

## Build UK Response to Apprenticeship Levy Consultation

### Introduction

1. Build UK brings together 27 of the construction industry's largest Main Contractors and 40 leading Trade Associations representing over 11,500 Specialist Contractors, providing a strong collective voice for the contracting supply chain in construction.
2. Build UK members, and the wider sector, have both a desire and need to increase the number of high quality apprenticeships in construction. Skills shortages remain a potential brake on the industry's ability to deliver projects and CITB has estimated that the sector will need to fill almost a quarter of a million (224,000) jobs by 2019.
3. Employers in construction recognise their responsibility to contribute to the cost of industry training and apprenticeships through the CITB Levy and Grants Scheme. However, the majority of large employers would not be prepared to pay two levies, and we anticipate that the introduction of the Government's Apprenticeship Levy as proposed would lead to firms withdrawing their consensus support for the existing system which would have a devastating impact on training in the sector.
4. This response presents a clear proposition to Ministers to consider a funding model that would:
  - Implement the proposed Apprenticeship Levy – but within a model that does not significantly increase costs for large employers
  - Retain and reform the current CITB Levy and Grants Scheme
  - Increase the number of high quality apprenticeships in construction – contributing towards the Government's ambition for 3 million apprenticeships by 2020.

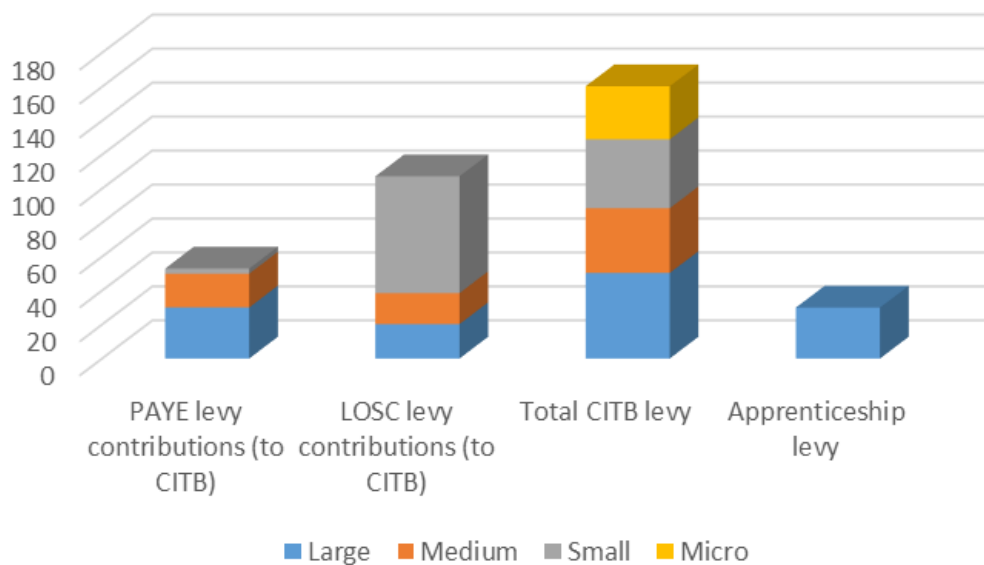
### Current CITB Levy System

5. The current CITB Levy system requires all in-scope companies, above the established threshold, to pay a levy of 0.5% on PAYE employees and 1.5% on total labour only sub-contractor (LOSC) payments.
6. The CITB Levy system receives £160 million each year from just over 60,000 employers, with £130 million returned to firms by way of grants to support a wide range of training. Over £42 million of that figure was spent on supporting 18,500 apprenticeships last year. Of the remainder, £87 million was paid to employers to support other qualifications and wider upskilling, and £30 million was used for industry-wide activities on recruitment, meeting short term needs and other industry projects.
7. The Government's Apprenticeship Levy could raise around £30 million per year from 212 large employers in construction<sup>1</sup>. However, withdrawal of consensus for the CITB levy would mean that five times that amount would be lost from the industry to support training.
8. Individual employers currently in-scope to CITB would then be left to source, fund, manage and deliver their own training and apprenticeships. The loss to employers would not just be financial support, but the wider infrastructure for apprenticeship delivery provided through the CITB Managing Agency and the work done in developing apprenticeship frameworks. As the majority of businesses within the construction sector are SMEs, this would have a devastating impact on the industry's capability to recruit, train and retain a skilled workforce.

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<sup>1</sup> Based on 0.5% PAYE and levy threshold of 250 employees.

Figure 1: Levy payments by employer size (£m)



## Apprenticeships in Construction

9. Skills Funding Agency data shows there were 15,500 starts for 'construction skills' apprenticeship in 2013-14. CITB provides different figures for apprenticeships supported by grants. There is not a clear figure for the whole of the construction industry.
10. The majority of apprenticeships in the sector are delivered by SMEs as part of the contracting supply chain. CITB data shows that the majority of apprentices they support (67%) are employed by small firms and almost half (46%) by firms with less than 10 employees.
11. The £42 million of CITB apprenticeship grants are paid directly to employers. This is essential for SMEs who would otherwise struggle with the time and costs involved in employing and training an apprentice. SMEs with less than 250 employees received £36 million of the £42 million paid in apprenticeship grants.
12. In addition, CITB also supports specialist apprenticeships in construction that receive little or no Government funding, and which are delivered by trade associations, employers and manufacturers within the industry as there is limited college provision available.

## Proposed Apprenticeship Levy

13. Build UK supports the CBI response to the proposals and believes any new Apprenticeship Levy should meet the following requirements:
  - a. **Employers must have control over how levy funds are spent**  
An employer-led Levy Board – independent of Government – should be established to manage and deliver the new system; with a role for employer-led sectoral bodies to ensure levy funds support sector needs.
  - b. **The levy must drive quality**  
The levy must support high quality apprenticeships that deliver the technical skills and knowledge needed by employers in the sector. Funding remedial training for English and maths should remain Government's responsibility.
  - c. **The levy must be proportionate**

The levy rate should be set at a level that realistically allows employers to recover funding to support quality apprenticeships. There is a very real concern that apprenticeship quality will be undermined by firms re-badging existing training as apprenticeships.

d. **The system must be simple for employers to understand**

There is insufficient detail on the proposed levy and voucher system at present; however, the system must be easy and cost effective for employers to engage with.

14. In addition, with the current CITB Levy Order running until March 2018, the timetable for introducing the Apprenticeship Levy must take into account any required changes to the CITB Levy Order to avoid financially penalising in-scope construction employers.
15. An impact of the levy and funding reforms is a reduced level of Government support available for SMEs, with smaller firms required to make up-front cash contributions to providers for apprenticeships. It is essential that Government continues to support SMEs if they wish to achieve the target of apprenticeship starts.

## Build UK Proposition

16. The objective of this proposal is to:

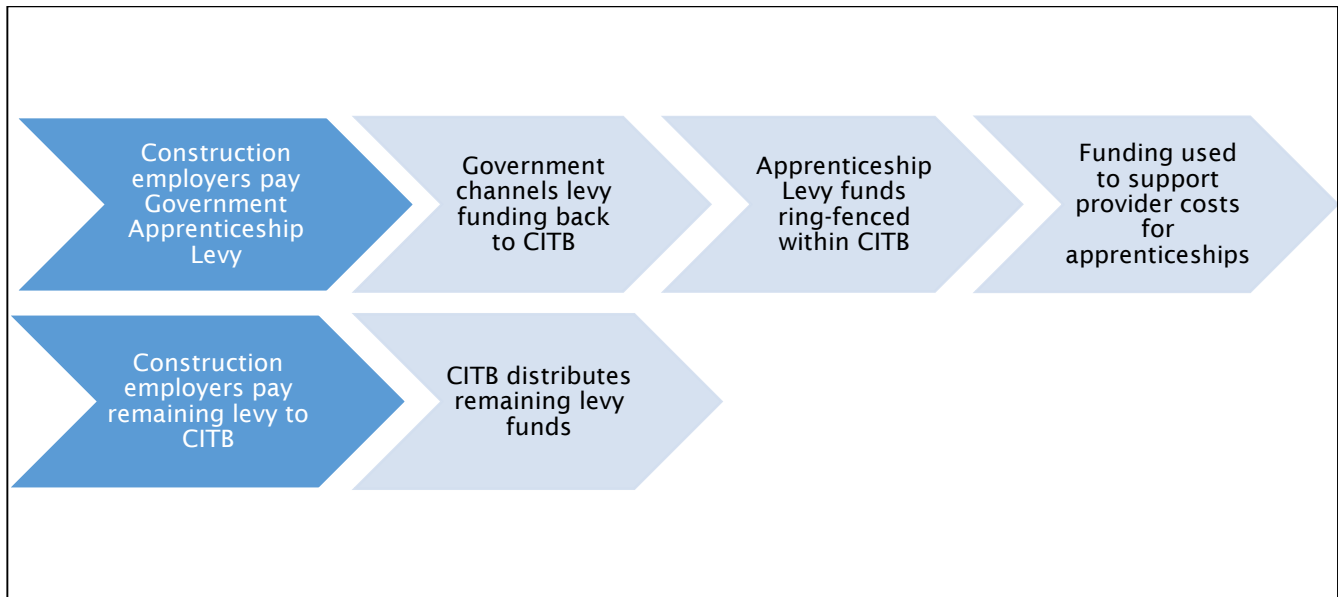
- Implement the proposed Apprenticeship Levy – but within a model that does not significantly increase costs for large employers
- Retain and reform the current CITB Levy and Grants Scheme
- Increase the number of high quality apprenticeships in construction – contributing towards the Government’s ambition for 3 million apprenticeships by 2020.

## *Implement the proposed Apprenticeship Levy*

17. Under the proposed Build UK system, the approach would be as follows:

- Large employers in construction would all be required to pay the proposed Apprenticeship Levy.
- The Apprenticeship Levy contributions of those large employers in-scope to CITB would be channeled back to CITB and ring-fenced specifically for the delivery of apprenticeships.
- Large employers would continue to pay the remainder of their CITB levy contributions: so payment of 1.5% on total labour only sub-contractor payments (assuming Apprenticeship Levy is 0.5% of PAYE).
- All other employers in-scope to CITB and above the CITB threshold would continue to pay the CITB levy without any change.

**Figure 2: Proposed hybrid model for large employers**



## *Retain and reform the current CITB Levy and Grants Scheme*

18. There would be radical reform of the operation of CITB and the current Levy and Grants Scheme with a particular focus on how levy funds are spent to support the skills needs of the sector.
19. The purpose of the sector body and its outputs would need to be considered further, but our initial thoughts are outlined below.

### **Role of Sector Body with Oversight of Training and Skills**

#### *Purpose*

To deliver a system that enables employers within the industry to recruit, train and retain a workforce that has the right skills in the right place at the right time to meet the demand for its services.

#### *Key outputs:*

- Administering an efficient levy system
- Working with Government to deliver an agreed number of high quality apprenticeships
- Delivering a skills programme that takes a strategic approach to addressing employers' skills needs including funding for training, apprenticeships and qualifications
- Developing a framework of occupational qualifications and apprenticeships
- Inspiring people to pursue a construction career enabling employers to recruit and train the skilled workers the industry needs
- Supporting employers, particularly SMEs, in meeting their skills needs
- Working with providers to ensure sufficient training capacity is available.

### **Reform of CITB Levy and Grants Scheme**

#### *Strengths of current system*

- CITB levy is endorsed by industry (in-scope employers)
- Levy is paid annually – and hence allows for fluctuations in workforce/project levels
- Grant is paid to the employer – not the provider – in line with principles of Richard Review
- Grant covers more than apprenticeships, reflecting different training required by industry
- Funding is paid on attendance and achievements, incentivising employers to complete staff training.

#### *Weaknesses of current system*

- CITB system can be bureaucratic
- Employers do not always understand what support is available
- CITB funds too many disparate programmes
- Employers do not have a strong enough role in shaping priorities.

#### *Priorities for reform*

- Grant funding needs to be more strategic and based on strong employer input
- Funding to incentivise the recruitment, training and retention of apprentices ensuring long term career development
- The system must be measurable and accountable and clearly demonstrate added value to both industry and Government.

#### *Increase the number of high quality apprenticeships in construction*

20. The current apprenticeship system does not deliver sufficient numbers of apprentices for the industry's needs. Work is underway to re-structure the delivery system and further details can be provided.
21. Whilst apprenticeship numbers will be influenced by workloads, clear steps can be taken to encourage construction employers to take on more apprentices. These include:
- Having clear industry career and progression paths
  - Developing a portfolio of apprenticeship frameworks that reflect the changing needs of industry
  - Better linking learning done in colleges with a clear apprenticeship route into the industry – for example, by developing a generic one-year construction course that provides the basic skills employers in the industry need, and from which people can progress into industry apprenticeships
  - Ensuring procurement better defines skills and apprenticeship outcomes - employers are working with the Construction Leadership Council to define best practice
  - Ensuring a secure network of providers – the industry sometimes struggles with finding sufficient provider provision and assessors to deliver training, either due to the scattered 'project' nature of the construction workforce or the specialist nature of training required
  - Agreeing an appropriate number of apprenticeship in line with the Government's objective.
22. Employers cannot deliver the required changes to construction apprenticeships alone, and the approach must be a partnership between business, Government and industry bodies working together to deliver an agreed action plan.
23. Build UK strongly urges Ministers to implement the levy proposals in the most effective way for construction. However, specific comments on the questions set out in the consultation are provided in Appendix 1.

#### **Further Information**

24. Build UK would be pleased to discuss any of the issues raised in this response. For further information, please contact:

Simon Nathan  
Policy Director  
Build UK

E: [Simon.Nathan@BuildUK.org](mailto:Simon.Nathan@BuildUK.org)  
T: 0844 249 5351

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## Appendix 1: Answers to Consultation Questions on Apprenticeship Levy

### ***Should levy funds raised from larger employers support training by smaller companies?***

If Apprenticeship Levy funds in construction are channeled through CITB, then the same system should apply as with CITB levy with funding available to in-scope employers.

If the Apprenticeship Levy contributions of large employers were paid to HM Treasury and distributed through the Government voucher system, then funds generated by larger firms should be reserved for use by those firms. Under this system, large firms should have the option of using some of their vouchers to support training in their supply chains.

If the CITB Levy system is no longer in existence, there will be limited funds available to SMEs, and a substantial impact on the number of construction apprenticeships delivered by the sector.

### ***How should the size of firm paying the levy be calculated?***

While number of employees is a fair option, it should be noted that there are different employment models in construction - with some contractors having a large direct workforce and others making extensive use of labour sub-contracting to deliver projects. An option suggested by the sector would be factoring in company turnover into the threshold calculation and potentially also introducing a sliding scale for the levy (similar to the Small Business Levy Reduction used by CITB).

### ***How should the England operations of employers operating across the UK be identified?***

This is challenging in construction given the highly mobile nature of the workforce - home address or contracted place of employment could be used, though this would need further discussion with employers. For companies operating across the UK there is potentially confusion in managing how levy funds are spent - with a voucher system for England, but no decision yet for Scotland, Wales or Northern Ireland.

### ***How long should employers have to use their levy funding before it expires?***

Under a system where the Apprenticeship Levy contributions of large construction employers were distributed by Government, these firms should have the full opportunity to use their vouchers. Construction is a cyclical industry with training levels often related to workloads and therefore an annual limit would lead to stop-go training investment. It is suggested that firms could retain vouchers for three years to allow for better planning of training investment, and to enable companies to have conversations with training providers about their medium term training needs.

### ***Do you agree there should be a limit on the amount that individual employer's voucher accounts can be topped-up?***

Again under a system where the Apprenticeship Levy contributions of large construction employers were distributed by Government, firms should be able to claim top-ups through the voucher system for high quality and sector relevant apprenticeship training. Whilst there will need to be a system for managing the re-allocation of surplus voucher funds, there should not be an arbitrary cap on the number of apprentices an employer can train. There are construction firms who support the industry by over-training, and this should be allowed to continue.

In allocating surplus funds, consideration should also be given to the relative costs of delivering apprenticeships across sectors - with preference potentially being given to high cost industries. The net cost to employers of training an apprentice (internal plus external costs, net of productive benefits) are estimated to be £22,043 in construction over three years, compared to £2,305 for a one-year course in retail<sup>2</sup>. Firms across these two sectors could have a similar number of employees - and hence be issued with the same amount of vouchers - but apprenticeship costs would be markedly different.

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<sup>2</sup> The net benefit to employer investment in apprenticeship training, Warwick Institute for Employment Research 2008

***How can we ensure the levy supports the development of high quality apprenticeship provision?***

Giving a degree of independence to construction employers – through CITB – to manage how Apprenticeship Levy funds are spent will ensure they deliver the skills businesses need. Safeguards will also need to be put in place to ensure employers across sectors do not simply reconfigure training to claim Apprenticeship Levy funds. Ministers have taken steps to maintain quality through the trailblazers and by defining the term apprenticeship and these must continue.

***Does the potential model enable employers to easily access their apprenticeship funding?***

There remain a lot of unanswered questions which make it difficult for employers to fully understand how the potential new system will operate. For example, how will levy payments translate into vouchers? Will Government provide any co-funding of vouchers for large firms and SMEs?

***Should training providers that receive levy funding have to be registered and/or subject to some form of approval?***

Yes – all training providers delivering apprenticeships should have to meet quality checks and inspection.

***How should the system best support the interests of 16-18 year olds?***

The system proposed in the recent trailblazer guidance (July 2015) was for additional Government funded top-ups for 16-18 year old apprentices – and with the raising of the participation age this support should continue. However, it should also be noted that there are some parts of the construction industry where it is more difficult to take-on 16-18 year old apprentices due to health and safety concerns, and these firms will not benefit from any additional funding.

***Do you agree that apprenticeship levy funding should only be used to pay for the direct cost of apprenticeship training and assessment?***

As already outlined, Government should continue to fund English and maths training, and provide additional apprenticeship support for small firms and 16-18 year olds. If vouchers for large firms are covering provider costs, then careful consideration needs to be given to what was funded previously and what will be funded under the new system. For example, SFA currently provides funding for the ‘Apprenticeship element’ which covers an apprentice’s recruitment, induction, progress reviews etc. These are essential parts of the programme and should continue to be supported.