EXPLANATORY MEMORANDUM TO

THE INDUSTRIAL TRAINING LEVY (ENGINEERING CONSTRUCTION INDUSTRY TRAINING BOARD) ORDER 2014

2014 No. 791

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

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

2. Purpose of the instrument

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

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

3.1 ECITB's proposals involve a levy greater than 0.2% of an employer's relevant emoluments. Consequently, to make this Order, the Secretary of State must be satisfied that the proposals are necessary to encourage adequate training in the industry and that one of three conditions is met.

3.2 The relevant condition here is set out in section 11(6)(b) of the Industrial Training Act 1982 (ITA). This requires that the Order is made after the making of a levy order ("the earlier order") in respect of which the Secretary of State was satisfied that support for the levy proposals was established in accordance with section 11(6)(a). In this case the earlier order was the Industrial Levy (Engineering Construction Industry Training Board) Order 2012. Section 11(6)(a) was satisfied in relation to that order.

3.3. In relying on section 11(6)(b) the following conditions must also be satisfied: (i) the proposals relating to the earlier order must have included proposals that no exemption certificates would be issued; and (ii) the levy rate must not exceed that contained in the earlier order. Both conditions are satisfied in this case. In addition, the Order must be made within the period beginning on the first anniversary and ending with the second anniversary of the making of the earlier order. The earlier Order was made on 27th March 2012.

4. Legislative Context

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

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

The Minister of State for Skills and Enterprise (jointly with the Department for Education) has made the following statement regarding Human Rights:

In my view the provisions of the Industrial Training Levy (Engineering Construction Industry Training Board) Order 2014 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 the ITBs were established.

7.2 There are currently ITBs covering the construction, engineering construction and Film sectors. ITBs are Non-Departmental Public Bodies. The ECITB, to which this Order relates, 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 engineering construction sector (and also in the construction sector) have consistently supported statutory underpinning for their training arrangements for many years. They argue that the nature of their industry 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 industry's skill needs can be met.

Levy Arrangements

7.4 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.

7.5 This Order gives effect to proposals submitted by the ECITB for levies to be collected by them in 2015. Levy rates are decided by the employer members of the ITB in the light of the Board's policies and plans and they must cover the costs of the Board's plans for the years in question. The levy rates are set out in article 8 of this instrument for different categories of employees. There are different levy rates to be applied in respect of "site" and "off-site" (head office) employees. People engaged under contracts for services are included as "employees" under the ITA. There is no ceiling to the amount of levy paid by an employer which is calculated by reference to the emoluments paid by them to their workers (broadly these are salaries, fees and wages).

7.6 The Order also sets out the employers in relation to which the levy can be imposed. This includes every employer whose main activity is included in the definition of the engineering construction industry as set out in the Industrial Training (Engineering Board) Order 1964 (S.I. 1964/1086) as amended by the Industrial Training (Engineering Construction Board) Order 1991 (S.I. 1991/1305).

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

7.8 The ECITB have proposed a one year levy order. In view of the current economic conditions the ECITB board felt that it was more appropriate to make another one year levy order rather than a three year order. Some employers are concerned about the immediate future and rather than being locked into three year levy rates wanted to retain flexibility on the issue of future levy rates. At present there are different levy rates in respect of "on-site" and "off-site" (head office) activities. However take up of off-site training has been increasing to the point where the ECITB Board have been considering more closely aligning the two rates. Consequently ECITB wanted flexibility to review the levels of levy income required to fund activities in 2016 and 2017.

7.9 The Construction Industry Training Board (CITB) currently have a three-year Levy Order which is in place until 2015. The one year ECITB Levy Order will enable the levy arrangements for both ITBs to be re-aligned and it

is anticipated that both the ECITB and the CITB will propose three year levy orders to be made at the same time in 2015.

Consolidation

7.10 None

8. Consultation outcome

8.1 As et out in paragraph 3.2 above, the ITA does not require the ECITB to obtain employer support for a one year order provided that: (i) the Order is being made within two years of an earlier levy order for which ECITB obtained employer support and (ii) the levy rate is being kept the same as in the earlier levy order. The relevant earlier order, the Industrial Training Levy (Engineering Construction Industry Training Board) Order 2012 was supported by 59% of employers who were leviable for 69% of the levy.

8.2 Although not legally required to do so, the ECITB nevertheless sought the views of all employers who are likely to be liable to pay the levy. They consulted with three employer federations (who in total represent 90 levy-paying employers) and all other employers likely to be liable to pay the levy but are not represented by organisations. Overall the results showed that 68% of employers are in favour of the levy proposals and together they will be likely to pay 76% of the value of the levy.

9. Guidance

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

10. Impact

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

i) on business – the proposals are expected to raise approximately £29m in 2015 from the sector. In 2012, for every £1 raised in levy, ECITB has calculated that £3.63 was returned to the industry. This comprised a direct return of £0.99p (provided through the payment of grants, college fees and other training allowances) plus an indirect return of £2.64 linked with productivity gains and completion values of apprentices, the provision of trainee recruitment and selection, advice on training, the provision of schemes for recording achievements and the development of industry standards.

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

10.3 As the proposed levy rates remain unchanged from the previous Levy Order an Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is determined by the ITA which requires levy proposals to include an exemption for small companies. The exemption level is set according to an employer's total emoluments rather than by the number of employees. This reflects the nature of the industry where employers make extensive use of labour only subcontractors and may directly employ few people. This Order proposes an exemption level for an employer whose payments to site employees are less than £275,000. This equates to an employer who employs 15-20 people. The corresponding exemption level for off-site employees is £1m. In 2013, 129 establishments (35%) were exempted from paying the levy because they fell below the exclusion thresholds. Small firms are, however, eligible to claim grants towards the cost of training their employees.

11.3 The basis for the final decision on what action to take to assist small business is the proposals made by ECITB to the Secretary of State following their consultations with the industry as described in 7 above.

12. Monitoring & review

12.1 As an NDPB, ECITB's performance is subject to annual review by BIS. The ECITB are also subject to Triennial Reviews to assess the effectiveness and value for money of the ITB model. A Triennial Review of all three ITBs is currently in progress and the outcomes of that Review are due to be published this Summer.

13. Contact

13.1 Bruce Barclay at the Department for Business, Innovation and Skills Tel: 0114 207 5009 or email: bruce.barclay@bis.gsi.gov.uk can answer any queries regarding the instrument.