EXPLANATORY MEMORANDUM TO

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

No. 549

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 Construction Industry Training Board (CITB) to raise and impose a levy on employers in the 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 will give effect to levy proposals submitted to the Secretary of State by the CITB.

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 (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 CITB for levies to be collected by them in 2009, 2010 and 2011. 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. 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 be 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 construction industry as set out in the ITB's founding legislation.

7.8 The CITB'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.

7.9 **Note:** Two changes were made to the ITA in 2007 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

7.10 None

8. Consultation outcome

8.1 The CITB consulted formally on the levy proposals under the new arrangements between April and October 2008. They used option c) detailed in the Note above and have consulted with relevant employer organisations and sampled the views of non-represented employers. The results show that of the associations consulted, 49.4 %, who together are likely to pay 63.6% of the levy, supported the proposals. In the sample of non members, 63.6% supported the proposals. Applying this sample percentage to the total number of non members represents 33.7% of all levy payers. The aggregation of the figures for employer association support and non member support is therefore 83%. In value terms, this represents 90.65% of the total levy forecast.

8.2 CITB has demonstrated, therefore, that it has the support of the majority of employers (83 %) who together are likely to be liable to pay more than half of the total levy (90.65%).

9. Guidance

9.1 Guidance will be issued to employers by the CITB to explain how levy is assessed and how funding and grants can be claimed. General guidance is also available on-line from their website (www.cskills.org).

10. Impact

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

i) on business - The proposals are expected to raise £188m in 2009, £185m in 2010 and £183m in 2011 from the sector. The CITB has calculated that, in 2007, for every £1 raised in levy, £2.03 was returned to the industry. This comprised a direct return of £1.17 (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £0.86 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. CITB is working towards achieving a return of £3 for each £1 of Levy paid by 2011.

10.2 The impact on the public sector is negligible as the levy is funded from the industry and CITB 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. The 2008

levy order set the exemption level at £76,000 and this exempted 40% of employers. This Order proposes to raise the exemption level to £80,000. 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 the CITB to the Secretary of State following their consultations with the industry as described in 8 above.

12. Monitoring & review

12.1 As an NDPB, CITB's performance is subject to annual review by DIUS. The proposals are expected to raise £188m in 2009, £185m in 2010 and £183m in 2011.

13. Contact

13.1 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 (Construction Board) Order 2009**	
Stage: Final	**Version:** 1	**Date:** 12 January 2009
Related Publications: The Industrial Training Levy (Construction Industry Training Board) Order 2009		

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

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

What is the problem under consideration? Why is government intervention necessary?

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 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.

What are the policy objectives and the intended effects?

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 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 levy proposals and enable the CITB 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.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The achievements and performance of CITB and its administration of the levy are reviewed annually by DIUS.

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

A Young .....Date: 14th January 2009

Summary: Analysis & Evidence

Policy Option: 2	Description: Impose a Levy

COSTS

ANNUAL COSTS	
One-off (Transition) **Yrs**	
£ 0	
Average Annual Cost (excluding one-off)	
£ 182.3m	

Description and scale of **key monetised costs** by 'main affected groups' (Three year totals)

Payment of Levy	£540.6m
Completion of Annual Levy Return	£4.3m
Completion of Grant Claims	£2.04m
Total Cost (PV)	**£ 546.94m**

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

BENEFITS

ANNUAL BENEFITS	
One-off **Yrs**	
£ 0	
Average Annual Benefit (excluding one-off)	
£ 192m	

Description and scale of **key monetised benefits** by 'main affected groups' Grant payments and other support for

Grant to Employers	£471.6m
Employer Support Services	£81.1m
Industry Support	£23.4mm
Total Benefit (PV)	**£ 576.1m**

Other **key non-monetised benefits** by 'main affected groups' The experience in other countries is that training levies increase the training done by 20%, for CITB this would result in an additional 11,600 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

Key Assumptions/Sensitivities/Risks The figures included above are the average annual costs and benefits for the three years of the levy order discounted using the HMT deflateor of 2.91%

Price Base Year 2008	Time Period Years 1	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ 29.2m**

What is the geographic coverage of the policy/option?			Great Britain	
On what date will the policy be implemented?			1 April 2009	
Which organisation(s) will enforce the policy?			CITB	
What is the total annual cost of enforcement for these organisations?			£ xxk	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			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	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes	Yes	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Negligible Decrease of £ Negligible **Net Impact** **£** Negligible

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

[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.

- There are estimated to be 76000 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 other employers taking 60 minutes to complete the form
  - 16,000 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 £xx per hour
- The cost of completing Grant claims is based on 30 minutes for each of the 42,000 apprentices supported by the Board, 30 minutes for each employee on a training and development plan and 30 minutes for all other grant claims,
- The support given by the Board to each of its key areas of support rises in line with the increase in levy income.

The costs and benefits shown on the template show the total costs to the Industry of operating the CITB Levy/Grant system and the total value returned to the industry by CITB over the life of the levy order.

The details are shown in the tables below

		2009	2010	2011	Total
Costs		**All Figures £m**			
Cash					
Payment of Levy		188	185	183	**556**
Completion of Annual Levy Return		1.5	1.5	1.5	**4.5**
Completion of Grant Claims		0.7	0.7	0.7	**2.1**
Total		**190.2**	**187.2**	**185.2**	**562.6**
Discounted (Discount rate 2.9%)					
Payment of Levy		188.0	179.8	172.8	**540.6**
Completion of Annual Levy Return		1.5	1.4	1.4	**4.3**
Completion of Grant Claims		0.7	0.68	0.66	**2.04**
Total		**190.2**	**181.88**	**174.86**	**546.94**

		All Figures £m			
		2009	**2010**	**2011**	**Total**
Benefits					
Cash					
Grants		167	159	159	**485**
Employer Support		27	28	28.5	**83.5**
Industry Support		8.8	7.7	7.5	**24**
Total		**202.8**	**194.7**	**195**	**592.5**
Discounted (Discount rate 2.9%)					
Grants		167	154.5	150.1	**471.6**
Employer Support		27	27.2	26.9	**81.1**
Industry Support		8.8	7.5	7.1	**23.4**
Total		**202.8**	**189.2**	**184.1**	**576.1**
NPV		**12.6**	**7.4**	**9.24**	**29.24**

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 CITB which would not have been provided in its absence.

The proposed levy is expected to deliver 50,765 NVQ Level 2 achievements and 7,047 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	10153	132109144
Level 3	1409	47770339
	Total	**179,879,483**

In addition CITB delivers support and non NVQ based learning to the industry valued at £27m at no additional cost to the industry.

IMPACT ASSESSMENT

THE INDUSTRIAL TRAINING LEVY (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 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 5.

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 2009 to 2011.

4. 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.

5. 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.

6. It is for the Board to make proposals for the particular levy arrangements and rates for the industry. Levy proposals are submitted by CITB-ConstructionSkills and are subject to Ministerial and Parliamentary approval. This IA concerns the levy arrangements for the next three years: 2009 to 2011.

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.

[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.

Risk Assessment

(i) The problem and harm

8. 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.

9. However, employers in the 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 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 2007 over 16,000 employers had apprentices of whom 14,900 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 39-51 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 £80,000 or less. This exemption level will apply for each of the three years of this Order.

16. In 2008 around 30,000 (40%) of registered in-scope employers are expected not to be liable to pay the levy because they are small firms whose payments are below the threshold. The table below details the number and value of grants claimed by employers in 2007. It demonstrates that small and micro businesses received 46% of grant support. 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.

Table 4: Grant and Support by Size of Employer			
	Number of employers claiming grant and other support	**Value of grant and other support payments £'000**	**Percentage of total grant and other support**
Large	286	44,506	26%
Medium	1,642	40,224	24%
Small	6,785	41,433	24%
Micro	11,307	37,516	22%
Other	1,955	7,153	4%
Total	**21,975**	**170,832**	**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

17. There are two options:

Option 1 - reject the levy 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 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

18. 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

19. The monetary benefits for each option are:

Option 1 Do nothing

Benefits

No Levy costs for employers
No Administration costs for employers
Potentially, no costs associated with training (such as fees, books, travel and lost income) if employers chose not to train employees

Money not spent on levy available for other activities

Option 2 Impose the levy

Benefits

The Board calculates for the year to 31 December 2007, that for every £1 raised in levy, £2.03 was returned to the industry. This comprised a direct return of £1.17 (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £0.86 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.

The experience of other countries is that the existence of a levy such as this, results in a 20% increase in the numbers of qualifications achieved over what would be delivered without the existence of the levy.

There is also the availability of a pool of skilled labour from which all employers benefit.

20. 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. This has already started to become apparent, with workers from Poland returning as their home market expands.
- 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 £188m would be raised in levy from the industry in 2009, £185m in 2010 and £183m in 2011.

Business Sectors Affected

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

22. CITB-ConstructionSkills estimates that the number of companies in-scope is between 76,000 and 80,000. The number of employers registered with CITB-ConstructionSkills is some 76,000. Employers are not required to register with CITB-ConstructionSkills; rather it is for CITB-ConstructionSkills to

identify them. Around 50,000 (66%) of registered in-scope employers are expected not to be liable to pay the levy. Of this figure, 30,000 are small firms whose payments are below the threshold; 4,000 are employers whose receipts for the provision of sub-contract labour outweigh their payments (offset to prevent double charging of levy), and 16,000 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

23. The compliance cost for business is:

- the net cost, after receipt of CITB grants, of training not previously carried out but which has been encouraged by imposition of the levy. This may include additional materials and equipment required by trainees;

- 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;

- the 'profit' from apprentices' productivity;

- the costs of organising the apprenticeship programme for recruitment through to completion, which, in the absence of the CITB, would have to be borne by the employer

24. **Note:** The purpose of the Industrial Training Act is to encourage adequate training in any given industry. 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. However, evidence from Malaysia and Australia suggests that a levy increases the level of training in an industry by 19-20%.

25. 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 30,000 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.

26. 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.

27. A range of examples (based on 2007 data) has been provided at Annex 1 in order to demonstrate the costs and benefits of training services provided and grants awarded:

Other Costs

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

29. 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.

Results of Consultations

30. 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.

Note

31. In previous years, where levy proposals exceeded 0.2% of payroll and there were no exemptions provisions, the IT Act provided for consultation with representative employer associations. If organisations which represented more than 50% of levy payers, who together were likely to pay more than 50% of the total levy, support the proposals, the Secretary of State could make an order.

32. However, employer association membership has declined as a percentage of the numbers of employers in the industry over the years. It became clear that the current arrangement no longer reflected industry practice. The IT Act was amended in 2008 to change the manner in which consensus is demonstrated. ITBs are now permitted to sample non members of employer associations to determine their level of support for levy proposals which, when taken with the views of the associations, will give a better indication of the support across the industry**.**

33. Evidence of support for the levy proposals, which are the subject of this order, has been obtained under the new arrangements and reflect the views of both the representative employer organisations and a sample of non members. The results of the consultations carried out are as follows:

34. Organisations representing 49.37% of employers likely to pay 66.46% of the forecast levy have given their support for the proposals. In addition a sample survey of unrepresented employers, carried out by the independent company IFF Research, indicates that a further 33.67% of employers, likely to pay a further 27.07% of the forecast levy have indicated their support for the proposals. CITB-ConstructionSkills has demonstrated, therefore, that it has the support of the majority of its employers (83.04%) who together are likely to be liable to pay more than half of the total levy (90.65%).

Summary and Recommendations

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

36. 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

37. As a Non-Departmental Public Body, CITB-ConstructionSkills is subject to annual review of its performance by DIUS, its sponsor department.

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

38. There are a number of mechanisms in place:

- 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.
- 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 a formal consultation with employer bodies and a sample of non federated members in the sector and this year was confirmed to the Board on 14 October 2008.
- 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 and are laid before Parliament.
- ♦ The Sector Skills Council contract with the UK Commission for Employment and Skills and have a Sector Skills Agreement, agreed with a wide range of stakeholders across the sector.

Demonstrating the value added by the levy/grant system

1. Identifying and meeting skills needs

39. 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 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.

Sector Skills Agreement

40. 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'.

41. 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.

42. [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.

2. Influencing a Training Culture

43. In 2007, over half the employers claiming grant and other support were classed as "micro" (fewer than 10 employees) and they claimed more than £37,516,000. This represents 22% of the total grant aid and other support payments made.

44. 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 often a first step towards the achievement of Investors in People status.

45. In the 2006/2007 Grant year (the latest for which figures are available), 5,086 employers claimed support for 744,000 training days for 273,000 workers under the Training and Development Plan route, an average of 2.7 days per capita. A further 2,882 employers claimed for 222,000 training days under the short duration courses route**.**

46. In 2007, 40% of 41,514 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).

47. 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

48. In 2007, grant expenditure and direct financial support for training provided by CITB-ConstructionSkills was £193.9 m. In addition, £88.3 m of indirect financial support was given towards recruitment and training for the industry.

4. Quality Assurance

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

Employer Satisfaction Survey

50. 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.
- 53% of employers felt that progress towards a qualified workforce would be hindered by the absence of a statutory training body such as CITB-ConstructionSkills.
- 84% of employers said that the availability of CITB-ConstructionSkills' grant was a positive factor in enabling them to undertake management and supervisory training.
- 82% 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, 69% of all employers said that it should.

6. National Construction College (NCC)

51. By providing youth and adult learners with training across the widest spectrum of construction disciplines, NCC meets the skills needs of industry in areas that might otherwise be left without provision. This includes 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

52. In its 2007 Annual Report and Accounts which are audited by the Comptroller and Auditor General, for every £1 raised in levy, £2.03 was returned to the industry. This comprised a direct return of £1.17 (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £0.86 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.

Example 1: A large housebuilder with 1,198 employees, including 36 apprentices, which uses some labour-only sub-contractors. The company's levy represents 0.57% of total payroll. In total 778 grant claims were submitted in 2007 (average value £455), largely in respect of the operation of a Training & Development Plan, On-site Assessment & Training Achievements and Management & Supervisory training.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Registering new entrant trainees (36 apprentices @ £15)	540	
Producing a Training & Development Plan (1,198 employees @ £15)	17,970	
Completing other grant claims (594 claims x £15)	8,910	
Levy payment	206,695	
	234,175	
Less: NET attendance grants and allowances directly attributable		103,897
Other grants directly attributable		250,449
Estimated College Fees not directly attributable		23,362
		377,708
NET COST/(BENEFIT)		(143,533)

Example 2: A large building and civil engineering contractor with 534 employees, including 13 apprentices, which uses a significant amount of labour-only sub-contractors. The company's levy represents 0.84% of total payroll. 274 grant claims were submitted in 2007 at an average value of £375 in respect of On-site Assessment & Training, Health & Safety and Off-the-job training.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Registering new entrant trainees (13 apprentices @ £15)	195	
Producing a Training & Development Plan (534 employees @ £15)	8,010	
Completing other grant claims (211 claims x £15)	3,165	
Levy payment	164,546	
	175,976	
Less: NET attendance grants and allowances directly attributable		33,676
Other grants directly attributable		69,128
Estimated College Fees not directly attributable		14,614
		117,418
NET COST/(BENEFIT)		58,558

Example 3: A medium civil engineering company with 170 employees which does not employ any labour-only sub-contractors. Levy represents 0.50% of total payroll and the company made 150 grant claims in 2007 at an average value of £228 mainly in respect of Plant Qualifications and On-site Assessment & Training.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Completing Grant claims (150 x £15)	2,250	
Levy payment	18,264	
	20,574	
Less: Grants directly attributable		34,216
NET COST/(BENEFIT)		(13,642)

Example 4: A small plant hire company (22 employees) which does not employ any labour-only sub-contractors. The firm's levy represents 0.50% of total payroll. No grant claims were made in 2007.

	£	£
Completion of Levy Return	30	
Processing Levy assessment	30	
Completing grant claims	0	
Levy payment	2,795	
	2,855	
Less: Grants directly attributable		0
NET COST/(BENEFIT)		2,855

Example 5: A micro joinery and carpentry business with 1 apprentice. The total payroll is below the small firms' exclusion level of £76,000 and thus no levy is payable. The employer received grant in respect of the apprentice.

	£	£
Completion of Levy Return	15	
Processing Levy assessment	0	
Registering new entrant trainee (1 apprentices @ £15)	15	
Completing grant claims	0	
Levy payment	0	
	30	
Less: NET grants directly attributable		3,386
Estimated College Fees not directly attributable		1,495
		4,881
NET COST/(BENEFIT)		(4,851)

Total Compliance Costs

Total compliance costs are estimated as follows:		£'000	£'000
Completion of Levy Return (30,000 x £30; 30,000 x £15)		1,350	
Processing Levy assessment (26,000 x £30)		780	
Registering new entrant trainees (42,000 apprentices x £15)		630	
Producing Training and Development Plans (273,000 x £15)		4,095	
Completing other grant claims (300,000 claims x £15)		4,500	
Levy payment		165,393	
		176,748	
Less	Grants		137,675
	Allowances and Expenses		5,635
	College Fees		33,844
			177,154
NET COST/(BENEFIT)			(406)

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 £27m.

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

Note: CITB-ConstructionSkills generates income direct from funding bodies such as the Learning and Skills Council (£56m).

Annex 2

Table 7: Number of Trainees by Size of Employer and Main Activity					
Table 7: Number of Trainees by Size of Employer and Main Activity Main activity	Employer size	Total			
	Large	Medium	Small	Micro	
Alteration to a building/part of a building	-	-	27	92	119
Architectural	-	-		2	2
Asphalt and tar spraying	1	5	4	2	12
Bricklaying/pointing	-	10	123	499	632
Building and civil engineering	1,663	3,722	643	790	6,818
Building repair and maintenance	209	337	696	599	1,841
Cavity wall insulation or draught proofing	-	-	3	-	3
Civil engineering	295	148	102	62	607
Construction labour agencies	600	1	23	17	641
Damp proofing	-	-	6	7	13
Demolition	3	12	16	-	31
Developers	-	-	25	58	83
Diamond drilling	-	-	3	-	3
Dry lining or partition specialist	0	28	111	47	186
Erecting/dismantling exhibition stands	-	-	4	3	7
Felt roofing	-	5	38	24	67
Fire Protection	-	4	-	-	4
Flat glass glazing	-	7	22	35	64
Floor covering	-	7	63	43	113
Flooring	27	7	72	96	202
Fitted kitchen/bedroom/bathroom installation	-	2	43	157	202
General building	691	2,110	3,373	5,699	11,873
Hard landscaping	-	-	1	13	14
House building	926	1,104	450	542	3,022
Interior fit-out	-	28	52	13	93
Joiner and carpenter – site	23	299	863	3,182	4,367
Joinery manufacture	-	192	807	754	1,753
Mastic asphalt	-	-	19	2	21
Painting and decorating	175	493	1,003	1,466	3,137
Paving	-	-	1	6	7
Plant hire/repair and/or tool hire	180	174	105	375	834
Plastering and/or artexing	-	78	276	558	912
Preparing/fixing stone for building including stonemasonry	-	13	94	103	210
Reinforced concrete specialist	2	8	9	2	21
Roof sheeting and cladding	-	20	44	27	91
Roofing including slating and tiling	-	125	370	380	875
Scaffolding	56	173	423	248	900
Shop fitting	38	268	204	128	638
Site preparation and groundworks	7	35	21	32	95
Steeplejack/lightning conductor engineering	-	23	67	13	103
Suspended ceiling installation	-	23	102	33	158
Swimming pool construction	-	-	4	2	6
Wall and floor tiling	-	53	79	161	293
Other activities	19	4	4	9	36
Other (out of scope)	17	34	26	328	405
Total	**4,932**	**9,552**	**10,421**	**16,609**	**41,514**

Data from CITB Annual Report 2007

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.

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	No	No
Small Firms Impact Test	Yes	Yes
Legal Aid	No	No
Sustainable Development	No	Yes
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes