



Department
for Education

Impact Assessment of The Industrial Training Levy (Construction Industry Training Board) Order 2018

January 2018

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Problem under consideration

Background

1. The Construction Industry Training Board (CITB) is the non-departmental public body of the Department for Education which is currently authorised by Parliament (pursuant to the Industrial Training Act 1982) to impose a statutory levy on employers in the construction industry to fund its operations. CITB receives no grant-in-aid funding from Government. Section 11 of the Industrial Training Act 1982 enables CITB to submit proposals to the Secretary of State for the raising and collection of a levy on employers in the construction industry over a period of up to three years. If certain conditions are met, the Secretary of State may give effect to the levy proposals by way of a levy order.

2. The Industrial Training Act 1982 in conjunction with a levy order empowers CITB to collect the levy from employers in the construction industry and then distribute training grants and other support to those employers that undertake training considered eligible by CITB to receive support. The construction industry has had a levy and grant arrangement for some 50 years. CITB is authorised to impose a levy on employers that are 'wholly or mainly' engaged in construction activities throughout England, Scotland and Wales. The Industrial Training (Construction Board) Order 1964 (Amendment) Order 1992 defines what is classed as a construction activity.

3. CITB is currently funded by the levy raised under The Industrial Training Levy (Construction Industry Training Board) Order 2015 (the 2015 Order). The 2015 Order enabled CITB to raise and impose a levy on employers in the construction industry for levy periods in 2015, 2016 and 2017. In order for CITB to raise a levy for subsequent levy periods, CITB is required to make proposals to industry and ultimately government on the rate and exemption thresholds that apply to the levy they propose to raise. Levy proposals are subject to Ministerial and Parliamentary approval. This Impact Assessment is concerned with the levy arrangements for levy periods in 2018, 2019 and 2020.

Challenges

4. CITB operate in a significantly fragmented industry that is characterised by high levels of self-employment and subcontracting. This fragmentation creates disincentives for employers to train and develop the construction workforce, as most recently

evidenced by Mark Farmer's report for the Construction Leadership Council, "*Modernise or Die*¹" and the Review of the Industry Training Boards². In summary:

- The industry is fragmented, with large numbers of small and micro-businesses (over 99% of all businesses) and long supply chains;
- It relies heavily on subcontracting and self-employment (up to 70% of labour is not directly employed), reflecting the project-based nature of much of the work
- It is very cyclical, with drops in output and employment when there is an economic downturn; and
- Investment and productivity levels are weak.

5. Over the next few years, construction faces a particular skills challenge:
 - a. An ageing workforce (30% of construction workers are aged over 50³);
 - b. The potential impact of the UK's upcoming departure from the European Union (a large proportion of the construction workforce in London was born overseas⁴);
 - c. Ambitious plans to increase homebuilding and infrastructure development; and
 - d. Changing skills needs arising from greater modernisation in the industry.

Rationale for intervention

6. There remains a serious and distinct market failure in the development of skills in the construction industry: the trading conditions, incentives and culture do not lead to a sufficient level of investment in skills by employers. The evidence for this is set out in the Farmer Review and Government's own review of Industry Training Boards: employers will often be reluctant to invest in skills (including apprenticeships), because they cannot be confident that they will get a return on that investment over the long term. Skilled workers are often not directly employed, and even where they are, there is a risk that

¹ Farmer Review (2016), <https://www.gov.uk/government/publications/construction-labour-market-in-the-uk-farmer-review>

² Building support: the review of the industry training boards (2017), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/657350/Building_Support_the_review_of_the_Industry_Training_Boards.pdf

³ Figures from Nomis quoted in the Farmer Review (2016), figure 13

⁴ ONS (2017), International immigration and the labour market, United Kingdom: 2016, <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/internationalimmigrationandthelabourmarketukregionaldata>

they will be poached by a competitor who is not investing in skills (what economists call the “free-riding” problem), or that they will have to be laid off if there is an economic downturn. Training is often left to small employers and individuals, who can find it hard to fund and access training.

7. There is a strong public interest in a high-performing, efficient and safe construction industry. The construction contracting sector in the UK accounts for between 8 and 10% of GDP, with an output of £237 billion in 2015⁵, and employs around 2.3 million people⁶. The country’s economic success and social progress rely on building more homes and delivering key infrastructure. There is a further economic benefit from the large number and wide range of employment opportunities that these industries provide, many of them well-paid, highly-skilled and offering good progression opportunities.

Policy objective

8. The objective of the CITB levy is to raise funds to meet CITB’s expenditure on training the workforce across the construction industry in order to secure an adequate supply of skilled labour. CITB provides a wide range of services and training initiatives including: setting occupational standards; funding strategic industry initiatives; and paying direct grants to employers who carry out training to approved standards.

9. Only in-scope employers with a wage bill that is £80,000 or more per annum are required to pay a levy. Consequently, small businesses, 40% of all in-scope employers currently registered with CITB are not required to pay the levy. All employers registered with CITB, regardless of whether they are liable to pay levy, can claim grants towards training. In general, large employers pay more of the levy, but medium and smaller businesses receive the majority of grants paid out because they train more of the industry’s workforce particularly new entrant trainees. The grant scheme supports and incentivises investment in training particularly for smaller businesses which generally have greater constraints in their financial and organisational capacity to invest.

10. Employers in the construction sector have consistently supported the statutory underpinning for their training arrangements. This is evidenced by consistent majority

⁵ ONS (2017), Figure 10, <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/uknonfinancialbusiness/economy/2015revisedresults>

⁶ ONS (2017), Table 6, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2017>

support from the industry for previous CITB proposals for levy orders to meet one of the requirements in the Industrial Training Act 1982 that CITB needs to demonstrate the statutory levy has support from employers and/or organisations representing employers who are likely to be liable for levy payments. Industry has argued 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.

Description of options considered

11. CITB submitted a levy proposal to the Secretary of State in November 2017 for levies to be collected by them relating to levy periods in 2018, 2019 and 2020, as provided under the Industrial Training Act 1982 (2018 – 2020 Levy Proposal). The Secretary of State has agreed that the legal requirements have been met to make an order giving effect to those proposals subject to Parliamentary approval as required by that Act.

12. This Impact Assessment considers the cost and benefits of the approving the 2018 – 2020 Levy Proposal against a counterfactual baseline of rejecting the levy proposal and CITB having no levy in place for 2018 - 2020. Two policy options are therefore examined:

- Option 1 - approve the levy proposals
- Option 2 - reject the levy proposal (no CITB levy for 2018 - 2020)

Option 1 - approve the levy proposals

13. It is for CITB to develop a levy proposal for how the statutory levy should operate to finance their activities. In 2016, CITB established a Levy Working Party (LWP), a small group of industry representatives, to examine the current levy arrangements (put in place by the 2015 Order) and advise on how the levy should operate over 2018-2020 by seeking industry's views and taking into account the external environment and the evolving needs of industry, including the introduction of the Apprenticeship Levy.

14. With the LWP's guidance, CITB scoped out a range of possible options, and entered into discussions with employers to share the developed options and received their feedback before agreeing on the final levy proposal. CITB and LWP agreed that the prevailing economic conditions and skills needs of the sector required a decrease in the levy on industry. Appendix A provides details of the various options considered by CITB and the consultation process undertaken with industry before deciding on the final 2018 – 2020 Levy Proposal.

15. CITB then took reasonable steps to ascertain the views of employers who are likely to be liable to levy payments under the 2018 – 2020 Levy Proposal. The Industrial Training Act 1982 sets out that the Secretary of State may give effect to levy proposals if, after consulting with industry in this way, CITB can demonstrate that employers representing more than half the employers who are likely to be liable for levy payments and employers who together are likely to pay more than half the total amount of levy payable consider the proposals are necessary to encourage adequate training in the industry. The Secretary of State must also consider that the levy proposals are necessary to encourage adequate training in the industry, that levy periods are appropriate in the circumstances and that employers who ought to be exempted in view of their small numbers of employees are exempted from levy payments.

16. The 2018 – 2020 Levy Proposal proposed that the levy arrangements set out for the final levy period in the 2015 Order remain the same save that the PAYE element of the levy rate be reduced from 0.5% to 0.35%. Under the 2015 Order for the final levy period, CITB levy is charged on the wage bill of in-scope employers made up of payments employers make to directly paid employees (PAYE) and the liability for indirect employment using information about Construction Industry Scheme (CIS) payments to determine this liability. Under the 2015 Order, the PAYE element is charged at 0.5% and the liability for indirect employment at a rate of 1.25%. The 2018 - 2020 Levy Proposal is a straight reduction in the rate of the PAYE element of the levy rate by 0.15%, as set out in Table 1.

	Current Levy Arrangements	Levy Proposal 2018 - 2020	Difference
Pay-As-You-Earn (PAYE) rate	0.5%	0.35%	0.15% reduction
Labour Only Sub-Contracted rate	1.25%	1.25%	No change
Small Business Exemption rate	Below £80,000	Below £80,000	No change
Small Business Levy Reduction	Between £80,000-£400,000	Between £80,000-£400,000	No change

Table 1: Difference between the current levy arrangements and the levy proposal

17. Under the 2015 Order, all in-scope employers are required to complete an annual Levy Return but only those with a wage bill that is £80,000 or more per annum are required to pay a levy. This threshold currently exempts around 40% of in-scope employers. In addition, employers with a wage bill of £80,000 or more, but below £400,000, receive a 50% reduction in their levy bill. Around 15,000 small firms out of the 70,000 employers registered with CITB currently benefit from this levy reduction. The 2018 – 2020 Levy Proposal retains these arrangements.

Option 2 - reject the levy proposals

18. The 2018 – 2020 Levy Proposal is expected to raise around £200m each year from the construction sector for CITB to invest in training and skills. Rejecting the 2018 – 2020 Levy Proposal would mean that CITB would have no levy income to invest after Spring 2018. If the levy were to cease, employers would need to determine their own training needs without support, procure their own training directly and, would need to cover the full cost of training; which is currently subsidised through CITB grants. Small and micro-businesses (over 99% of all registered businesses) carry out a disproportionate amount of apprenticeship and other training, and would be particularly affected by having no CITB grant support. Without the grant scheme, it is expected that many small businesses would not be able to afford to train their staff.

19. Due to the particular structure and culture of the UK construction industry, it is difficult to forecast how the construction employers would react to not having a levy in comparison to other industries or other countries' construction sectors. However, previous reviews of CITB⁷ concluded that employers would be unlikely to maintain investment in skills without the CITB levy. It is therefore expected that rejecting the 2018 – 2020 Levy Proposal would lead to a significant reduction in the volume of training carried out, although it is difficult to quantify by how much.

20. Maintaining employer investment in skills is essential in order to produce a pipeline of domestically trained construction workers who are able to deliver key national infrastructure and build many more homes. This is a crucial period for industry which is responding to an ageing workforce, new skills needs from the modernisation of the industry, the impact of the UK's upcoming departure from the European Union, and the Government's plans for a substantial increase in home-building.

21. The Industry Training Board Review published in November 2017 considered the need for the CITB levy in addressing the market failure in the industry following the introduction of the Apprenticeship Levy in April 2017. It determined that any removal of the CITB levy would mean less funding was available overall, at a time when levels of training are needed to increase, because relatively few employers in the construction sector pay the Apprenticeship Levy. More significantly, the Apprenticeship Levy could not fund non-apprenticeship training, nor could it fund sector wide work on research, standard-setting or attracting people to work in the industry.

22. The Industry Training Board Review supported the CITB levy being retained alongside the Apprenticeship Levy, but recommended that CITB work with employers to

⁷ Building Support: the review of the Industry Training Boards (2017) & Industry Training Boards: combined triennial review (2015), <https://www.gov.uk/government/publications/industry-training-boards-combined-triennial-review>

make sure that the levies complement each other and collectively provide value for money. The CITB Levy also needs to support the distinct policies and systems in Scotland and Wales.

Monetised and non-monetised costs and benefits of each option

Costs

23. The total costs to industry of the 2018 – 2020 Levy Proposal are both the direct costs arising from the amount levied and indirect administration costs associated with complying with the levy assessment arrangements. In terms of direct costs, Table 2 shows the amount CITB expect to raise from the 2018 – 2020 Levy Proposal for each levy period.

Levy period	Current Levy Arrangements	Option 1: Approve 2018 – 2020 Levy Proposal	Option 2: Reject 2018 – 2020 Levy Proposal
2018	£215.2m	£193.1m	£0m
2019	£223.8m	£196.9m	£0m
2020	£232.8m	£208.1m	£0m
Total	£671.8m	£598.1m	£0m

Table 2: Forecast amounts to be raised from levy proposal for each levy period

24. Table 2 also shows the amount CITB would have expected to raise if the current arrangements under the 2015 Order were to remain in place for 2018-2020. The reduction in the PAYE rate as shown in Table 1 for the 2018 – 2020 Levy Proposal will reduce the CITB’s levy income by around £22m to £26m per year. Consequently, CITB will have less income to spend on activities to support the construction industry over 2018-2020. During the development of the 2018 – 2020 Levy Proposal, CITB agreed to reduce the amount levied on industry and concluded that this reduction in levy income was at a level that would not inhibit the delivery of its strategic objectives.

25. Table 3 provides an estimate of the amount the 2018 – 2020 Levy Proposal will raise from employers of different sizes and compares this to how much they would be paying if the current levy arrangements were to continue. These figures are indicative based on average projections across in-scope construction employers.

Size of employer	Number of employers of each size based on 2015 Levy Returns	Estimated levy payable under current levy arrangements	Estimated levy payable under 2018-2020 Levy Proposals	Average Annual Decrease of levy payable under the 2018-2020 Levy Proposals
Micro (0–9 employees)	51,525 (estimated 32,500 to be exempt from paying any levy)	£49.2m	£47.1m	-£41
Small (10–49 employees)	7,522	£52.9m	£47m	-£784
Medium (50–249 employees)	1,390	£51m	£43.6m	-£5,324
Large (250+ employees)	231	£62.8m	£51.6m	-£48,785

Table 3: Estimated CITB levy payable by employer size

26. Under the 2018 – 2020 Levy Proposal, it is expected around 40% of in-scope employers will continue to be exempt from paying levy due to being below the £80,000 wage bill threshold. CITB estimate 99% of levy paying employers (excluding those exempt) will see a reduction in their levy bills as a result of the 2018 – 2020 Levy Proposal. The other 1% of employers which only employ indirect subcontracting labour will see no change in their levy bill as the rate levied on indirect subcontracting labour will not change. No employers will see an increase in their levy payments as a result of the 2018 – 2020 Levy Proposal compared to payments due under the 2015 Order.

27. CITB estimate that around 900 out of the 28,000 CITB levy paying employers will pay both the CITB levy and Apprenticeship Levy. The Apprenticeship Levy is only paid only by those businesses with pay bills of over £3 million a year. However, this is very much an estimate as it was not possible to be confident about the number of connected companies that would be captured by the Apprenticeship Levy.

28. Figures 4, 5 and 6 demonstrates CITB’s estimate of CITB levy payable under the the 2018 – 2020 Levy Proposal by in-scope employers of different sizes, location and construction activities. Figures 4, 5 and 6 also shows the total amount each group is estimated to pay as part of the Apprenticeship Levy and if the current levy arrangements were to continue.

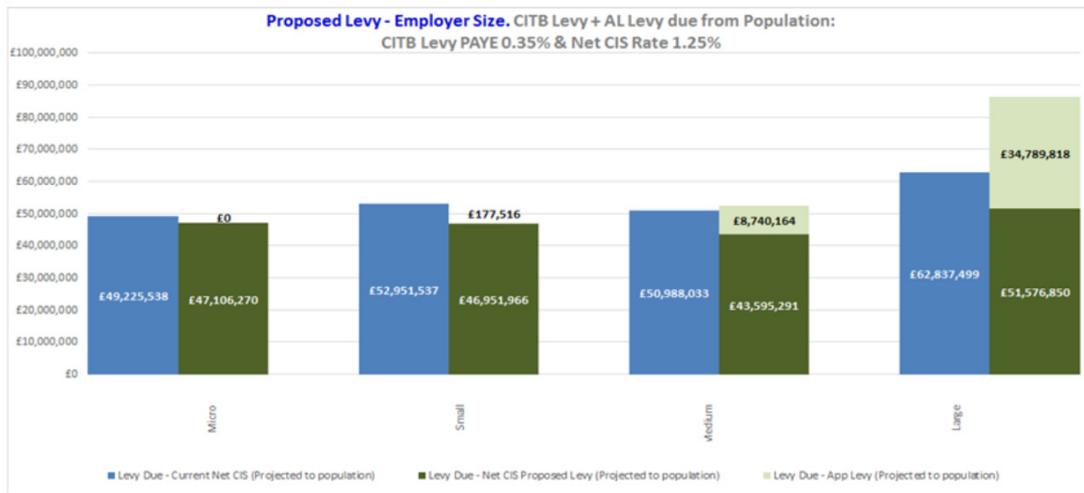


Figure 4: Estimated CITB levy and Apprenticeship Levy payable by employer size

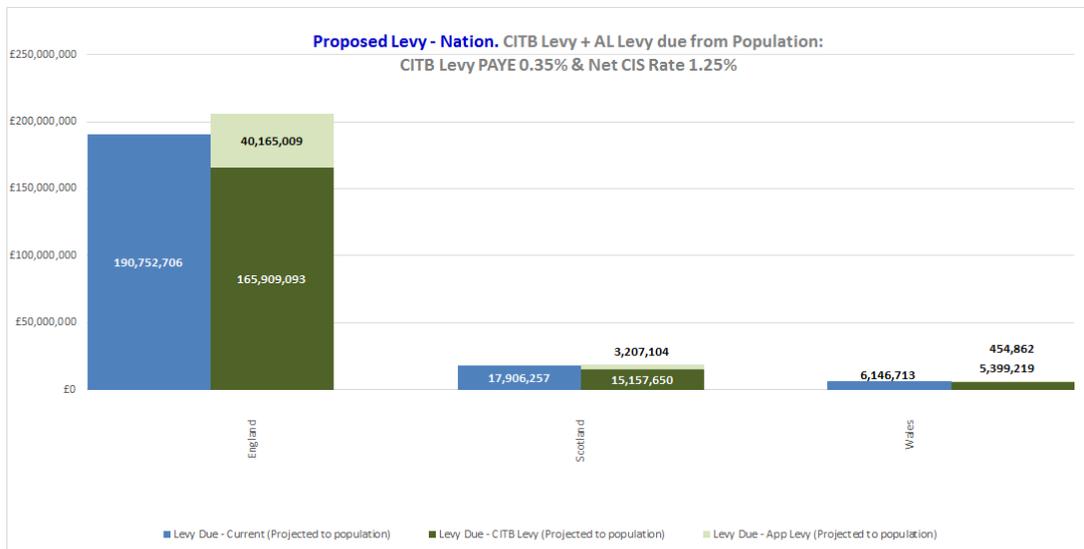


Figure 5: Estimated CITB levy and Apprenticeship Levy payable by employers in England, Scotland and Wales

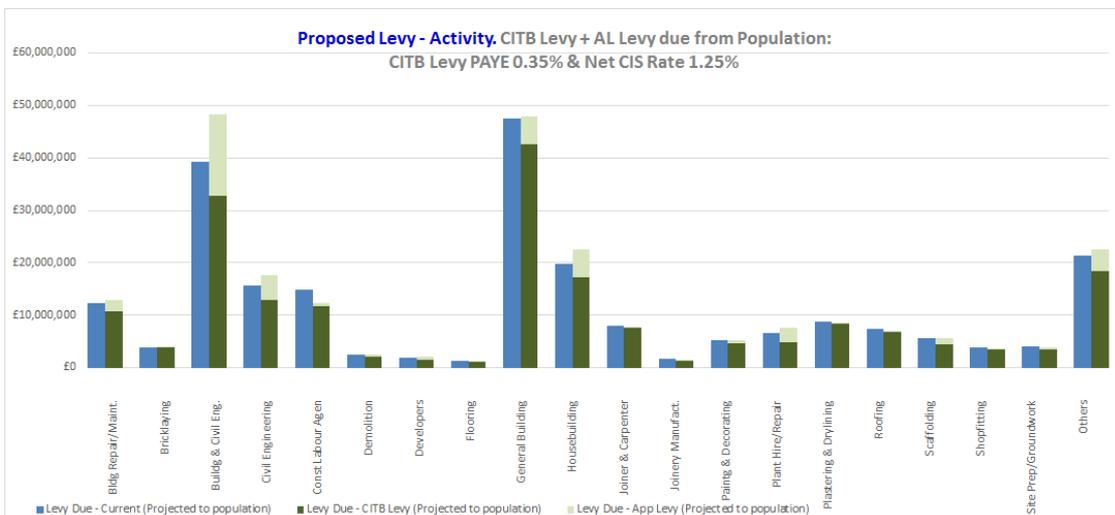


Figure 6: Estimated CITB levy and Apprenticeship Levy by construction activity

29. Indirect costs from the 2018 – 2020 Levy Proposal include the cost of employers completing their annual Levy Returns providing details of the number of employees on their payroll and the size of their wage bill. This is a requirement of all in-scope constructions employers to allow CITB to calculate the levy bills for employers. The compliance costs relate to staff time or using third parties (e.g. accountants) in completing the Levy Return. Compliance costs depend upon the size of a employer's payroll and use of subcontractors.

30. CITB introduced changes to simplify Levy Returns in 2017 following consultation with industry which have reduced the administration costs for businesses. It was estimated as part of the 2015 Order Impact Assessment⁸ that the overall cost to industry to complete Levy Returns following simplification is around £5m annually. This was based on the average responses from a small scale survey of employers in 2014 about the time and cost required to complete Levy Returns. This is the most of recent estimate available of compliance costs.

31. All employers who are registered with CITB, both levy payers and small firms exempt from paying any levy, can claim grants. The completion of grant claim forms has an administration cost for employers. No recent estimate has been undertaken by CITB of this cost but CITB is introducing new proposals in April 2018 to automate the grant payments so firms no longer have to apply. The new automated system is aimed at reducing the administration burden on firms, particularly SMEs, with employers no longer having to engage in completing grant applications.

32. The monetised direct and indirect administration costs of rejecting the levy proposal (option 2) would be zero as no levy regime would be in place for 2018-2020. This, however, needs to be weighed against the benefits of the levy described below and the serious risk that insufficient training would be carried out in the absence of the levy.

Benefits

33. The money raised by the levy is used to fund the CITB's functions to support the construction industry to make sure it has the skilled workforce it requires. CITB's core function is providing direct grants to employers to train new staff or develop the skills of their existing workforce. CITB also delivers a range of other functions, such as funding for skills initiatives, sector wide work on research, developing standards and qualifications, and promoting construction as a career.

34. The monetised benefits of the levy can be described in terms of how CITB plan to invest the levy income to support the construction industry and in terms of the estimated

⁸ https://www.legislation.gov.uk/ukia/2015/159/pdfs/ukia_20150159_en.pdf

economic benefits of the additional quality and quantity of training which occurs as a result of this investment by CITB – in relation to higher earnings for learners and higher profits for employers, as a consequence of the impact of training on workers’ productivity.

35. CITB’s planned expenditure to support industry over 2018-2020 is set out in Table 7. CITB generate income through self-funded commercial activity alongside the levy income it raises. CITB’s running costs are paid from both the levy and its commercial activity. This enables CITB to return more money to industry than raised by the levy. As the levy allows for CITB to exist as an organisation, and allows it to leverage these commercial funds, we have attributed all the industry support provided by CITB to the continuation of the levy and approval of the Levy Proposal 2018 – 2020.

Type of CITB funding to support industry	2018/19	2019/20	2020/21
Grants Scheme	£150.3m	£152.4m	£156.4m
Programme Based funding	£18.0m	£21.1m	£23.3m
Indirect Support	£29.6m	£29.8m	£30.5m
Total	£197.9m	£203.3m	£210.2m
Forecast levy income from Levy proposal	£193.1m	£196.9m	£208.1m
Percentage of return on forecast Levy Income	102.5%	103.3%	101%

Table 7: Estimated CITB funding to support industry over 2018 – 2020

36. CITB’s grants scheme provides employers with grants for a wide range of training courses and qualifications. In 2016, around 40% of the grants were provided to support employers with the additional costs of employing an apprentice in construction. Government funding generally covers apprenticeship training costs with CITB’s grants supporting employers with the costs of having an apprentice such as wages, travel and tools. The grant scheme therefore incentivises employers to take on apprentices in a sector that has inherent disincentives in doing so. Grants are also provided for a range of Vocational Qualifications (VQs) at Levels 2 and above for both attendance and achievement, to support employers to produce training and development plans and for the achievement of plant tests (e.g. theory and practical tests required to work safely with plant). CITB ensures that all grants for training are to an approved standard to maximise the benefits to the industry.

37. In 2016, the CITB grants scheme helped to support 24,625 apprentices (including 6,599 framework achievements). Around 10,674 of these apprentices were in the first year of their apprenticeship based on the initial payment of first year attendance grant. Of the 24,625 apprentices supported in 2016, 7,641 achieved a VQ (5,464 at Level 2 and 2,177 Level 3). The grants scheme also supported 10,803 other VQs, 3,145 Training and

Development Plans, and 23,816 plant tests.⁹ The total number of employers in receipt of grant in 2016 was 16,101 (2015 15,374).

38. Looking at the distribution of grants across different employers, Table 8 provides details of the number and value of grants claimed by employers in 2016, the most recent year available for comparison. It demonstrates that micro, small and medium employers received around 60% of grant support. Large employers also received grants for training, but the balance of grants paid reflects the nature of the construction industry: that smaller employers carry out a substantial amount of training. CITB expects the number of firms receiving grants and the proportion going to smaller employers to rise significantly as a result of the reforms to be introduced from April 2018, in particular the automation of grant payments.

Employer size	Number of employers receiving grant and other support	Value of grant and other support payments	Number of grant supported apprentices
Micro (0–9 employees)	9,389	£24m	5,697
Small (10–49 employees)	4,961	£27.4m	8,783
Medium (50–249 employees)	1,289	£36.4m	5,497
Large (250+ employees)	231	£52.8m	3,706
Other (new registrations)	231	£2m	1,156

Table 8: Grant and support by size of employer (2016)

Source: CITB Annual Report and Accounts (2016)¹⁰

39. Table 9 shows the economic benefits of apprenticeships and other vocational qualifications at Levels 2 and 3. For example, achieving a Level 3 apprenticeship boosts someone’s earnings by 16% on average and generates total economic benefits of £88,000 (Net Present Value) over the rest of the learner’s working life. Figure 10 shows how the increased earnings from gaining a qualification in construction compares favourably with other sectors.

40. Table 9 also gives a sense of the benefits which the additional training to new and existing staff funded by the CITB levy is likely to bring, although it is not possible (nor

⁹ <https://www.citb.co.uk/global/about-us/annual-report-accounts-2016.pdf>

¹⁰ <https://www.citb.co.uk/global/about-us/annual-report-accounts-2016.pdf>

indeed proportionate) to provide a total NPV figure without knowing exactly what the levy funding would be spent on. Furthermore, not all of the benefits will be attributable to the incentives arising from the grants scheme because not all training is additional: some training would take place and some new trainees would have been taken on by employers in the absence of the levy.

	Increased earnings in employment	Lifetime economic benefits (NPV)
Apprenticeship Level 2	11%	£61,000
Apprenticeship Level 3	16%	£88,000
Full level 2	11%	£66,000
Full level 3	9%	£68,000

Table 9: Economic benefits of apprenticeships and other vocational qualifications

Source: BIS research papers (2015) ¹¹

Increased earnings by subject for apprenticeships

	Level 2	Level 3
ICT	20%	14%
Engineering	17%	26%
Transport	17%	25%
Construction	11%	32%
Secretarial	10%	7%
Retail	10%	10%
Customer Service	10%	8%
Caring	10%	18%
Catering	10%	7%
Business	9%	11%
Hair and Beauty	8%	10%
Leisure & Tourism	0%	5%
Average	11%	16%

Source:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480627/BIS-15-652-FE-analysis-further-disaggregation-employment-and-earnings-returns-by-sector-group.pdf

Figure 10: Increased earnings in employment across different sectors at Level 2 & 3

¹¹ <https://www.gov.uk/government/publications/further-education-measuring-the-net-present-value-in-england>

41. CITB’s annual surveys of stakeholders and levy paying employers shows the importance of the levy and grant system to the industry. These surveys show that this continues to be strongly supported by employers in the construction industry, who recognise its value. The result of a survey CITB conducted in 2017, showed that, consistent with previous years, more employers felt the levy and grant system is important to maintaining training with the industry (65%) than important to their own firm (44%) as shown in Figure 11.

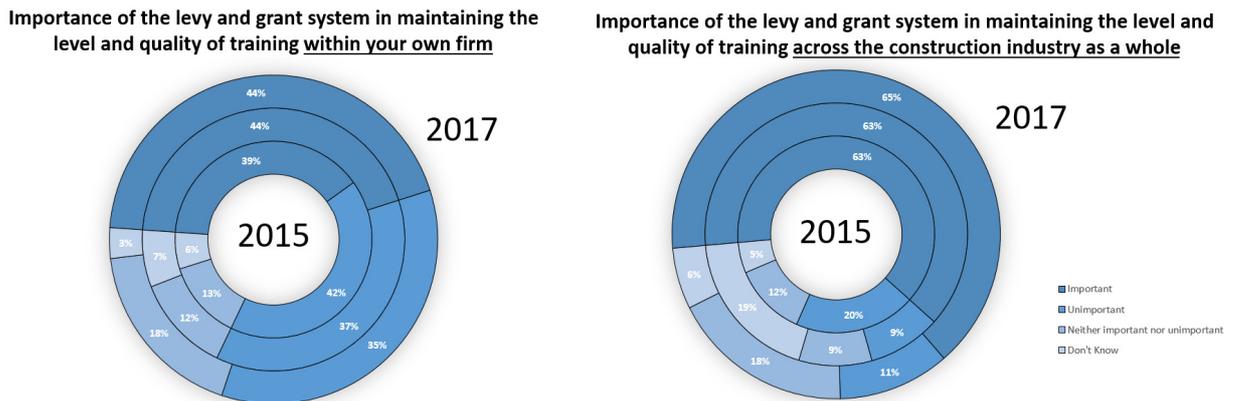
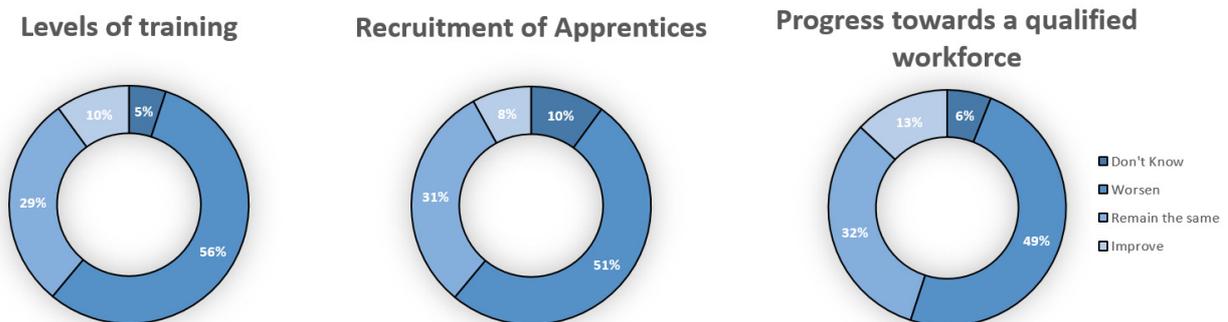


Figure 11: CITB survey of employers on the importance of the levy/grant system

Source: CITB Employers and Stakeholder Survey 2017 (Corporate Performance)

42. CITB’s annual surveys of levy registered employers also provides self-reported evidence of what would happen without CITB. In 2017, 1,900 levy registered employers were surveyed about what would happen if there was no CITB to levels of training, apprentice recruitment and progress towards a qualified workforce, the largest response from levy registered employers in each case is that the situation would worsen.



¹² <https://www.gov.uk/government/publications/further-education-comparing-labour-market-economic-benefits-from-qualifications-gained>

Figure 12: CITB survey of employers on what would happen without the CITB

Source: CITB Employers and Stakeholder Survey 2017 (Corporate Performance)

43. In terms of CITB’s wider offer, its programme based funding supports training and development projects that are not supported by the grants scheme. Around £20m for each year of 2018 – 2020 Levy Proposal has been allocated for this purpose. Levy registered employers along with other eligible construction stakeholder groups can apply for this programme based funding. Only projects that meet CITB’s priorities for skills and training and demonstrate value for money will receive this funding, to ensure all projects deliver the best economic returns for the construction industry.

44. CITB also provides a variety of areas of indirect support which are not necessarily attributable to an individual employer, but provide a wider benefit to industry. A description of these and the areas are set out in Table 13. Around £30m has been allocated by CITB for each year of the 2018 – 2020 Levy Proposal for this purpose.

Support Area	Description of support area	2018/19	2019/20	2020/21
Training Provision	Provision of training to address market failure where training provision is uneconomic due to high cost and low volumes such as steeplejack, lightning conductor and plant operations apprenticeships.	£11.0m	£10.9m	£11.2m
Standards & Qualifications	Provision of support for construction specific standards and qualifications including apprenticeship frameworks and new T-level qualifications.	£0.9m	£0.9m	£0.9m
Partnership Teams	Provision of a field-based network of advisors working with employers to provide information, advice and guidance and devolved administrations, local government, Local Authorities, and Local Enterprise Partnerships and to support the construction skills agenda and needs.	£11.9m	£12.2m	£12.6m
Research	Activity to support the understanding of skills and labour needs in the construction industry providing the evidence base for target interventions.	£2.3m	£2.3m	£2.3m
Careers campaigns	Activity particularly to support better awareness of careers and opportunities in the construction industry to new entrants.	£3.5m	£3.5m	£3.5m
Total		£29.6m	£29.8m	£30.5m

Table 13: Estimated funding for CITB's indirect support over 2018 – 2020

45. Most of these programmes support recruitment into the industry and helping it set industry standards and therefore the direct impact of these interventions cannot be calculated in isolation.

Direct costs and benefits to business calculations

46. Taxes, levies and other charges on business do not count as regulatory provisions and are therefore not subject to the regulatory framework.¹³ The proposed Industrial Training Levy (Construction Industry Training Board) 2018 is therefore out of scope of the regulatory framework. As this Impact Assessment is out of scope, a Equivalent Annual Net Direct Cost to Business (EANDCB) has not been calculated for this Order. In addition, a NPV (the difference between the Present Value of a stream of costs and a stream of benefits) has not been calculated for this Impact Assessment for the reasons explained in paragraph 40.

Wider impacts

Equalities

47. We have reviewed the equalities implications of the 2018 – 2020 Levy Proposal and have concluded that a full equalities impact assessment is not necessary. The 2018 - 2020 Levy Proposal does not directly impact on individuals; but instead relates to the institutional arrangements by which sector training is overseen and developed. There are some significant equalities issues generally in these sectors at the moment: perhaps the most visible issue is the under-representation of women in the industries, but, for example, people from BAME backgrounds are significantly under-represented too. CITB will play an important part in addressing equality issues in the sector, but this is not directly attributable or related to the levy rates proposed.

¹³ <https://www.gov.uk/government/groups/better-regulation-executive>

Small Businesses

48. The Order provides a full exemption for any employer whose labour costs are less than £80,000 (40% of total in-scope employers). Small firms are, however, eligible to claim grants towards the cost of training their employees. Employers with labour costs of £80,000, but below £400,000, receive a 50% reduction in their levy assessment. Around 15,000 small firms out of the 70,000 employers registered with CITB currently benefit from this levy reduction.

Appendix A: Development of the 2018 – 2020 Levy Proposal

49. The industry-led LWP and CITB developed the 2018 – 2020 Levy Proposal over a 7 month period from June 2016 to December 2016. CITB provided the LWP with a impact analysis model that estimated the economic impact of any changes to the current levy rates and thresholds on different construction sub-sectors, geographies and employer sizes. LWP used the impact model to access each of the options against six key criteria:

- Fairness and proportionality of the solution.
- A desire not to increase levy for small and medium-sized enterprises (SMEs) in the sector.
- Consideration of the impact any change would have on particular sub-sectors and in Scotland and Wales.
- Acceptance that the new levy could reduce income to CITB but that this should not be at a level that would inhibit delivery of its strategic objectives.
- That the solution should reduce the burden of the CITB levy on industry overall, and to maintain a balance between contributions from the large, medium and small businesses.
- Consideration of how the introduction of the Apprenticeship Levy would alter the sector's skills requirements and funding needs.

50. The LWP agreed on a shortlist of 13 options including no change. A summary and an assessment of each option against the six criteria is described in Table 14.

Description of options considered	LWP Assessment of each option
No change to the current levy arrangements	
No Change (PAYE 0.5%, Net CIS 1.25%)	This was considered the simplest option and yielded no change in the projected Levy income against current levy agreement. However, it did not take account of the changing external environment and the evolving needs of industry

Description of options considered	LWP Assessment of each option
	which LWP and CITB agreed required a reduction in the amount levied on industry.
Reduce current levy rate of PAYE, Net CIS or both.	
Reduce PAYE rate to 0.25%	Considered simple to implement and offered clarity on which employers it would impact. However, it yielded a £40m reduction in levy income and was not within CITB tolerance levels.
Reduce PAYE rate to 0.3% and reduce Net CIS to 1.2%	Considered similar to reducing PAYE rate to 0.25%, but included a reduction on the Net CIS rate. Yielded a slightly lower reduction in levy income of £36m, but still resulted in a significant reduction in CITB's levy funds and disproportionately benefited medium and large employers.
Reduce PAYE to rate 0.3%	Assessed as almost identical in its effects to reducing the PAYE rate to 0.35%, with a £32m reduction in levy income.
Reduce for PAYE rate to 0.35% (option chosen - 2018 – 2020 Levy Proposal)	As with the other variants described above, deemed simple and transparent. Carried a reduction in levy of £24m which was the least detrimental of this subset of options, seen as being within an acceptable tolerance by the LWP. Was also seen as equitable as it applied the same effects across the whole of the industry, without favouring any particular groups.
PAYE Levy Capped	
PAYE Levy Capped at £3m	Yielded the second most significant negative impact on CITB levy income (-£39m). This option also disproportionately benefited large employers, and some medium employers, and in effect, it directly offset the Apprenticeship Levy.
PAYE Levy Capped at £6m	Very similar effects of PAYE Levy capped at £3m and still represented a disproportionate reduction in levy for medium and large employers. Overall reduction in levy income amounted to £30m, with a corresponding negative effect on CITB's ability to deliver its strategic intent.
PAYE Levy Capped at £9m	Yielded similar effects to PAYE capped at £6m or £3m, with a reduction to levy income of £25m. Reduction in levy disproportionately beneficial to medium and particularly large employers.
PAYE Levy Capped at £12m	Yielded a reduction in levy income of £22m, but disproportionately benefited large employers with a PAYE bill of over £12m.
Tiered PAYE rate	

Description of options considered	LWP Assessment of each option
Tiered PAYE rate (standard rate, reduced to 0.25% over £3m)	Applied existing CITB PAYE levy rate of 0.5% to the first £3m of PAYE, and then a reduced rate of 0.25% for PAYE above £3m, yielding a total reduction in levy income of £19m. Had little impact on small and micro employers. Large employers would have seen the largest reduction in their CITB levy bills. With their £3m threshold for the triggering of the tiered rates, all three of the tiered options were linked to the Apprenticeship Levy.
Tiered PAYE rate (standard rate, reduced to 0.35% over £3m)	Applied a levy rate of 0.35% to PAYE over £3m and resulted in reduction in levy income of just £11.5m. Bulk of reduction sat with medium and large employers.
Tiered PAYE rate (standard rate, reduced to 0.3% over £3m)	Applied a levy rate of 0.3% to PAYE over £3m and resulted in a reduction in levy income of £15m. Bulk of reduction sat with medium and large employers.

Table 14 – List of main options considered by the LWP to change the current levy arrangements

51. The LWP put the options and the assessment of each to the CITB Board. Following discussions between the LWP and the CITB Board a number of key factors were agreed in narrowing down the options and agreeing the final 2018 - 2020 Levy Proposal. These included:

- Increasing and certainly not decreasing the level of training in the sector;
- Identifying a Levy option that continued to promote the concept of a shared industry commitment to working together to address industry-wide issues; and
- Any option that favoured a particular subset of the employer population was not desirable and would be difficult to justify.

52. The culmination of discussions at the LWP in consultation with the CITB Board was a single preferred option. The 2018 - 2020 Levy Proposal was recommended by LWP and subsequently approved by CITB's Board in January 2017. CITB then undertook an informal consultation with industry between on the February and May 2017, before undertaking a formal process to ascertain the views of likely levy paying employers on the 2018 - 2020 Levy Proposal between June and September 2017.



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