EXPLANATORY MEMORANDUM TO

THE INDUSTRIAL TRAINING LEVY (CONSTRUCTION INDUSTRY TRAINING BOARD) ORDER 2008

2008 No. 534

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.

2. Description

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

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

3.1 None

4. Legislative Background

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 will give effect to levy proposals submitted to the Secretary of State by the CITB.

5. Extent

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 (Construction Industry Training Board) Order 2008 are compatible with the Convention rights.

7. Policy background

7.1 The purpose of Industrial Training Boards

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 are established.

There are currently ITBs covering the construction and the engineering construction sectors and both are Non-Departmental Public Bodies. They provide a wide range of services and training initiatives, including setting occupational standards and developing vocational qualifications, delivering apprenticeships and paying direct grants to employers who carry out training to approved standards. An order to establish an ITB covering the film industry came into force on 7 December 2007.

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.

Levy Arrangements

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.

This Order gives effect to proposals submitted by the CITB for a levy to be collected by them in 2008. Levy rates are determined by the employer members of the ITB and are fixed in light of the Board's general policy and plans. They must cover the cost of the Board's plans for the year in question. The levy rates are set out in article 4 of this instrument. 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. The proposals are expected to raise £178 million in the year ended 31 December 2008.

Levy orders in respect of the construction industry have been made on an annual basis for many years. This order follows a similar order, the Industrial Training Levy (Construction Industry Training Board) Order 2007.

Articles 3 and 4 of this Order set out the employers on whom the levy can be imposed. Subject to the exemptions set out below, this includes every employer whose main activity is included in the definition of the construction industry as set out in Schedule 1 to the Industrial Training (Construction Board) Order 1964, as amended by S.I. 1992/3048.

The CITB's proposals involved a levy greater than 0.2% of an employer's relevant emoluments with no provision for the issuing of exemption certificates under the ITA. Section 11(8) of the ITA defines "relevant emoluments". Consequently, to make this Order, the Secretary of State had to be satisfied that the proposals are necessary to encourage adequate training in the industry and that one of three conditions is satisfied.

The conditions are:-

(a) that organisations representing more than half the persons likely to pay the levy and organisations representing persons who together are likely to pay more than half the aggregate amount of the levy consider, after taking reasonable steps to consult their members, that the proposals are necessary to encourage adequate training in the industry;

(b) that the Order will be made less than two years after the making of a former levy Order giving effect to proposals in respect of which condition (a) was satisfied and certain conditions regarding the issuing of exemption certificates by the Board are satisfied;

(c) that neither condition (a) or (b) applies, but the proposals are considered by the Secretary of State to be appropriate in the circumstances.

The CITB consulted formally on the levy proposals in the summer of 2007 and they were supported by the industry's main employer organisations, who represent over 50% of employers who the Secretary of State considers are likely to be liable to make levy payments in consequence of the proposals. Those employers are together likely to pay 66.46% of the total levy. Condition (a) above is therefore satisfied.

The Secretary of State has estimated that the amount of levy payable by an employer will exceed 1% of the relevant emoluments and he considers this amount of levy to be appropriate in the circumstances. Accordingly, as required by section 12(6) of the ITA, a draft of this Order has been laid before each House of Parliament for approval.

In autumn 2007, the Secretary of State sent the CITB a draft of this order. The CITB has confirmed it is content that this is suitable for its purposes.

Guidance will be issued to employers by the CITB to explain the new levy arrangements. Guidance is also available on-line from the CITB website (www.citb.org.uk). Employers may either pay the levy in one instalment or by 10 equal direct debit instalments.

Exemptions

The ITA requires that levy proposals include proposals for exempting from the levy employers who on account of their small number of employees ought, in the Board's opinion, to be exempted from the levy. Article 5(1) of this Order reflects the exemption proposed by the CITB.

The exemption is calculated by reference to an employer's expenditure on emoluments and labour costs rather than the number of employees because the numbers employed in any year by any particular employer in this industry, which largely operates on a short-term contract basis with significant usage of labour–only subcontractors, can be difficult to calculate or audit, should that be needed.

In addition, article 5(2) makes provision for certain employers who are charities to be exempt from the levy.

8. Impact

8.1 An Impact Assessment is attached to this memorandum.

9. Contact

Tim Down at the Department for Innovation, Universities and Skills Tel: 0114-259-3235 or e-mail: 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 (Construction Board) Order 2008	
Stage: **Final**	Version: **1**	Date: **6 November 2007**
Related Publications: **The Industrial Training Levy (Construction Industry Training Board) Order 2008**		

Available to view or download at:

http://www.

Contact for enquiries: **Sectors & Equality Team, DIUS** Telephone: **0114 2594291**

The Construction Industry Training Board (CITB) 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 construction industry argues that, without collectively-funded training, paid for by a statuatory 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 CITB 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 CITB would have no levy income for the financial year ended December 2008 and the only money available for operating purposes would be its reserves, which would soon be exhausted.

Option 2 - approve the levy propoosals and enable the CITB 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 next quinquennial review of CITB is due in 2008 but, due to anticipated changes to the Industrial Training Act which should come into force in 2008, the review will be held over until 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'
One-off (Transition) **Yrs**	Payment of Levy £178m
£ 0	Completion of Annual Levy Return £1.35m
Average Annual Cost (excluding one-off)	Completion of Grant Claims £623k
£ 179.9m	**Total Cost** (PV) **£ 179.9m**

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

BENEFITS

ANNUAL BENEFITS	Description and scale of **key monetised benefits** by 'main affected groups' Grant payments and other support for
One-off **Yrs**	Recruitment of Qualified new entrants £151.8m
£ 0	Qualifying existing workforce £77.7m
Average Annual Benefit (excluding one-off)	Improving business performance £52.4m
£ 281.9m	**Total Benefit** (PV) **£ 281.9m**

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

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 2007	Time Period Years 1	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£ 102.6m**

			Great Britain	
			1 April 2008	
			CITB	
What is the total annual cost of enforcement for these organisations?			£ 260k	
			Yes	
			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ neglible	
			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
	Yes	Yes		

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

Evidence Base (for summary sheets)

[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.]

CITB – Note on template figures

Costs and Benefits Analysis

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

- The Levy proposed is for one year therefore an NPV calculation is inappropriate.
- There are estimated to be 75,000 employers in scope to the industry
- The cost to the industry of completion of levy returns is based on
    - 30,000 small employers taking 30 mins to complete the form
    - 30,000 larger employers taking 60 minutes to complete the form
    - 15,000 employers will not complete the forms because they are in their first year of registration with the CITB or cannot be contacted.
    - The completion of the form is carried out by a non professional costing £30 per hour
- The cost of completing Grant claims is based on 30 minutes for each of the 41500 trainees supported by the Board.
- The support given by the Board to each of its key areas of support rises in line with the increase in levy income.

IMPACT ASSESSMENT

THE INDUSTRIAL TRAINING LEVY (CONSTRUCTION BOARD) ORDER 2008

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 Construction Industry Training Board (CITB) [1] to impose a levy on employers, other than the smallest, whose activities fall within its scope (as currently defined in the Industrial Training (Construction Board) Order 1964 (Amendment) Order 1992).

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 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. In practice, this means that each year the construction industry, after a process of consultation (as required by the Industrial Training Act), submits, through the ITB, its proposals for the following year's levy arrangements. The industry has had a levy/grant arrangement for some 40 years.

3. The Industrial Training Act 1982 also empowers ITBs to make grants to those employers that undertake training considered eligible by the Board to receive support. An employer that undertakes no training will have to pay a levy but will get no grant from the Board; an employer that 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.

4. In addition to the payment of grants, CITB-ConstructionSkills funds and manages a range of training initiatives, such as apprenticeship and other new entrant training programmes and schemes to develop and validate the skills of the workforce. The construction industry is characterised by considerable movement of labour between employers and projects and a high degree of labour-only subcontracting. These initiatives are designed to benefit the industry collectively by providing a pool of skilled labour from which all employers benefit. The Board also provides a training consultancy service to the industry and develops standards of competence and associated national vocational qualifications and training specifications.

5. It is for the Board to make proposals for the particular levy arrangements and rates for the industry. Levy proposals are submitted annually by CITB-ConstructionSkills and are subject to Ministerial and Parliamentary approval. This IA concerns the levy arrangements for 2008.

6. 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

[1] CITB currently uses the name CITB-ConstructionSkills to badge its levy and grant activities and this term will be used in the remainder of this document.

7. The statutory Industrial Training Boards set up by the Industrial Training Act 1964 were progressively wound-up between 1981 and 1992 and replaced by new employer-led organisations outwith a statutory framework.

8. However, employers in the construction industry have consistently put forward a strong case for the continuation of statutory training arrangements for their sector.

9. Ministers have acknowledged that insisting on non-statutory arrangements is unrealistic and have agreed to retain a statutory ITB, subject to regular review. 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 annually by the Board and requiring the approval of both Houses. The smallest employers are exempted from the levy.

(ii) The risk

10. The construction industry is characterised by considerable movement of labour between employers and projects and a high degree of labour-only subcontracting. Historically, small firms have carried out the majority of training in the Construction Sector. In 2006 almost 16,000 employers had apprentices of whom 14,600 were in small (10-49 employees) & micro (0-9 employees) firms.

11. In such a transient labour market there is a real 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). 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 with a subsequent impact on business performance.

12. 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. This could result in skill shortages, wage inflation and a less competitive construction industry. Paragraphs 35-49 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 or Fairness

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

14. 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

15. 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 industry, provision has been made for exempting employers with combined payroll and net labour-only payments of £76,000 or less. Around 49,000 (65%) of registered in-scope employers are expected not to be liable to pay the levy. Of this figure, 30,000 (40%) are small firms whose payments are below the threshold. The table below details the number and value of grants claimed by employers in 2006. It demonstrates that small and micro businesses received 46% of grant support, although they were exempted from levy payment. Over half the employers claiming grant are classed as “micro” (fewer than 10 employees) and they claim more

than 20% of total grant spend. Large employers also received levy grant for training but the balance of grants paid reflects the nature of the construction industry: that small employers carry out a substantial amount of training. This is particularly the case at apprenticeship level.

Grant and Support by Size of Employer - Year Ended 31 December 2006			
	Number of Employers Claiming Grant and Other Support	Value of Grant and Other Support Payments £'000	Percentage of Total Grant and Other Support
Large	259	32,991	22%
Medium	1,577	39,505	27%
Small	6,327	34,929	24%
Micro	10,966	32,516	22%
Other	1,336	7,007	5%
Totals	20,465	146,948	100%

Key to size of employer:
Large: 250+ employees
Medium: 50–249 employees
Small: 10–49 employees
Micro: 0–9 employees
Other: Includes new registrations

Options

16. There are two options:

Option 1 - reject the levy proposals. This would mean that the Board would have no levy income for the financial year ended December 2008 and the only money available for operating purposes would be its reserves, which would soon be exhausted.

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

Identify the Benefits

17. 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 extensive use of labour-only subcontractors, mean that employers individually are not prepared or are 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

18. The monetary benefits for each option are:

Option 1 Do nothing

Benefits
No Levy costs for employers
No Administration costs for employers

Option 2 Impose the levy

Benefits

The Board calculates that for every £1 raised in levy, £1.90 was returned to the industry. This comprised a direct return of £1.00 (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £0.90 linked with 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.

19. 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.
- Small and Medium sized employers who carry out a disproportionate amount of apprentice and other training, will be particularly affected as the support they receive from CITB to train their employees will cease.
- 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 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.

Option 2 Impose the Levy

An estimated £178m would be raised in levy from the industry.

Business Sectors Affected

20. Employers in the construction sector as defined in Industrial Training (Construction Board) Order 1964 (Amendment) Order 1992.

21. CITB-ConstructionSkills estimates that the number of companies in-scope is between 75,000 and 80,000. The number of employers registered with CITB-ConstructionSkills is some 75,000. Employers are not required to register with CITB-ConstructionSkills; rather it is for CITB-ConstructionSkills to identify them. Around 49,000 (65%) of registered in-scope employers are expected not to be liable to pay the levy. Of this figure, 30,000 (40%) are small firms whose payments are below the threshold; 4,000 (5%) are employers whose LOSC receipts outweigh their payments (offset to prevent double

charging of levy), and 15,000 (20%) are employers that will not be assessed to levy for other reasons such as first year of registration or cessation of business.

Compliance costs for a "Typical" Business

22. The compliance cost for business is:

- the cost of training not previously carried out but which has been encouraged by imposition of the levy;

- the cost of completion of the annual levy assessment return;

- the amount of the individual levy assessment;

- the cost of processing the levy bill;

- the cost of completing Grant claims;

Less

- the benefits of training grants and initiatives and other Board services.

23. **Note:** The purpose of the Industrial Training Act is to encourage adequate training in any given industry. The cost of training itself cannot be quantified in the examples which follow. It is not possible to estimate the extent to which the imposition of a levy/grant mechanism induces employers to incur additional training costs to those which they might or might not already be incurring, particularly as many employers will have operated under these arrangements for a number of years. 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.

24. All costs are non-recurring. 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 negligible direct cost amounting to no more than one hour per year at £30 per hour for 30,000 of the registered employers and half an hour per year for the other 29,000 who submit a return. It is also estimated that the cost of claiming grants is half an hour per annum per new entrant trainee, half an hour per employee on a Training & Development Plan and half an hour per other grant claim at a cost of £30 per hour.

25. Compliance costs vary from company to company as a levy bill is based on the size of a firm's payroll and use of labour-only workers.

26. A range of examples (based on 2006 data) has been provided in order to demonstrate the costs and benefits of training services provided and grants awarded:

Example 1: A large civil engineering contractor with 2,862 employees, including 28 apprentices, which uses a significant amount of labour-only sub-contractors. The company's levy represents 0.73% of total payroll. 348 grant claims were submitted in 2006 (average value £1,830), largely in respect of the operation of a Training & Development Plan, On-site Assessment and Training Achievements and Plant training.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Registering new entrant trainees (28 apprentices x £15)	420	
Completing other grant claims (348 claims x £15)	5,220	
Levy payment	827,270	
	832,970	
Less: NET attendance grants and allowances directly attributable		59,380
Other grants directly attributable		636,834
Estimated College Fees not directly attributable		28,031
		724,245
NET COST/(BENEFIT)		108,725

Example 2: A large civil engineering contractor with 454 employees, which uses a small element of labour-only sub-contractors. The company's levy represents 0.57% of total payroll. 129 grant claims were submitted in 2006 at an average value of £1,150 in respect of On-site Assessment and Training/NVQ/SVQ Achievements.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Completing other grant claims (129 claims x £15)	1,935	
Levy payment	53,735	
	55,730	
Less: NET attendance grants and allowances directly attributable		Nil
Other grants directly attributable		148,331
		148,331
NET COST/(BENEFIT)		(92,601)

Example 3: A medium sized asphalt & tar spraying business with 55 employees, which employs a small amount of labour-only sub-contractors. Levy represents 0.60% of total payroll and the company made 13 grant claims in 2006 at an average value of £2,635 mainly in respect of Plant Qualifications.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Completing other grant claims (13 claims x £15)	195	
Levy payment	10,021	
	10,276	
Less: Grants directly attributable		34,250
		34,250
NET COST/(BENEFIT)		(23,974)

Example 4: A small roofing business (18 employees) which employs some labour-only sub-contractors. The firm's levy represents 0.56% of total payroll. No grant claims were made in 2006.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Completing Grant claims	0	
Levy payment	2,040	
	2,100	
Less Grants directly attributable		0
NET COST/(BENEFIT)		2,100

Example 5: A micro building repair and maintenance firm with 3 employees and a small amount of labour-only sub-contract payments. The total payroll is below the small firms' exclusion level of £73,000 and thus no levy is payable. The firm made 1 grant claim in 2006 in respect of producing and delivering a Training and Development Plan.

	£	£
Completion of Levy Return	15	
Processing Levy assessment	0	
Producing a Training and Development Plan (3 employees x £15)	45	
Completing other grant claims	0	
Levy payment	0	
	60	
Less: Training and Development Plan grants		1,140
		1,140
NET COST/(BENEFIT)		(1,080)

Total Compliance Costs

Total compliance costs are estimated as follows:	£'000	£'000
Completion of Levy Return (30,000 x £30; 29,000 x £15)	1,335	
Processing Levy assessment (26,000 x £30)	780	
Registering new entrant trainees (42,000 apprentices x £15)	630	
Producing Training and Development Plans (175,000 x £15)	2,625	
Completing other grant claims (150,000 claims x £15)	2,325	
Levy payment	152,307	
	160,002	
Less Grants		113,051
Allowances and Expenses		5,911
College Fees		33,920
		152,882
NET COST/(BENEFIT)		7,120

Employers also receive direct support in respect of subsidised training courses, payments for programme led apprenticeships and training advice for example. This support amounts to approximately £22m.

The industry also benefits from a number of general initiatives and other ConstructionSkills services including recruitment of trainees, development of standards, careers and training advice etc.

Note: ConstructionSkills generates income direct from funding bodies such as the Learning and Skills Council (£50m).

Other Costs

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

Results of Consultations

28. The estimates are based wherever possible on statistical information published by CITB-ConstructionSkills. Where this was not available, assumptions have been obtained from the Board.

29. CITB-ConstructionSkills 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. Evidence of that support has been obtained from the representative employer organisations.

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. As a Non-Departmental Public Body, CITB-ConstructionSkills is subject to a periodic review of its performance and the continuing need for its existence. A key element of such reviews is full consultation with employers in the sector. The last review was completed in October 2003 and the industry confirmed its support for the Board.

33. An ITB's levy proposals are submitted to Ministers on an annual basis. This Order gives effect solely to the Board's 2008 levy.

How the Government satisfies itself that CITB-ConstructionSkills represents good value for money

34. There are a number of mechanisms in place:

- The Sector Skills Council contract with SSDA and have a Sector Skills Agreement, agreed with a wide range of stakeholders across the sector.
- Through CITB-ConstructionSkills' Board, Training Committee and Grants Scheme Working Party (comprised of employer, employee, and education sector representatives from the industry) agreeing, monitoring and reviewing performance targets via the organisation's Scorecard.
- The Quinquennial Review process (conducted most recently in 2003).
- Consensus – CITB-ConstructionSkills is required to demonstrate the support of over 50% of registered levy-paying employers for its plans each year. This is achieved through formal consultation with employer bodies in the sector and this year was confirmed to the Board on 11 October 2007.
- The Employer Tracking Survey – see below.
- Government Observers attend CITB-ConstructionSkills Board and other committee meetings.

- ♦ CITB-ConstructionSkills Annual Report and Accounts are subject to the annual scrutiny of the National Audit Office.

Demonstrating the value added by the levy/grant system

1. Identifying and meeting skills needs

35. The Levy/Grant system is an integral part of CITB-ConstructionSkills' 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. As part of the annual process of consulting the industry to gauge the level of consensus for levy proposals, CITB-ConstructionSkills also sets out proposals for how future levy income will be spent. CITB-ConstructionSkills' Board, Training Committee and Grants Scheme Working Party (comprised of employer, employee, and education sector representatives from the industry) also agree, monitor, and review performance targets via the organisation's Scorecard (see below).

Sector Skills Agreement

36. Sector Skills Agreements (SSAs) are a key mechanism for articulating skills demand and are based on a detailed assessment of the sectors' needs to cover the long-term, medium-term, and short-term, mapping the drivers for change in the sector 5-10 years down the track, and determining skills needs. The SSA was developed in close consultation with the industry and was published in 2005, it can be viewed at: www.constructionskills.net/sectorskillsagreement. Progress towards its delivery (in conjunction with partners, government, employers and training providers) will continue to demonstrate the value returned to industry for their 'investment'.

37. The focus for CITB-ConstructionSkills spans four areas, each with its own challenges:

Shaping Up Industry's Performance
- Securing a significant increase in the number of companies investing in the planned training and development of their workforce
- Developing the leadership and management skills needed to deliver to clients on quality, time and cost
- Identifying and delivering the skills needed for the future growth of the industry – including new working practices, processes, technologies and materials.

Brushing Up the Industry's Existing Skills
- Delivering a major development in the capacity and capability of the On-site Assessment and Training programme
- Ensuring the specialist sector has access to the training and development it needs
- Addressing the challenges posed by the increasing use of migrant labour.

Stepping Up the Quality of Qualified New Entrants
- Increasing apprentice completions and widening opportunities for work-based practice
- Encouraging more women and ethnic minorities to join and stay in construction
- Ensuring there are enough graduates with the right skills, knowledge and understanding.

Infrastructure in Support of These Priorities
- Establishing the Construction Skills Network to provide industry forecasting capability to enable informed forward planning and well-considered agreed solutions[1]
- Developing a Sector Qualifications Strategy, with separate delivery plans for Scotland, Wales and England that will ensure a well-planned and structured approach to the development of qualifications and progression pathways, and which meets sector and learner needs and addresses new skill areas as they emerge
- Exploring different approaches to the delivery of training which meet demand in terms of quantity, delivery models and timing.

38. [1] The Construction Skills Network (CSN) is an industry-wide alliance developed by ConstructionSkills to revolutionise the planning of construction recruitment, training and skills development. It combines a forecasting model with a group of national and regional industry experts, whose specific knowledge

ensures the forecasts are authoritative. By analysing demand from planned projects alongside current training supply across the sector, the Network provides the most comprehensive data on which to plan training resources that has ever been available to the industry. The first outputs of the network were launched in June 2006 and key stakeholders, such as the Office of Government Commerce, will be using these figures as the basis of their skills planning.

2. Influencing a Training Culture

39. Over half the employers claiming grant are classed as "micro" (fewer than 10 employees) and they claim more than 20% of total grant spend.

40. There is evidence that such businesses create significant new job opportunities (because this is where most apprenticeships arise). However, they are less likely to have a formal training plan and budget and rely on the financial support and training advice offered by CITB-ConstructionSkills. Growth in the uptake of the training plan grant option – which rewards the development and delivery of a training plan – is a Scorecard target and is often a first step towards the achievement of Investors in People status.

41. In the 2005/2006 Grant year (the latest for which figures are available), 3,269 employers claimed support for 581,000 training days for 186,000 workers under the Training and Development Plan route, an average of three days per capita. A further 3,183 employers claimed for 212,000 training days under the short duration courses route.

42. In 2006, 40% of 41,543 grant-aided new entrant trainees were employed in micro-businesses. These employers are vital in offering opportunities and are particularly sensitive to the time and financial resource implications of doing so. (See Annex 2 for details of new entrant training).

43. In addition to grant, a significant element of support for the recruitment of new entrants to the industry is delivered by CITB-ConstructionSkills' Modern Apprenticeship Officers, who support employers in recruiting apprentices and monitor their progress during training.

3. Value of Training Influence

44. In 2006, grant expenditure and direct financial support for training provided by CITB-ConstructionSkills was £152.9 m. This represents £733m (1.93m days) of training influence based on a training day cost of £380. In addition, £88.3 m of indirect financial support was given towards recruitment and training for the industry.

CITB-ConstructionSkills' Scorecard

45. Developed, agreed and reviewed in consultation with representative stakeholder groups, the annual Scorecard measures CITB-ConstructionSkills' performance against key industry, effectiveness and efficiency measures. These targets represent an important part of the organisation's direct contribution to addressing the above priority areas, and as such their achievement demonstrates a direct return of value to industry. A copy of the scorecard for 2006 is at Annex 1.

46. Effectiveness measures such as 'Non-Levy Income contribution and the 'Employer Satisfaction Survey' (see below), and Efficiency measures such as 'Operating Costs as a Percentage of Total Costs' and 'Levy and Grant administration costs as a percentage of total Levy plans total Grant', further demonstrate the level of additional value (in funding terms) secured for industry's benefit, and the continued reduction in operating costs to maximise return to industry.

4. Quality Assurance

47. To ensure that training is of an appropriate standard CITB-ConstructionSkills has a dedicated quality assurance team.

5. Employer Satisfaction Survey

48. Independent research into the added value of the levy/grant system is undertaken on an annual basis. Responses from the most recent survey have found:

- 61% of employers believed that the amount of training would decrease in the absence of a statutory training body.
- 59% of employers felt that progress towards a qualified workforce would be hindered by the absence of a statutory training body such as CITB-ConstructionSkills.
- 72% of employers said that the availability of CITB-ConstructionSkills' grant was a positive factor in enabling them to undertake management and supervisory training.
- 84% of employers said that the availability of CITB-ConstructionSkills' grant was a positive factor in enabling them to undertake new entrant or youth training.
- When specifically asked whether the statutory levy/grant system should continue, 75% of all employers said that it should.
- 70% of employers who paid a levy but were not members of any trade association supported the continuation of a statutory levy/grant system.

6. National Construction College

49. By providing youth and adult learners with training across the widest spectrum of construction disciplines beyond what is available through alternative routes, NCC meets the skills needs of industry in areas that might otherwise be left without provision. Including commercially unviable areas such as heavy plant and steeplejack training, NCC activities range from engaging employers and employees to promote the value of staff development and lifelong learning, to recruiting, training and qualifying the widest diversity of workforce.

Financial Return to Industry for Each £1 of Levy Paid

50. In 2007, for every £1 raised in levy, £1.90 was returned to the industry. This comprised a direct return of £1.00 (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £0.90 linked with 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. CITB-ConstructionSkills is working towards achieving a return of £3 for each £1 of Levy paid by 2011.

	Target	2006 Target	2006 Achieved	2005 Achieved
1	Proportion of Employers Claiming Grant Improving Business Performance	35.5%	34.6%	33.9%
2	Employers Investing in Training – Training Plans and IiP Improving Business Performance	3,400	4,100	3,839
3	NVQ/SVQ Achievements through OSAT and EWPA Qualifying the Existing Workforce	35,000	32,284	29,282
4	Health & Safety Test Passes Qualifying the Existing Workforce	245,000	275,664	220,371
5	Recruit Female and Ethnic Minority Trainees Recruiting Qualified New Entrants	386	387	316
6	Framework Achievements Recruiting Qualified New Entrants	60.0%	67.6%	55.0%
7	Programme-Led Apprenticeship Starts Recruiting Qualified New Entrants	1,000	1,058	140
8	STEP into Construction Job Outcomes Recruiting Qualified New Entrants	400	1,119	467
9	NCC Adult Training Efficiency Driving Efficiency	72.0	77.0	78.2
10	Levy/Grant Cost Efficiency Driving Efficiency	1.48%	1.24%	1.53%
11	Operating Costs as Percentage of Total Costs Driving Efficiency	18.7%	18.2%	19.2%
12	Non-Levy Income Contribution Maximising Effectiveness	7.0%	5.5%	7.0%
13	Employer Satisfaction Survey Maximising Effectiveness	7.4	7.4	7.36
14	Employee Satisfaction Survey Maximising Effectiveness	38	37	26
	Board evaluation Maximising Effectiveness	Target	Above	Above

Number of Trainees by Size of Employer and Main Activity – for Year ended 31 December 2006					
Main Activity	Employer Size				Total
	Large	Medium	Small	Micro	
Alteration to a building/part of a building	-	-	12	37	49
Asbestos Removal	-	1	-	-	1
Asphalt and Tar Spraying	-	4	6	1	11
Bricklaying/Pointing	-	16	61	413	490
Building and Civil Engineering	627	4,589	802	785	6,803
Building Repair and Maintenance	152	357	762	695	1,966
Cavity Wall Insulation or Draught Proofing	-	-	2	3	5
Civil Engineering	324	131	120	44	619
Construction Labour Agencies	593	-	26	15	634
Damp Proofing	-	-	1	3	4
Demolition	-	13	17	2	32
Developers	-	1	22	40	63
Diamond Drilling	-	-	1	3	4
Dry Lining or Partition Specialist	-	24	95	37	156
Erecting/Dismantling Exhibition Stands	-	-	2	4	6
Felt Roofing	-	8	46	27	81
Flat Glass Glazing	-	15	28	49	92
Floor covering	-	8	59	45	112
Flooring	19	16	53	85	173
Fitted Kitchen/Bedroom/Bathroom Installation	-	3	35	141	179
General Building	701	2,336	3,455	5,908	12,400
Hard Landscaping	-	-	1	9	10
House Building	829	1,233	474	527	3,063
Interior Fit-out	-	12	46	14	72
Joiner and Carpenter – Site	-	288	835	2,864	3,987
Joinery Manufacture	1	204	816	794	1,815
Mastic Asphalt	-	1	15	2	18
Painting and Decorating	127	535	1,021	1,393	3,076
Paving	-	-	2	5	7
Plant Hire/Repair and/or Tool Hire	121	140	104	368	733
Plastering and/or Artexing	-	73	247	537	857
Preparing/Fixing Stone for Building including Stonemasonry	-	20	102	93	215
Reinforced Concrete Specialist	-	4	14	5	23
Roof Sheeting and Cladding	-	15	46	26	87
Roofing including Slating and Tiling	-	103	402	390	895
Scaffolding	76	187	400	222	885
Shop fitting	29	279	243	118	669
Site Preparation and Groundworks	6	25	18	36	85
Steeplejack/Lightning Conductor Engineering	-	11	65	19	95
Suspended Ceiling Installation	-	6	110	32	148
Swimming Pool Construction	-	-	3	3	6
Wall and Floor Tiling	-	61	77	155	293
Other Activities	23	7	3	240	273
Other (out of scope)	16	19	34	282	351
Totals	3,644	10,745	10,683	16,471	41,543

Key to size of employer:

Large: 250+ employees
Medium: 50–249 employees
Small: 10–49 employees
Micro: 0–9 employees

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.

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

Annexes

< Click once and paste, or double click to paste in this style.>