspection by the Adult Learning Inspectorate (ALI) of the apprenticeship programme in 2006. A week long inspection, including visits to many training providers, companies and sites, resulted in satisfactory gradings in all areas. This represents a significant improvement over the findings from the last audit in 2002, when the ECITB was criticised in a number of areas. The inspectors acknowledged this improvement and highlighted and reported on a number of areas of good practice. ECITB also received successful annual audits by Scottish Qualifications Authority (SQA), Scottish Executive (SE), and the Learning and Skills Council (LSC).

Customer Satisfaction

48. The ECITB's 2007 Customer Satisfaction survey showed employer satisfaction had improved to 67% (from 56% in 2006) and highlighted areas of improvement. Employers were particularly satisfied with the range and quality of specialist training courses, the careers advice and support activity, recruiting apprentices and health & safety training. Areas for improvement were reducing bureaucracy and getting stronger links between education and the industry.

Financial Return to Industry for Each £1 of Levy Paid

49. In 2008, for every £1 raised in levy,£2.52 was returned to the industry. This comprised a direct return of £78p (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £1.74 linked with productivity gains and completion values of apprentices, the provision of trainee recruitment and selection, advice on training, the provision of schemes for recording achievements and the development of industry standards. There is also the availability of a skilled pool of labour from which all employers benefit.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

	Yes	No
	Yes	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	Yes	No

Annexes

Annex 1

Example 1: A large engineering construction contractor. The company has over 2,200 site employees and over 900 off-site staff. The levy payment was 1.04% of total payroll.

The company derives most value from grants paid for training its employees.

(B3988)	£	£
Completion of assessment returns	350	
Processing of levy bill	50	
Gross Levy	705173	
	0	
Less		
Grants		952854
Apprentices – placement value		213259
Apprentices – training completion		545600
Free Training		158746
VQ Completions – estimated market value		14250
Totals	705573	1884709
Net Cost/ (Benefit)	(1,179,136)	

Example 2: A contractor in the steel erection industry. It has just under 120 employees on-site. The levy payment was 1.4% of total payroll.

The company in this example pays a levy of over £74,000 and claimed £25,400 in grants, but does not train any apprentices.

(S0227)	£	£
Completion of assessment returns	150	
Processing of levy bill	50	
Levy Payment	74582	
Cost of claiming grants	0	
Less		
Grants		25400
Apprentices – placement value		
Apprentices – training completion		
Free Training		
Totals	74782	25400
Net Cost/ (Benefit)	49382	

Example 3: A general engineering contractor. This company has around 840 employees. The levy payment was 1.2% of total payroll.

The company derives most value from grants paid for training its employees, and the productivity value of its apprentices.

(L0028)	£	£
Completion of assessment returns	100	
Processing of levy bill	50	
Levy Payment	188577	
Cost of claiming grants	0	
Less		
Grants		163079
Apprentices – placement value		223391
Apprentices – training completion		0

Free Training			38318
VQ Completions – market value			300
	Totals	188727	425088
Net Cost/ (Benefit)		(236361)	

Example 4: A small engineering contractor. This company has around 150 employees. The levy payment was 0.16% of total payroll.

The company derives most value from grants paid for training its employees

(K0006)	£	£	
Completion of assessment returns		100	
Processing of levy bill		50	
Levy Payment		4819	
Cost of claiming grants		0	
Less			
Grants			7542
Apprentices – placement value			
Apprentices – training completion			
Free Training			
VQ Completions – market value			300
	Totals	4969	7852
Net Cost/ (Benefit)		(2883)	

Total Compliance Costs

24.The Engineering Construction Industry costs and benefits as a whole are shown below. The anticipated activities in 2009 will result in the following:

Completion of assessment returns	59,550	
Processing of levy bill (@ £50)	11,800	
Levy Payment	18,352,000	
Total	**18,423,350**	
Less		
Grants		4,572,000
Apprentices' Placement Value to employers		24,948,000
Apprentices' Training Completion Value to employers		5,797,000
Free Training Costs		4,380,000
Certification and Quality Assurance Costs		903,000
Training Product Development Costs		513,000
Career Attraction Costs		175,000
Tax Relief		5,100,000
Total		**46,388,000**
Net Cost/ (Benefit)		**(27,964,650)**

N.B. These figures are indicative and are based on best predictions for activity in 2009. It is assumed that apprentice placement and completion values remain at 2008 levels. The calculation above does not include the benefit of companies being able to recruit from a skilled labour pool.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

	Yes	No
	Yes	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	No	No
	Yes	No

Annexes