Understanding Training Levies: Final Report

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Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our ambition is to transform the UK’s approach to investing in the skills of people as an intrinsic part of securing jobs and growth. Our strategic objectives are to:

- Maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base;
- Work with businesses to develop the best market solutions which leverage greater investment in skills;
- Provide outstanding labour market intelligence which helps businesses and people make the best choices for them.

The third objective, relating to intelligence, reflects an increasing outward focus to the UK Commission’s research activities, as it seeks to facilitate a better informed labour market, in which decisions about careers and skills are based on sound and accessible evidence. Relatedly, impartial research evidence is used to underpin compelling messages that promote a call to action to increase employers’ investment in the skills of their people.

Intelligence is also integral to the two other strategic objectives. In seeking to lever greater investment in skills, the intelligence function serves to identify opportunities where our investments can bring the greatest leverage and economic return. The UK Commission’s third strategic objective, to maximise the impact of policy and employer behaviour to achieve an internationally competitive skills base, is supported by the development of an evidence base on best practice: “what works?” in a policy context.

Our research programme provides a robust evidence base for our insights and actions, drawing on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring ‘relevance’ to our most pressing strategic priorities; ‘salience’ and effectively translating and sharing the key insights we find; international benchmarking and drawing insights from good practice abroad; high quality analysis which is leading edge, robust and action orientated; being responsive to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a co-ordinated approach to research.

This study, undertaken by Professor Howard Gospel, of King’s College London and the University of Oxford, builds on our Review of Employer Collective Measures which
examined a range of policy levers conducive to encouraging employers to collectively invest in workforce skills. Since its publication, the UK Commission has further developed its policy advice, in the form of producing a ‘best market solutions’ framework and a vision for *Employer Ownership*.

Best market solutions illustrates potential policy levers open to employers for them to decide which would be most appropriate to raise workforce skills. Training levies is one such policy option, alongside other levers like occupational regulation, human capital reporting, Investors in People and inter employer networks. Along with a vision for greater employer ownership, which envisions employers having the responsibility for the design, development and delivery of training to fit their own needs, these policy initiatives put the employer at the heart of deciding what is best for their business and their industry.

In its most rudimentary definition, a training levy is a mechanism whereby firms, within an industry or locality, come together with the express aim of increasing workforce skills, via a mandatory or voluntary agreement. This study examines their effect on employer behaviour, through qualitative research, focusing on three training levies within the UK. The research also identifies different types of training levies, provides a historical and comparative perspective of levies in the UK, and also considers the design factors policy architects would have to take into account in order to establish a levy.

Sharing the findings of our research and engaging with our audience is important to further develop the evidence on which we base our work. Evidence Reports are our chief means of reporting our detailed analytical work. All of our outputs can be accessed on the UK Commission’s website at www.ukces.org.uk

But these outputs are only the beginning of the process and we are engaged in other mechanisms to share our findings, debate the issues they raise and extend their reach and impact. These mechanisms include our *Changing Behaviour in Skills Investment* seminar series and the use of a range of online media to communicate key research results.

We hope you find this report useful and informative. If you would like to provide any feedback or comments, or have any queries please e-mail info@ukces.org.uk, quoting the report title or series number.

**Lesley Giles**

**Deputy Director**

**UK Commission for Employment and Skills**
Acknowledgements

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# Table of Contents

Executive Summary .............................................................................................................. i

1 Introduction .................................................................................................................... 1

2 Research methodology and approach ........................................................................... 3

3 Theoretical starting points ............................................................................................ 5

4 Definitions, taxonomies, and design considerations .................................................... 9
   4.1 Introduction ............................................................................................................. 9
   4.2 Purpose .................................................................................................................... 9
   4.3 Single or multiple functions ................................................................................... 9
   4.4 General revenue-raising and sectoral levy-grant schemes .................................... 10
   4.5 Levy-grant and levy-exemption systems ................................................................. 10
   4.6 Scope ...................................................................................................................... 11
   4.7 Calculation of the levy .......................................................................................... 11
   4.8 The grant ............................................................................................................... 12
   4.9 Governance, management, and accountability ....................................................... 12
   4.10 Assessment and evaluation .................................................................................. 13
   4.11 Renewal ................................................................................................................ 13

5 Historical and comparative perspectives and assessments ...................................... 14
   5.1 Introduction .......................................................................................................... 14
   5.2 Historical perspective ........................................................................................... 14
   5.3 International comparisons and assessments ......................................................... 16

6 Construction Industry Training Board – Construction Skills ................................ 19
   6.1 Industry background ............................................................................................. 19
   6.2 The CITB and the levy-grant ................................................................................ 20
   6.3 Governance and management ............................................................................. 21
   6.4 The grant and training ......................................................................................... 22
   6.5 Views of stakeholders ......................................................................................... 24
   6.6 Conclusions ......................................................................................................... 26

7 Engineering Construction Industry Training Board ............................................... 29
   7.1 Industry background ............................................................................................. 29
   7.2 The ECITB and the levy-grant ............................................................................. 30
7.3 Governance and management ................................................................. 31
7.4 The grant and training ............................................................................. 32
7.5 Views of stakeholders .............................................................................. 34
7.6 Conclusions ............................................................................................ 37

8 Creative Skillset and the Skills Investment Fund ....................................... 39
8.1 Industry background ................................................................................ 39
8.2 The Skills Investment Fund (SIF) ............................................................ 40
8.3 Governance and management ................................................................. 41
8.4 The grant and training .............................................................................. 41
8.5 The pursuit of a statutory levy ................................................................. 43
8.6 Views of stakeholders .............................................................................. 44
8.7 Conclusions ............................................................................................ 46

9 Conclusions ............................................................................................. 48

Bibliography ................................................................................................ 56


### Tables

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Stakeholders interviewed</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2</td>
<td>Potential advantages/strengths, and disadvantages/weaknesses of levy-grant systems</td>
<td>8</td>
</tr>
<tr>
<td>Table 3</td>
<td>Comparisons between Levy schemes</td>
<td>49</td>
</tr>
</tbody>
</table>
## List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full title</th>
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<tbody>
<tr>
<td>ACE</td>
<td>Assuring Competence in Engineering Construction</td>
</tr>
<tr>
<td>ALI</td>
<td>Adult Learning Inspectorate</td>
</tr>
<tr>
<td>BECTU</td>
<td>Broadcasting Entertainment and Theatre Union</td>
</tr>
<tr>
<td>BFI</td>
<td>British Film Institute</td>
</tr>
<tr>
<td>BIS</td>
<td>Department for Business, Innovation and Skills</td>
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<tr>
<td>BTEC</td>
<td>British and Technology Education Council</td>
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<tr>
<td>CBI</td>
<td>Confederation of British Industry</td>
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<tr>
<td>CCNSG</td>
<td>Client Contractor National Safety Group</td>
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<td>CITB</td>
<td>Construction Industry Training Board-Construction Skills</td>
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<tr>
<td>CSCS</td>
<td>Construction Skills Certification Scheme</td>
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<tr>
<td>Cedefop</td>
<td>European Centre for the Development of Vocational Training</td>
</tr>
<tr>
<td>CPCS</td>
<td>Construction Plant Competence Scheme</td>
</tr>
<tr>
<td>ECITB</td>
<td>Engineering Construction Industry Training Board</td>
</tr>
<tr>
<td>EITB</td>
<td>Engineering Industry Training Board</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FITB</td>
<td>Film Industry Training Board</td>
</tr>
<tr>
<td>HND</td>
<td>Higher National Diploma</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>ITB</td>
<td>Industry Training Board</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>ITO</td>
<td>Industrial training organisation</td>
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<tr>
<td>LOSC</td>
<td>Labour only subcontracting</td>
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<tr>
<td>MEECI</td>
<td>Mechanical and Electrical Engineering Construction Industry committee</td>
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<tr>
<td>NAECI</td>
<td>National Agreement for the Engineering Construction Industry</td>
</tr>
<tr>
<td>NAO</td>
<td>National Audit Office</td>
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<tr>
<td>NDPB</td>
<td>Non departmental public body</td>
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<tr>
<td>NSA</td>
<td>National Skills Academy</td>
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<tr>
<td>NTA</td>
<td>National training academy</td>
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<tr>
<td>NCC</td>
<td>National Construction College</td>
</tr>
<tr>
<td>NTO</td>
<td>National Training Organisation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFSTED</td>
<td>Office for Standards in Education</td>
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<tr>
<td>OSAT</td>
<td>Onsite assessment and training</td>
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<tr>
<td>PAYE</td>
<td>Pay as you earn</td>
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<tr>
<td>SIF</td>
<td>Skills Investment Fund</td>
</tr>
<tr>
<td>SFA</td>
<td>Skills Funding Agency</td>
</tr>
<tr>
<td>SME</td>
<td>Small to Medium sized Enterprise</td>
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<tr>
<td>SSC</td>
<td>Sector Skills Council</td>
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<tr>
<td>TEC</td>
<td>Training and Enterprise Council</td>
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<tr>
<td>TUC</td>
<td>Trades Union Congress</td>
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<td>UKCES</td>
<td>UK Commission for Employment and Skills</td>
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Executive Summary

This report provides a qualitative understanding of the benefits of training levies and their impacts in order to better understand how levies affect employer behaviour. To achieve this, the research sets out the following objectives at a high level:

- What does an effective training levy system look like?
- What is the impact of the current levy systems?
- What lessons can be learned in order to encourage employers to participate in levy type systems more widely? What features are most attractive/persuasive to employers?

These objectives have been pursued through a combination of desk research and a small number of interviews with levy operators, employers and stakeholders. The research provides indicative findings to further develop our understanding about employer attitudes and opinions on these issues.

The research covers three training levies: that operated by the Construction Industry Training Board-Construction Skills (CITB), for the construction industry, in England, Scotland and Wales; that run by the Engineering Construction Industry Training Board (ECITB), for engineering construction, in England, Scotland and Wales; and that operated by Creative Skillset, in the form of the Skills Investment Fund (SIF) for the film industry across the UK, with proposals to have a statutory levy covering England and Wales. The first two levies are statutory and the last is voluntary.

A simple framework is developed which suggests that levies may be best considered where there are skill shortages and gaps caused by market failures of specific kinds. A basic taxonomy and design considerations are also outlined covering the following: purpose, single and multiple function, levy-grant v. levy-exemption systems, levy scope, methods of calculation, grant arrangements, governance and management, and accountability.

The report also provides a brief historical context of levies in the UK, makes comparisons with other countries, and considers assessments of the working of grant-levy systems. On the latter, from the literature review, there can be a lack of robustness in the available evidence. Whilst it is reported that there are few good statistically-based studies, the scattered evidence suggests that these schemes have in general had a positive impact on the quantity of training. However, design issues can lead to problems. These are identified in the report.
There follow three sections which deal in detail with the CITB, the ECITB, and the SIF as operated by Creative Skillset. Each section considers the industry background, a brief history of the levy-grant, the operation of the system at the present time, its relationship to training, the governance and management of the system, and employer and stakeholder views.

The research finds evidence that the three levies have the support of most employers in their sectors. In the case of the film industry, the employers support the establishment of a statutory levy and have adhered to this despite the long process of introducing such a system (see page 43).

The research also found that the administrative costs of collecting the levy and paying out the grant are real, but not substantial, in particular in the case of collection. The levy operators contend that against these costs should be set the fact that they ease free-rider and informational problems and more training is done. They also pointed out that their other activities bring in money which, minus costs, can be added to levy funds.

Overall, on the basis of the interviews and other evidence, the levies seem to have a net positive effect on the quantity and quality of training. In terms of employer behaviour, on balance, employers report doing more training under these arrangements than would otherwise be the case. However, there is some evidence that they also ‘game’ the system (see page 7) so as to make sure they obtain some return on the levy paid. The interviews also suggest that under these arrangements training gets built into behavioural routines and employers have come to think rather more long-term and strategically about training.

For many employers and for the sectors as a whole, they therefore add something. However, this is not to deny that some employers, especially large employers, feel they are better able to source and deliver training themselves. There is some evidence of a deadweight effect, but, on balance, the employers interviewed felt this was not the case. Most of the employers felt they were not paying for a training activity they would have done anyway, but rather they were paying for training in a different way.

The research found no evidence that either large firms or small firms benefit most or are particularly disadvantaged. Where there is a small business exemption, there is a redistribution of resources towards small enterprises.

Specific improvements are mentioned in each of the three levy sections, drawing on the comments of employers and other sources. A number of general improvements are suggested in terms of more easily comprehensible statistics, more sophisticated analyses
of cost and benefits, and changes in legislation to make it easier to establish statutory systems where employers so wish.

A final point to stress concerns government funding. The levy-grant systems *per se* are not publicly funded, they require only a small monitoring cost, and they therefore have no effect on public sector borrowing requirements.

In the conclusions, lessons are drawn as to where and how employers might be encouraged to establish and participate in levy-system more widely. These are analysed in terms of supporting conditions, facilitating processes, and design considerations. Finally, areas for further research are outlined.
1 Introduction

In 2011 the Department for Business, Innovation, and Skills (BIS) requested the UK Commission for Employment and Skills (UKCES) to carry out a qualitative study of the working of British training levies and employers’ attitudes to them. One focus was to be on how levies have affected employers’ behaviour and propensity to train, since to-date there is a paucity of evaluation evidence on these matters.

The main aim of the study and the principal objectives are as follows:

• To provide an understanding of the benefits of training levies and what impact they have had/have and why.

• To understand how training levies affect employer behaviour.

Further research questions considered are as follows:

• What does an effective training levy system look like?

• What is the impact of the current levy systems?

• What lessons can be learned in order to encourage employers to participate in levy-systems more widely?

• What features are most attractive/persuasive to employers?

In terms of scope the report covers three levies: that operated by the Construction Industry Training Board-Construction Skills (henceforward CITB), for the construction industry, covering England, Scotland and Wales;¹ that run by the Engineering Construction Industry Training Board (ECITB), for engineering construction, also covering England, Scotland and Wales; and the voluntary levy operated by Creative Skillset, in the form of the Skills Investment Fund (SIF) for the film industry across the UK, with proposals to have a statutory levy covering England and Wales.

A number of initial points are made concerning the scope and limitations of the study.

• The report covers the three industries (construction, construction engineering and film), which are subject to levy-grant systems, within the geographical scope as described above. Tentative generalisation is therefore possible, on the basis of the three levy schemes explored, within the geographical boundaries mentioned in the previous paragraph.

¹ There is also a separate CITB, CITB-ConstructionSkills Northern Ireland, which has sole responsibility for the construction industry in Northern Ireland. Together with CITB-Construction Skills and the Construction Industry Council, it is a partner in the Sector Skills Council for the UK construction industry. See: http://www.citbni.org.uk/.
In order to understand training levies, it is necessary to have some perspective on the history and legal status of Industrial Training Boards (ITBs) in the UK. This is provided in section 5, which also has a short comparative overview of other countries again to provide context. This section also provides an evaluation based on the existing literature.

As will be explained in the research methods section, which immediately follows, interviews were conducted with employers, mostly those paying into the levy, but also some non payers as well. Other stakeholders, trade associations and trade unions, were also interviewed. However, because of restrictions of the research design (time constraints and available resources), the number of interviews is limited and opinions expressed are indicative rather than representative of the respective populations of interest. Nonetheless, the findings herein will provide an understanding of employer attitudes and opinions towards their respective levies.

The structure of the report is as follows. The next section, 2, outlines the methodology and approach. It explains the parameters of the research and how it was conducted. Section 3 provides a brief starting point by way of introducing the theoretical issues concerning the establishment of a training levy, including the dimensions of market failure that would warrant a levy. Section 4 then presents definitions and considers design issues. Section 5 gives some historical and comparative context and draws some assessments based on the literature. The next three sections, 6, 7 and 8, then deal with each of the levies in turn and considering the industry background, a brief history of the levy-grant, the operation of the system at the present time, its relationship to training, the governance and management of the system, and employer and stakeholder views. Finally, section 9 draws conclusions.
2 Research methodology and approach

The research carried out for this study incorporated a number of stages intended to provide background, context and up-to-date assessments of the workings of the three British based levies.

Desk research produced various materials - secondary materials (already published studies and data in the public domain) and primary materials (original documentation, some of which was not in the public domain) from English language sources initially identified from online databases, meta search engines, and the author’s own knowledge of the field. Those stakeholders interviewed also were a useful source of secondary literature. These were used as the basis for sections 6, 7 and 8, and to inform the rest of the research, including the design of the research instruments, semi-structured interview schedules. Schedules were designed for levy operators, employers (covering both those paying into the levy and non payers) and other stakeholders, such as trade associations and trade unions.

Face-to-face interviews were conducted with levy operators at their headquarters and, in each case, staff at strategic and more operational levels were interviewed. These included chief executives, other senior managers, and operational staff engaged in collecting and paying out the levy and organising training. Interview visits lasted from half a day to two days. More staff were interviewed in the case of the CITB than the other two organisations. This, in part, reflects the size of the CITB and also the availability of levy operator personnel at the time of conducting the research. In addition, primary and secondary materials were provided by each of the levy operators.

The interview schedules were used as the basis for conducting telephone interviews with employers, trade associations, and trade unions. Employer sampling has been based on employer size and geographical location. As well as employers, the sampling included organisations which play a role in these levy systems and have a close-hand experience of them, including trade associations and trade unions. Where possible, samples have been generated to provide a good mix of these characteristics. A comment on employer sample selection is important here.

In approaching employers to conduct primary research, this project has been heavily dependent on levy operators to provide suitable sampling frames from which the selection of employers could be optimised. Following requests, lists of levy-able firms were received from all three levy operators. In the case of ECITB, details on employer size were not provided due to issues regarding the Industrial Training Act. The employer list provided by Creative Skillset, for the SIF, only contained a handful of employers due
to the composition of corporate entities in that industry. Therefore, it should be acknowledged that despite best efforts selection bias could be a possibility here. All fieldwork was conducted between November 2011 and January 2012.

### Table 1 Stakeholders interviewed

<table>
<thead>
<tr>
<th>Levy</th>
<th>Employers</th>
<th>Trade unions</th>
<th>Trade associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITB</td>
<td>11</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>ECITB</td>
<td>10</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>SIF</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

Telephone interviews of stakeholders lasted 20 minutes each on average. In total, 32 interviews were conducted in confidence with individuals, providing them with anonymity so as to encourage them to speak freely on the subject matter (see table above). Added value was derived from interviews, with some interviewees signposting or providing primary and secondary materials for the research. The results were analysed on a common analytical grid which provided for data on size, levy payment, grant receipt, governance and management, evaluation, and areas for improvement.

Overall, given the restrictions of the research design, such as the limitations of sampling (size and selection), and the (convenience) sampling approach taken, a good selection of employers and stakeholders, by way of size, geographical location, and sub-sector focus has been achieved in order to provide an understanding of attitudes and opinions towards the respective training levies.
3 Theoretical starting points

The usual starting point for the theoretical consideration of levies begins with skills shortages and gaps, in the context of market failure, and questions as to who pays for training. In theory, in terms of decisions on training, in a free market it would seem to be ideal economy to rely on market forces of supply and demand and individual initiatives by employers and potential and actual trainees. Individuals or the state will pay for training which is general or even occupationally-specific and employers will pay for training which is firm-specific. However, this classic distinction between forms of training is difficult to make in practice and market forces do not always work. There can be market failures of various kinds.²

- **Poaching externalities.** Since in practice skills usually have general, occupational, and firm-specific elements, much training is in transferable skills which are of use to several firms. In these circumstances, some firms may seek to avoid the costs of training and try to secure already trained workers from other firms. There is thus a threat to the training firm, and this will dissuade such firms from future training. This is essentially the poaching or free-rider problem.

- **Informational imperfections.** Firms and individuals may have insufficient information about the likely returns to training. Thus an individual may not know whether his/her training will be seen through to the end by the employer – the employer may lay off trainees because of business conditions or may go bankrupt. Similarly a firm may underestimate the benefits and overestimate the costs of training. These are problems associated with imperfect information about returns. Better information on costs and returns and on the external availability of labour may result in more training.

- **Informational asymmetries.** Firms and individuals may wish to invest in training, but lack the necessary funds. In this case they should be able to approach lenders such as a bank to borrow funds. However, the potential lender may well lack the necessary information to calculate the payoff of the training and therefore will be hesitant to lend. This constitutes a credit constraint on training.

Levy-grant systems are intended to deal with these problems. If it is assured that all the firms in an industry will train or at least pay a training tax, then all firms will be ‘in the same boat’ and no one will feel disadvantaged. If a levy is established in such a way that potential trainees know that, rather than a single firm, a whole industry will support them during their period of training, they will be more likely to enter onto a particular course of training. Similarly, if a levy agency provides information on costs and benefits of training.

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² Becker (1964); Stevens (1994 and 1999); Booth and Snower (1996).
and on the costs of relying on the external market, then this will make firms more willing to train. If a levy operator in effect operates a fund on which employers and individuals can call, then this will ease the credit constraint referred to above. There are two ways of dealing with market failure by setting up levy-type arrangements.

First, firms within an industry or locality may voluntarily come together and create some sort of system to deal with the problems involved and to set minimum training requirements. This could take the form of an agreement between the firms to train a certain proportion of staff to a certain level. Such an agreement might also involve other stakeholders, such as a trade union or professional association which represents employees and trainees. The advantages of voluntary agreements are that they are entered into willingly and do not involve compulsion or state intervention which may impose costs. Voluntary agreements of this kind used to exist in British industry under multi-employer agreements and still exist in a country like Germany, albeit in the latter case underpinned by legal supports. The problem, however, with voluntary agreements is defining them in detail and enforcing them in practice. One way to define voluntary agreements in more detail and potentially to monitor them is attach monetary values to them and provide a system of incentives in the form of taxes and returns. In other words, this is to establish a voluntary levy and grant system.

Second, given the problems of creating and monitoring systems of voluntary self-regulation, there is the possibility that the state may be invited to step in, or decide to intervene, to deal with the market failure and the enforcement of a levy. In other words, this implies a statutory levy and grant system. The merits of such a statutory system are that state action overcomes reluctance on the part of potential participants and agreements can be enforced by law. Under the law, firms may also be obliged to provide information and thus reduce informational imperfections and asymmetries. These are then the advantages of levy-grant systems.

The potential disadvantages of levy-grant systems (both statutory and voluntary) are various.

- There may be transactional losses caused by paying into and drawing out of the system and via the upkeep of the bureaucracy which administers the arrangements. In other words, levies may not provide additional funds, but only pay back or redistribute funds, minus any transaction costs.

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• Firms may ‘game’ the system. For example, they may re-package planning and production meetings as training to comply with eligibility requirements in order to benefit from the grant.

• There may be ‘deadweight’ loss⁴ – employers will use the training grant to subsidise training which would have provided anyway. Hence schemes may end up being a windfall for some firms which already train or they may have a ‘levelling effect’ as firms which may have otherwise invested in training may train less, others may train more, but there may be no net effect.⁵

• There may be negative effects on the type of training. Levies may bias training to more formal and externally provided courses and away from on-the-job training which is less assessable, but which may be as, or more, valuable. It may also bias training towards sector-specific workers or skills and discourage training of cross-sector workers and broader skills.

• Finally, levies may be unfair to some firms. Thus, because of their greater administrative capability, big firms may be more able to claim back grants. In these circumstances, disadvantaged firms may see the levy as tantamount to a tax. Levies may also be unfair to some workers – they may benefit already skilled workers and a minority doing high-skill programmes, such as apprenticeships, but to the disadvantage of unskilled workers.

Three final points should be made about the funding of levy systems. First, some or all of the cost may be passed onto employees in the form of lower pay. This is most likely to be trainees, but could conceivably cover other employees as well. Such cost sharing may be good, if it benefits employees in the longer term and leads to higher levels of productivity, more secure jobs, and higher pay. Of course, it could be the case that the cost is not passed onto all workers equally: thus, for example, unskilled workers receiving no training may be subsidising more skilled workers who receive more training.⁶ Second, some or all of these costs may be passed onto clients, customers, and the public in the form of higher prices. However, again this would be offset if productivity rises commensurately. Finally, there is a consideration for government. Levies are usually not publicly funded and have little effect on public sector borrowing requirements, since the costs of levy-grant systems (for government) are the set-up cost of legislation, and any on-going monitoring (which may be small), rather than the payment of grants for training.

⁴ In the training area, deadweight loss is usually taken to refer to situations where there is a subsidy or grant paid to an employer for training which would have been carried out anyway in the absence of the subsidy or grant.

⁵ Dar et al. (2003).

⁶ Dar et al. (2003).
See Table 2 below for a summary of potential advantages and disadvantages of levy-grant systems.

**Table 2 Potential advantages/strengths and disadvantages/weaknesses of levy-grant systems**

<table>
<thead>
<tr>
<th>Advantages/Strengths</th>
<th>Disadvantages/weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread funding load and reduce poaching externalities</td>
<td>Additional tax which reduces competitiveness</td>
</tr>
<tr>
<td>Increase resources available for training</td>
<td>Transactional/administrative costs Opportunity costs</td>
</tr>
<tr>
<td>Stabilisation/mutualisation of resources through pooling</td>
<td>Potential of 'common pool' problem and overtraining especially in some areas Captive resources Gaming</td>
</tr>
<tr>
<td>Increase incentive to train and therefore quantity of skills</td>
<td>Deadweight or re-packaging effect</td>
</tr>
<tr>
<td>Increase pressure for broader training and therefore quality of skills</td>
<td>Bias training to formal and externally-provided courses</td>
</tr>
<tr>
<td>Focus on sector specific needs</td>
<td>Excessive focus on certain skills Insufficient focus on cross-sector skills</td>
</tr>
<tr>
<td>Raises training to a higher common denominator</td>
<td>Risk of minimum compliance and 'levelling effect'</td>
</tr>
<tr>
<td>Reduce informational imperfections and asymmetries and therefore risk and credit constraints</td>
<td></td>
</tr>
<tr>
<td>Increase company awareness of importance of training/capability</td>
<td></td>
</tr>
<tr>
<td>Synergy with other activities e.g. research, consultancy</td>
<td>Empire building</td>
</tr>
<tr>
<td>Positive spillovers</td>
<td>Negative spillovers</td>
</tr>
<tr>
<td>Increase social inclusion</td>
<td>Too wide a focus</td>
</tr>
<tr>
<td>Possibilities for better dialogue within industry</td>
<td>Employers dominate to exclusion of employees, educationalists</td>
</tr>
<tr>
<td>Bring in SMEs</td>
<td>Not all firms benefit e.g. SMEs and very large firms</td>
</tr>
<tr>
<td>Do not add to public borrowing; a sheltered source of funds</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Developed from Cedefop (2008, p. 4.).*
4 Definitions, taxonomies, and design considerations

4.1 Introduction

The literature identifies various types of levy systems, in addition to the voluntary/statutory distinction already made above. Around these are some of the basic design and assessment considerations.

4.2 Purpose

Levies can be for different purposes. Thus, in addition to training levies, they may be established in an industry to support research and development. They may also be created to promote certain social objectives, such as the employment of disabled people, as is the case in Japan. Here, we are concerned solely with systems which are intended to raise the quantity and quality of skills.

4.3 Single or multiple functions

Levies may perform a single or multiple functions. Thus, they may be solely concerned with the raising of the levy and the paying out of grants for training. In addition, they may also:

- be involved with the creation of training courses;
- select/appoint training providers or act as providers or managing agents themselves;
- collect labour market information and carry out research; and
- offer consultancy type activity.

In the UK context, the CITB, as a registered charity, is the levy-grant operator, a Sector Skills Council (SSC), a managing agent for training, a training provider, and an organisation providing consultancy services. According to the European Centre for the Development of Vocational Training (Cedefop), in most systems in Europe, the levy is the main source of income and usually accounts for more than 75 per cent of all revenue.

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9 As well as the UK, Cedefop examined training levies in Belgium, Denmark, Spain, France, Italy, Cyprus and the Netherlands. It identified that annual training levy income was the main source of finance (2008, p.167) in all cases.
We will see this is the case with the ECITB, but not with the CITB nor with Creative Skillset and the SIF.\textsuperscript{10}

4.4 \textbf{General revenue-raising and sectoral levy-grant schemes}

A distinction may be made between general revenue-raising levy schemes and sectoral levy-grant schemes. General revenue-raising systems are statutory schemes under which taxes raised from firms go into a public budget for training. The levy is collected and administered by a government agency. By contrast, sectoral levy-grant schemes are ones where firms are taxed within a particular sector and the levy money is eligible for disbursement to firms within the sector. Those which train receive a part back, the whole back, or the return may even exceed their levy payments. Training usually has to be recognised or accredited in some sort of way. Non-trainers become net payers into the system.

Sectoral schemes may be established and administered in various ways. First, they may be set up unilaterally by the employers in a sector who then run the scheme. Second, they may be established bilaterally though collective bargaining with trade unions and jointly administered by them, as is the system in the Netherlands and Denmark. Under such schemes, the social partners agree to clauses in collective agreements which specify minimum levels of training expenditure, sometimes with additional funds supplied by government. Third, they may be established by government, after consultation with employers and other stakeholders. Such schemes may be ‘employer-led’ or in cooperation with employees and may involve stakeholder parties. Given their origins, the systems have varying degrees of accountability to government.

4.5 \textbf{Levy-grant and levy-exemption systems}

Some schemes are levy-grant or rebate schemes, while others are levy-exemption schemes.\textsuperscript{11}

Levy-grant schemes collect training levies from firms and pay out grants to eligible firms. They are ‘pay and claim’ schemes. By contrast, levy-exemption schemes allow exemptions from paying, if employers can show that their training exceeds a set level. These are ‘train or pay’ schemes. The latter schemes give the levy operator less control and provide more discretion for firms.

\textsuperscript{10} Levy revenue reportedly makes up around 87 per cent of total income for the ECITB (2011, p.32); 60 per cent for the CITB (2011, p.40); and around 55 per cent for Creative Skillset’s SIF (as supplied to the author).

\textsuperscript{11} In terms of exemptions, under the Industrial Training Act, ITBs are able to provide these for those that train, via exemption certificates. In practice this does not occur.
4.6 Scope

As has been outlined above, schemes may be national payroll levies where all firms (or all firms above a certain size) are the unit of accounting. Such levies are inter-sectoral. Other levies are sector-specific, though, as we will see, there are often issues defining the scope of an industry.\(^\text{12}\) Levies could also conceivably be geographically-specific or project-specific e.g. one might conceive of a levy of firms operating in a big city or working on a very large project. The scope of schemes might also be delimited by the type of labour e.g. levies could conceivably cover just new entrants or lower/intermediate skill levels and exclude existing employees or higher level managerial staff.

4.7 Calculation of the levy

There is then the question of the calculation of the levy. Levies may be based on various criteria such as payroll, turnover, output, contract value, production costs, or profits. Arguments may be made for all of these, and, as we will see in the case of the film industry (p.40), it was decided to institute a levy based on production costs and the sector wishes this basis to be carried over into a statutory levy. The other two levies considered here and most training levies are based on payroll.\(^\text{13}\)

In turn, payroll poses the question as to whether this should be head count or based on the payroll wages bill. The former is usually considered too simple since firms may differ in their skill mixes and requirements. The wages bill is preferred in most systems. However, there are then further questions, which we will see are important in construction and engineering construction, as to whether one includes indirect staff, such as agency workers and labour only sub-contractors. The argument against including the self-employed is that it is often difficult to calculate the levy and to pay out grant to self-employed individuals. Moreover, it might be argued: why should the employer pay a levy on staff when they are not his/her own employees? The argument in favour is that in some sectors such workers constitute a large proportion of the labour force. They, as well as future generations, need to be trained.

There is then the question as to the rate at which the levy should be set.\(^\text{14}\) It may be set at a uniform rate for all firms. Alternatively, it may be set at different rates for different sizes of firms, with smaller firms paying less or even being exempted, or, as in the case

\(^{12}\) As industries and occupations change there are instances where sub sectors, within the scope of an established sector-specific training levy, may wish to come out of scope for whatever reason. See in this report: CITB (pp.15, 20) and ECITB (p.31).

\(^{13}\) Under the Industrial Training Act, a training levy must be based on emoluments (i.e. payroll/wages bill). Furthermore, an exemption threshold for small firms must be in situ, although it is up to the industry to determine at what level this should be.

\(^{14}\) Research on compulsory levy systems in Europe indicates that levies are based on the enterprises’ payroll and range from 0.1 per cent to 2.5 per cent depending on the country (Cedefop, 2008, p.14).
of the film industry, very large productions capped on the amount they pay. The levy may also be set at different rates for different types of workers, thus at a lower rate for directly employed staff and a higher rate for indirect or agency staff, as is the case in construction. It may also be set at different rates for staff most closely involved in production and at a lower rate for office staff, as is the case with off-site staff in engineering construction.

4.8 The grant

There are also choices as to how the grant is paid. There are questions as to whether the grant is paid in kind viz. services or whether it is paid in cash. In both cases, the grant may cover only direct costs, such as course materials, attendance on courses, examinations etc. It may also cover wage costs of anyone providing on-the-job training. In addition, it may cover part of whole of the wages of the trainee, in which case it is a wage subsidy.

4.9 Governance, management, and accountability

In terms of governance and management, levy-grant systems involve some sort of governing body and executive agency to provide strategic oversight and operational management. In turn, such governing bodies and agencies have to be responsible to those covered by the system and, if the scheme is statutory, subject to oversight by government. This raises a number of issues.

First, there is the issue as to whether the governing body should be employer-led or whether it should be bipartite involving employee representatives. Or it could be tripartite, involving representatives of others, such as educationalists, government, clients, and customers. Initially, in the UK, ITBs were tripartite. But they are now employer-led, though in all three present cases with employee representation (via union representatives). In continental Europe, they remain more social partner-led. Second, there is the question as to how the administrative agency should be funded. In practice, they are usually funded by the levy, but there may be other sources of funding in terms of government grants and commercial income. Needless to say grant payers and recipients look to minimise the administrative costs and maximise the amount payable in grants.

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15 The CITB Board also has ‘education members’ representing further and higher education. See: http://www.cskills.org/aboutus/ourgovernance/board/index.aspx [Accessed 16th April 2012].
4.10 **Assessment and evaluation**

In terms of design, there is the question of assessment or evaluation in terms of cost effectiveness and value for money. Here the calculation has to be in terms of how monies received relate to monies expended and what does the levy add in terms of increasing the quantity and quality of training and influencing employer and trainee behaviour. These are difficult questions at the level of the trainee, the firm, the sector, and broader society. Each involves complex counterfactual and deadweight calculations.

4.11 **Renewal**

Finally, there is the question of renewal mechanisms. This is less of an issue with voluntary systems, where the parties can make their own arrangements and may speedily disband or renew any system. With statutory systems, review and renewal mechanisms will be more complex.

The above design criteria are summarised in Table 3 (section 9) and also considered in the conclusions (section 9).
5 Historical and comparative perspectives and assessments

5.1 Introduction

So as to better understand those training levies under consideration within this research, it is important to understand how they developed historically in the UK, since the past has shaped present arrangements and poses questions about any future developments. It is also relevant to see levies in comparative perspective and this is also used for an assessment of the existing literature.

5.2 Historical perspective

From the late 1950s onwards, there were growing concerns about the training system in the UK, in particular intermediate level training of an apprenticeship kind.\(^\text{16}\) In the early 1960s, these concerns were added to with anxieties about rising youth unemployment, especially in the context of the feed through into the labour market of the post war baby boom. A number of commentators and interest groups proposed a levy-grant type system, citing France as an example of effective arrangements.

In this context, after a number of enquiries and reports, in 1964 a Conservative government introduced the Industrial Training Act. This met with all-party support. The Act established a series of ITBs for most private sector industries with the legal power to operate levy-grant systems. The boards were based on a tripartite structure, consisting of employer, trade union, and educational representatives. Between 1964 and 1969 27 ITBs were established covering 15 million workers.

Studies of the Act and the ITBs were produced at the time,\(^\text{17}\) but there was no robust statistical evaluation of the kind which might be attempted today of such policy measures. What research there was suggested mixed outcomes – some positive effects at reforming training arrangements, some increase in the quantity and especially quality of training, but with administrative costs, especially for smaller firms. The fullest overview of the literature is provided by Senker (1992) who provides a generally positive evaluation.\(^\text{18}\)

Criticisms of the system of the ITBs led the incoming Conservative government in 1970 to announce that it would conduct a thorough review of the system. This created a situation of uncertainty which was criticised in a joint letter by the CBI and TUC. On the basis of its

\(^{16}\) See Senker (1992) chapters 2 and 3 for a useful summary.

\(^{17}\) Again see Senker (1992) chapters 4, 5, and 6 for references to various reports and studies.

review, however, the government then announced that it intended to revise the system and again this met with some protests from employers and unions.  

The subsequent 1973 Employment and Training Act provided that levies set at more than one per cent of emoluments were subject to an affirmative resolution by Parliament – the so-called Levy Order. Since the requirements for exemption were not strictly drawn, many firms applied for, and were given, exemptions. In engineering, for example, 58 per cent of the workforce had become exempt by as early as 1974/75 and this had risen to 85 per cent by 1976/77 in the case of larger firms. Refusals to grant exemptions were rare. Large firms were more likely to claim exemption, but often still claimed funds. In these circumstances there were severe pressures on the system. Given these developments, the government announced that it was prepared itself to contribute to the financing of boards and the support of training. 

Under the 1974 and 1979 Labour government, plans for collective funding by employers and government of initial training were developed but never reached Cabinet. 

The Conservative government elected in 1979 strongly believed that the ITB system should be terminated. The 1982 Industrial Training Act laid down new requirements for the establishment, operation, and termination of ITBs. Over the next few years, boards were wound up and in 1988 the government announced that all the ITBs were to be abolished, with the exception of construction and engineering construction where employers had lobbied for the continuation of a levy-grant system on the grounds of the special characteristics of their sectors. The 1989 Employment Act removed the statutory right for union representation on boards. 

Since the late 1980s, one major sub-sector has come out of scope viz. electrical contracting which left the CITB in 1990. Some other sectors have tried to come out of scope e.g. exhibition contracting and kitchen installation. Some sectors have considered introducing a levy-grant system e.g. glass manufacturing. It was not possible to ascertain the circumstances and events in these cases. Only one sector has pursued the introduction of a statutory levy-grant to any length viz. the film industry. However, as will be seen, their pursuit of a statutory levy has been prolonged.

\[19\] Senker (1992, p. 166).
\[20\] Senker (1992, pp. 86-87).
\[22\] For references see Senker (1992, Chapters 3 and 4).
\[23\] Despite this statutory change, the governance structures of the CITB, ECITB and Creative Skillset levy frameworks continue to include union representation at board level.
A number of general points may be made here about the history of levy-grants in the UK. First, they were initially introduced by a Conservative government, but with all-party support. The withdrawal from them began with a Conservative government in the early 1970s, and the following Labour government did not halt or reverse this withdrawal. They were finally abolished by a Conservative government in the 1980s, without strong opposition. Second, the evidence-base for decisions about introducing, modifying, and terminating the arrangements was somewhat limited.24

Third, the intention behind the modification and termination of the system was to reduce administrative bureaucracy and to shift decisions about training and its funding to individual employers. The subsequent history of training has seen a number of sector bodies (training and enterprise councils (TECs), industrial training organisations (ITOs), National Training Organisations (NTOs), SSCs, and National Training Academies (NTAs). Though employers may be spending more of their own money on training than was the case in the past, it is also the case that government financial support for youth and apprenticeship type training has increased.25

The present legal framework regulating ITBs and levy-grants is to be found in the 1982 Industrial Training Act (as amended) and related Regulations and Orders. Together these cover the establishment and winding up of ITBs, their operation, and processes of review and renewal. There are three key statutory instruments – the Scope Order, the Levy Order (every three years), and the Reasonable Steps Regulations. The latter requires that up to every three years26 the ITB has to show that over half the employers who are likely to pay the levy are supportive and that those who are consulted have to be paying more than half the levy. At present ITBs are statutory non-departmental public bodies (NDPBs) accountable to parliament. However, it should be noted that they differ from most NDPBs in that they do not receive grant-in-aid direct from government.

5.3 International comparisons and assessments

This section refers briefly to comparisons with levy-grant schemes in other countries and uses these to make an initial assessment, based on the existing literature, of the working of such systems.

Unfortunately the literature is diffuse and unstructured, with a tendency to run together general revenue raising schemes, sectoral levy-grant schemes, and levy-exemption

24 For the evidence base, see Senker (1992, Chapters 4, 5, and 6).
26 ITBs are encouraged to have three year Levy Orders but one and two year orders are also permissible. The Levy Orders for the CITB and the ECTIB were recently reviewed and renewed in parliament in March 2012 to three years and one year respectively.
schemes. It also runs together collective bargaining-based and statutory schemes. Much of the literature is also about developing countries, where the studies often concern general revenue raising schemes and where it is usually stated that there are administrative problems.\textsuperscript{27} The clearest comparisons with the UK would seem to be France, the Netherlands, Germany (for construction), Denmark, Korea, and Singapore. However, again these are very mixed systems – the French system is a national intersectoral scheme, Singapore is a general revenue raising scheme, and the Netherlands and Denmark have collective bargaining-based arrangements, albeit underpinned by law.

The evidence in the literature on these schemes is often unclear, out-of-date, and tends to draw on the same studies. There are a very few econometric studies, with good sample sizes and robustness tests. A French econometric study suggests that, under their scheme, large firms and more highly skilled employees benefit most.\textsuperscript{28} However, against this must be set the fact that this is the case with most training. Two statistically-based Dutch studies failed to find evidence that levies encouraged either initial or continuing training.\textsuperscript{29} There have been no statistically-based studies of the UK levy systems.

There are a number of overview studies, but unfortunately these recycle the same materials and are limited by the lack of strong evidence. Thus, one study concluded that levies are ineffective in the distribution of training expenditure between firms. Firm size and employee characteristics were said to typically shape access to training.\textsuperscript{30} Another study, while not having levies as its main focus, referred in general terms to the lack of evidence and difficulty of drawing firm conclusions. However, it concluded that the evidence suggests that, where levy systems fail, it is often due to design issues, which result in significant administrative costs and manipulation and compliance problems and, therefore, the schemes do not succeed in allocating funding to the right employers. In such circumstances, they become unpopular with employers and are abandoned.\textsuperscript{31}

The nearest to a meta-analysis analysis is that by Dar et al for the World Bank which also draws on Organisation for Economic Co-operation and Development (OECD) and International labour Organisation (ILO) studies. This uses mainly qualitative materials and points out that good evaluations are ‘extremely uncommon’.\textsuperscript{32} However, they conclude the scattered evidence suggests these schemes have had, in general, a positive impact

\textsuperscript{27} Dar et al. (2003).
\textsuperscript{28} Goux and Maurin (1997).
\textsuperscript{29} Van den Berg et al. (2006) and Kamphuis et al. (2010).
\textsuperscript{30} Smith and Billett (2005).
\textsuperscript{31} Cox et al. (2009).
\textsuperscript{32} Dar et al. (2003, p. 6).
on the quantity of training. As evidence of this, for example, they cite France and Singapore and also point out that S. Korea saw a decline in training once the levy-grant system was replace by levy-exemption in the mid-1970s. However, they also conclude that better educated and more highly skilled employees working for large firms are the main beneficiaries. Finally, they refer to a ‘levelling effect’ viz. firms which may have otherwise invested in training. They tend to reduce their effort to the level required by law.

Needless to say, it would be useful to have a better understanding of the operation of schemes in certain countries, and here France, Netherlands, Denmark, Australia, Singapore, and Korea would seem to be useful comparisons. The high apprentice training countries of continental Europe (Germany, Austria, and Switzerland) do not rely on levy-grant systems, though these exist in the construction industry in Germany. However, these countries also have wider collective arrangements whereby employers share the costs and benefits of training with one another and with their employees.

The next three sections, 6, 7 and 8, examine each of the levies in turn to consider their industry background, their history, how they currently operate, their relationship to training, their governance and management, and constituent employer and stakeholder views with regard to training.
6 Construction Industry Training Board – Construction Skills

6.1 Industry background

Construction is an extremely large and diverse sector central to the UK economy. It covers a wide spread, including design and planning, construction and civil engineering, and maintenance and refurbishment. Clients extend from government, to major private sector organisations, to individual home owners. On a definition which is close to the CITB footprint, there are around 168,000 firms in construction, the majority of which employ less than 10 people. Many of the larger household name companies do not now employ much manual labour directly but rely on labour only subcontracting (LOSC). The entry and exit of firms from the sector is high. The industry is essentially project-based and depends on complex sub-contracting chains. The industry has always been highly seasonal and cyclical, but, at the present time, it is in severe recession. It anticipates future demand in areas such as infrastructure and energy.

The broad construction sector employs over 2 million workers, but the footprint of the CITB is roughly half of that. Around three quarters of the total are manual workers. The labour force is highly mobile and comprises a large number of self-employed, up to one third in total and two thirds in specialist areas. The baseline for skills is level 2 and, compared to other industries, construction has a significantly high proportion of apprentice-trained labour. Training is needed at all levels – managerial, professional, craft, and up-skilling the unqualified. However, given the characteristics of the industry described above, training is difficult to organise. Skill shortages and gaps appear quickly during cyclical upswings, and presently exist in areas such as plant operators, carpenters/joiners, floorers, painters/decorators, and civil engineering workers. In future, there is likely to be an increasing demand for higher level skills and broader knowledge of new products, in particular connected with energy infrastructure and carbon technology.

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33 Information provided via interview with CITB staff.
34 Ibid.
35 There is also a separate CITB, CITB-ConstructionSkills Northern Ireland, which has sole responsibility for the construction industry in Northern Ireland. Together with CITB-Construction Skills and the Construction Industry Council, it is a partner in the Sector Skills Council for the UK construction industry. See: http://www.citbni.org.uk/.
6.2 The CITB and the levy-grant

The CITB was established following the 1964 Industrial Training Act. It has statutory powers to raise a levy from firms, within the scope of the industry, and to use this to support training. The 1992 Scope Order lays down the boundaries of the industry and requires that to be in scope firms have to be wholly or mainly engaged in construction. The 2009 Levy Order set the rate of the levy for three years, leaving this unchanged from the previous period, at 0.5 per cent on direct labour payments (PAYE – pay as you earn) and 1.5 per cent on LOSC payments, with a small firm’s exemption set at £80,000. However, small firms within this exemption rate can qualify for grants and support.

Over the years, there have been scope issues, and it was noted above that in 1990 the electrical contracting industry came out of scope (page 15). Others have considered or tried unsuccessfully to come out of scope e.g. kitchen installation and exhibition contracting. Some scope issues still remain within a couple of sub sectors in the industry (such as open cast mining and dry lining). In principle, the CITB opposes firms coming out of scope, unless it could be shown that suitable alternative arrangements would be put into place.

In 2010, the number of employers on the levy-grant register was 80,337, of whom 41,095 were zero-rated because their payroll for the previous year fell below £80,000. The levy income for that year was £167.4m – a fall over previous years because of reductions in employment in the present economic climate. After deducting the cost of collecting the levy and processing grants (£4.3m), this left net £163.1m. The CITB, which is also a SSC, a managing agent, a training provider, and a National Skills Academy (NSA), has other sources of funds, from government and other public bodies, for non-levy-grant activities. These amounted to £10.6m – again down on the previous year. It also has income from various commercial activities, including certain types of training, card schemes, health and safety testing, and research and consultancy. For 2010 the total non-levy income was £110m. Thus, the levy makes up around 60 per cent of total income.

In 2010, of the £163.1m in net levy income, £113.2m went in training grants and a further £29.6m in direct payments on behalf of employers for training. Apprentice grants were

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36 The information and data in this and the following sections, 'Governance and management' and 'The grant and training', is based either on interviews with relevant CITB staff or on documentation; in the latter case, where possible, it is cited in the footnotes and the bibliography.

37 Exhibition contractors made a formal request to leave the scope of the of the construction levy.

38 Income of £10.6m has been derived from contested funding opportunities and excludes grant-in-aid and apprenticeship funding.

39 Inclusive of the £10.6m earned from non-levy-grant activities.
the main item and amounted to £60.2m. In 2010, firms which paid no levy claimed £21.9m in grant.

The levy is collected in the following way. First, it should be noted that there is no obligation on firms to register. Rather the CITB levy team have to ‘identify’ firms and this they do from various sources, such as trade directories and journals. Inevitably larger firms are more likely to be registered. Second, in April every year, employers on the register are asked to complete a return with information on wages and LOSC payments. Firms find it most difficult to calculate their LOSC payments. Firms which do not fill in the return receive an estimate. A team of verifiers checks on firms on a risk basis. There is an appeals process for employers who are aggrieved. Firms which refuse to send in a return or submit a false return, may be taken to court. However, this seldom happens, given that the vast majority of transgressors are the smallest employers and bearing in mind the costs involved. It is a measure of last resort although a CITB spokesperson commented, ‘we have a duty to all the other employers who pay’.40

Third, on the basis of the information provided the CITB then calculates the levy and requests payment. Around 65 per cent now pay the levy by direct debit. One of the main problems in collecting the levy is turnover, with as many firms leaving the register as joining each year. But again these are mainly small companies. One new development, from 2010, is that firms which do not submit a return are not able to claim grant. How the levy is spent is explored below.

6.3 Governance and management

The CITB is a NDPB accountable to parliament. The board of the CITB is appointed by the Secretary of State and is responsible for raising the levy and for policy and strategy concerning grant expenditure. A majority on the board are employers who are the only ones who can vote on levy rate. Other members of the board include representatives of trade associations, unions, and public interest bodies. Employer representation is both direct viz. individual employers who sit on the board and other committees and forums and indirect viz. representative of the employers’ and trade associations which exist in the industry. As a large and complex organisation, there is an extensive network of regional and local forums and groups.

The day-to-day management rests with the chief executive and his staff which in 2010 amounted to 1,389 at national, regional, and local level. According to a CITB interviewee

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40 If an employer refuses to submit a levy return the CITB would raise an estimated levy assessment, based on publicly available information (e.g. through Companies House). An employer has a right of appeal to any levy assessment issues by the CITB.
and from background information provided by BIS, in recent years the management has worked through a major reform and change programme designed to make savings and improve services. In particular it has sought to streamline the link between levy payment and grant support.

There are two key aspects of governance. First, the CITB and the levy are subject to government and parliamentary oversight via BIS and the renewal of the Levy Order in parliament. Second, the CITB has to show positive employer consent and support. The CITB does this in two ways: (1) Prescribed employers’ and trade associations, the so-called ‘consensus federations’, are asked as to their opinion; (2) A tracking survey is carried out by an independent research organisation\(^{41}\) which directly samples the views of both federated and non-federated employers and both levy-paying and non-paying employers.\(^{42}\)

As stated above, the CITB is a multifunctional organisation in that it is an ITB, SSC, training provider, managing agent, a NSA, an awarding body, and an organisation with significant commercial activities. This prompts the question as to conflicts of interest. For its part, a CITB interviewee commented that ‘Being all of these widens our base and impact’. The suggestion was that there are economies of scale and scope to be gained. On the other hand, two of the 11 employers interviewed did think there were conflicts of interest, in particular, in terms of the CITB both raising the levy and acting as a training provider and a managing agent. As one employer put it, ‘they have become too diversified’.

### 6.4 The grant and training

The following principles apply to CITB grants and training. Any in-scope firms may claim, but it is firms and not individuals which claim. Levy funds are spent in both actual training support and on recruitment, training advice, and market intelligence. The grant is not intended to be a wage subsidy for the trainee, though it may support the time of a skilled trainer. Grant money can be spent on training ranging from level 2 to 5; it can be for both attendance and achievement, but it should be mainly to support recognised awards and qualifications. Courses may be long or short duration. Money from other non-levy sources is added to grant money to support training. Finally, the CITB acts as coordinator, managing agent, and trainer, which also includes ‘trainer of last resort’ in areas where the market does not provide e.g. certain geographical areas and specialist trades (such as heavy plant training and steeplejacking).

\(^{41}\) IFF (2011).

\(^{42}\) In order to calculate consensus of opinion the views of non-federated employers, who pay towards the levy, are assessed in conjunction with the views of employers that belong to the sector’s principle trade associations.
Not surprising, given the diversity of the industry, there is a wide range of training supported. Though the number of types of grants have been reduced and simplified, to the outsider, they are still extremely complex. The interviews with employers show that some of them also found types of training and claiming for grants complex.\(^{43}\) Here we present the types according to rough size of money expended.

First, around 60 per cent of grant spend goes on new entrants, primarily apprenticeship training for which grants amounted to £60.2m in 2010. Not all construction trainees are CITB, but in 2010 it was claimed that 20,200 were CITB supported in some way.\(^{44}\) Grant money goes to support pre-apprentice programmes, allowances, college fees, assessment, and a subsidy for the National Construction College (NCC) which the CITB operates throughout the country and where it directly takes on apprentices.

However, for the most part, the CITB acts as a managing agent where it finds candidates, assesses placements, assists employers and trainees, and liaises with colleges and other training providers. CITB money is put together with Skills Funding Agency (SFA) money - available to all employers - to finance the training process. About one third of CITB supported apprentices are with non-levy paying firms, within scope of the levy.\(^{45}\) Much of the training is to level 2, but it was claimed that many employers only require and want this. In total 82 per cent were said to complete level 2. In turn, 50 per cent progress to level 3, as against an industry average of 32 per cent. Of those who start it, 95 per cent complete level 3.

Second, most of the rest of the grant goes for training to up-skill the existing labour force. The majority of the money has in the past been for employees who have some experience, but without the actual qualifications, and here there is on-site assessment and training (OSAT) which helps formalise workers’ experience through the achievement of qualifications. This has become increasingly important on large sites because of the Construction Skills Certification Scheme (CSCS) which requires qualifications on competency and health and safety.\(^{46}\) Funding also covers another card for the Construction Plant Competence Scheme (CPCS). In addition, there are grants available for technical, professional, and managerial staff on courses such as BTEC, HND, Foundation Degrees, and other short courses. Finally, the CITB is involved with health and safety training, which has become increasingly important for access to large sites.

\(^{43}\) For a simplified overview, see CITB Your Easy Guide to the 2011/12 Grants Scheme, Bircham Newton, CITB.

\(^{44}\) Information provided via interview with CITB staff.

\(^{45}\) Information provided via interview with CITB staff.

\(^{46}\) The CSCS Card Scheme is administered under contract by the CITB but is owned by a consortium of organisations within the construction industry: the Civil Engineering Contractors Association, Federation of Master Builders (FMB), GMB Union, National Specialist Contractors Council (NSCC), UK Contractors Group (UKCG), UNITE the Union and Union of Construction, Allied Trades and Technicians (UCATT). See: http://www.cscs.uk.com.
A number of general points may be made about the grant and training. However, it must be stressed that these are based on the limited evidence collected for this research:

- The CITB clearly has scale and scope and the ability to maintain training through peaks and troughs of the business cycle.

- There are obviously considerable amounts of training being done at all levels, and especially at entry level. However, there is also a large amount of on-site accreditation being carried out which is in part being driven by CSCS and health and safety considerations. It was not possible to assess how much training is involved in this.

- In the case of apprenticeship training, the numbers on level 3 courses and on advanced apprenticeships is not always easy to locate.

- It is not always clear who was paying for training, especially upgrade training. It is not apparent how it is funded between the grant and employers.

- It was not possible to ascertain whether employers benefited differentially by size. It appears that large employers are most likely to use the grant, but many large employers no longer train, whereas smaller employers take on large numbers of apprentices and are significantly helped by the grant. However, many small employers do not pay the levy, but claim grant funding.

- Though there is a large amount of statistical data available on the grant and on courses, it is not always easy to interpret this given differences in definitions and the populations covered.

- Finally, training grants go to employers, but the sector also has a large proportion of self-employed individuals. Here, it is possible for them to receive grant money for continuation training as some self-employed workers are employers in their own right and thus eligible to claim grant. Furthermore, many self-employed workers are trained by contractors/labour agencies who claim grant for this training.

### 6.5 Views of stakeholders

The methodology of this part of the research was outlined in section 2, but here again we stress that the number of those interviewed is limited and opinions are thus indicative rather than representative.

Of the 12 stakeholders interviewed, 11 were employers and one a trade union. In the case of the employers, direct employment ranged from 5 to 4,000 and indirect or LOSC employment from 10 to 400. Median direct employment was 52. The firms covered large
construction, general building, maintenance, refurbishment, plant hire, roofing, and painting and decorating. They were spread throughout Great Britain.

One of the 11 employers did not pay the levy, but had claimed. Another employer, which was a new company with a very small direct labour force, but a large user of LOSC, was in some disagreement with the CITB about payment and had not claimed. Of those paying the levy, payments ranged from £530,000 for direct labour and about £300,000 for LOSC down to £3,000 for direct alone. All those who paid the levy said it was easy to pay into the levy fund.

Three of the 11 claimed not to have had grant money back at all or in recent years. One said, ‘If we applied, we would get [training funding], but we’re too busy’. Of those who could quote what they paid in and drew down in grant, most said they paid in more than they received back. Claiming grant was said to be more complicated than paying in, but still not too difficult. Two offered estimates of what they got back in money terms and reckoned that this was about 60 per cent. However, both of these were positive about the levy-grant and one said ‘we also pay for the good of the industry anyway’. One employer added ‘we get the grant so long as we do it [training] their way – which is not always the best way.’ This employer claimed s/he prized more informal training for which it had become increasingly difficult to obtain grant. Two said that in the past they used to claim on a course by course basis, but claiming was now easier with a training plan – submitted once a year which enabled one then to draw down the whole grant.

Most commented that at the present time it was not too difficult to obtain labour, except in areas such as supervision, tunnelling, joiners, and painters/decorators. In terms of training, nine of the 11 had taken apprentices; the maximum was said to be around 60 starts in one year, but most referred to small numbers, such as one, two or three starting each year. At the present time, all the employers said that apprentice numbers were lower than usual. Several commented favourably on the fact that the CITB recruited the apprentices, looked after them, and liaised with the college. ‘The CITB finds the lads, deals with problems, and checks on the college’. It was also noted that the CITB encouraged apprenticeship training up to level 3, but not all employers wanted this, some believing that level 2 type skills were sufficient to start full-time work and that any further skills could be acquired by experience on the job.

On non-apprentice training, there were various comments. Health and safety training was mentioned most. But this was said to be driven by the need for CSCS card to gain access to large sites. One commented that ‘the lads are now trained up to level 2, and you can’t go on and on training and claiming’. One felt that s/he could not get money for supervisory training.
The levels of involvement of the interviewees in the governance of the CITB were low. Only one sat on a regional CITB committee. Two commented that staff were helpful and in touch.

Turning to value for money. Two of the 11 were negative, one was neutral, and eight were positive to varying degrees. The critics made the following points. One said ‘If we had our own money, we would do more training and at a lower cost.’ The other stated, ‘If the levy did not exist, we would still do it’, but conceded that this would involve more effort by the company. This same employer added, ‘We need to do the training because of [the] type of work.’ These two critics also commented on bureaucracy and felt the CITB was ‘out of touch’. It should be noted that one of the critics had had problems with LOSC payments and took a strong line that ‘they are not our employees, they come and go, and why should we pay to train’. These two and two others thought that the big contractors and the need to have a CSCS card was now a very big driver of training. Finally, two further critical points were that the CITB had a training arm and this constituted a conflict of interest and the CSCS scheme was simply a ‘money earner’ for them.47

The eight positive commentators said in the absence of the levy-grant they would do less training. According to one, ‘it inspires you to claim and train, because if you do not you pay twice’. Another said they had a ‘gut feeling that it is good and another stated ‘we need to go out and use it to get our money’s worth’. One expressed the opinion that if the CITB did not exist there would be other private intermediaries doing it for profit.

In terms of areas of improvement the following were mentioned: fewer grants and schemes making grant application easier; more continuity with CITB local staff; better communications from the CITB – one said s/he discovered that ‘a firm down the road had been claiming for years … but he was an insider with CITB.’ A big employer, which was an overall supporter, felt too much funding was linked to training providers and big firms should be able to look after their own arrangements more.

Finally, three employers expressed thoughts on extension to other sectors: one mentioned building services engineering, such as electrical and plumbing; one referred to rail engineering and nuclear; and one said ‘we lose many of our staff to manufacturing – they should have a levy also.’

6.6 Conclusions

In reaching conclusions, the limitations of the research are again stressed, in terms of the scale of the research and the coverage of stakeholder interviews. To supplement this

47 Although, as stated in section 6.4, footnote 44, the CSCS Card Scheme is not actually owned by the CITB.
primary research a number of other sources of evidence have been used and these are referred to below.

First, there is data supplied by the operators themselves. In particular, there is the polling of employer attitudes. In 2011, 13 of the 14 consensus federations supported the levy proposals. Their members represented 52 per cent of those employers likely to be liable to pay the levy and 63 per cent of the value of the levy payable. However, it should be noted that federated firms are more likely to support the CITB than non-federated firms. The employer survey for 2010 showed support for the levy-grant system. In total, 65 per cent of federated levy payers and 55 per cent of non-federated levy payers supported the levy. Employers with more than 50 staff, grant receivers, and non-levy payers are more supportive than average. Further, 60 per cent expressed the opinion that, if no levy-grant existed, less training would be done, including at apprenticeship level. Only one in ten thought the industry would be better off without the levy-grant. The results are clearly positive and the method of polling employers seems to be robust.

Second, there are a number of authoritative reports to which reference may be made. The last quinquennial review of the CITB is dated (2003). However, the following points are made. The report noted the important role of the CITB, given the high number of small businesses and high percentage of self-employment in the sector. It expressed the opinion that, through the levy, resources were redistributed from larger to smaller firms, avoiding much of the downside associated with ITBs in the 1960s and 1970s. It made a number of recommendations, in particular additional methods of establishing employer support and more flexible funding for older, new entrants. The first recommendation has been implemented, but it is not possible to form a judgement here on the latter.

There are a number of reports from the former Adult Learning Inspectorate (ALI) and the present Office for Standards in Education (OFSTED). The last full ALI report on the National Construction College in 2003 found provision to be satisfactory or better. The last ALI inspection of the CITB itself, as a training provider and managing agent, was in 2006 and found that provision was good and awarded a grade 2. It commented in particular on a rising trend in apprenticeship completions and progression. The latest 2009 ‘light-touch’ OFSTED inspection of apprenticeship training noted good practice in assessment methods and highly effective support provided by CITB staff.

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48 IFF (2011, pp. 5-6).
49 Department for Education and Skills (2003a, pp. 2-7).
50 Adult Learning Inspectorate (2003).
51 Adult Learning Inspectorate (2006).
The 2009 National Audit Office (NAO) report referred to the CITB as a ‘well run SSC’. It remarked in particular on employer engagement, apprenticeship training, high quality of information, and innovative practices such as the NSA which the CITB had been awarded in 2006. On apprentice training, it commented on how the CITB helped apprentices facing redundancy and operated a matching service which found them new employment. It suggested certain improvements. In particular there was a need to communicate better with employers about how to access services, to cater more for professional employees, to institute a better means of evaluating its forecasting and to reduce complexity.\textsuperscript{53}

Third, the research conducted for this study suggests, overall, employers think the levy-grant system has real benefits and less training would be done in its absence. Comments were made earlier on certain aspects of the training (see Section 6.5). Here two further final comments are added. First, the CITB is a large and complex organisation. Though there are undoubtedly economies of scale and scope in having the organisation perform multiple functions, the dividing line between the ITB, SSC, managing agent, training provider, and commercial activities is not easily understood by an outsider and nor by employers. Second, the CITB collects extensive statistics and carries out considerable quality research. However, it was not always clear as to how to interpret some of the statistics and whether robust cost benefit analysis was conducted as to the value of grants. This is a more general point which will be reverted to later in the report.

\textsuperscript{53} National Audit Office (2009a, pp. 5-6, 8-9, 12, 24, 27).
7 Engineering Construction Industry Training Board

7.1 Industry background

The engineering construction industry is engaged in constructional steelwork, in other words metal, mechanical, and electronic construction of power generation (ranging from renewable energy to nuclear), oil and gas installations, processing and manufacturing plants, and large infrastructural projects. Firms in the sector cover design, project management, construction, installation, maintenance, repair and renewal, commissioning, and decommissioning. Some of the firms are very large multinationals, both UK and foreign-based, but a large number are small and medium in size. The industry is concentrated in a number of areas (the North East, North West, Scotland), but large sites are obviously spread throughout the country.

The industry is very susceptible to strong cyclical movements or to a few large contracts starting up or coming to an end. Competition is strong and increasing, including both foreign firms operating in the UK and domestic firms seeking contracts abroad. At the present time, the amount of new-build is very low, but the industry anticipates an upturn with government inspired work in particular in major infrastructure projects and the building of nuclear power stations. Thus, engineering construction is an industry fundamental to the UK economy, but it is also one which has been criticised for low productivity. 54

The industry employs around 75,000 and, like construction, is occupationally diverse. The workforce ranges from graduate design engineers and project managers, through to technicians and craftsmen, to semi and unskilled workers. The main craft categories are pipefitters, steel erectors and riggers, welders, mechanical fitters, platers and also technician categories (such as, electrical, mechanical and instrument control). Among craftsmen and other operatives, there are very high levels of movement as they migrate from site to site and a high proportion (well over a third) are self-employed or labour-only subcontractors. Many of these are so-called ‘travellers’ working away from home. The industry is also characterised by high mobility between employers and sites, interrupted by periods of unemployment, and long hours while working on a site.

In the past, the industry was able to draw on skilled labour from steel and other manufacturing industries, but for some time now these sources of labour have been depleted. In the craft areas, the labour force is aging. Skill shortages and gaps are

54 Gibson Review (2009).
predicted, especially under recovery conditions and with new build, in areas such as nuclear and other energy. Shortages in particular are anticipated with welders, pipefitters, and platers and skill gaps with design and site managers.55

Given the nature of the industry, training is difficult to organise. It is also costly, given expensive kit and materials and time pressures for completion of projects. Historically the main formal training methods of training were degrees for professional staff, apprenticeships for craft workers, and upgrade training on-the-job for others. However, poaching of site employees and the bidding-up of wages has been traditionally prevalent. It was estimated that training an apprentice in terms of wages, travel costs, and training can be as much as £45,000 per person, though some put this higher.56

7.2 The ECITB and the levy-grant57

The origins of the ECITB go back to the Engineering Industry Training Board (EITB) which in 1974 decided to establish a separate committee for the engineering construction sub-sector, called the Mechanical and Electrical Engineering Construction Industry (MEECI) committee. This was put into place in the late 1970s and operated through the 1990s. Throughout those years, the sector was determined to have a levy-grant and not a levy-exemption system.

When it was decided to abolish the EITB, a number of large employers in the sector and their clients successfully lobbied for the continuation of these arrangements. The ECITB was established in its present form in 1991.58 It should be noted that the industry has come to have a strong tradition of networking which is reflected in the National Agreement for the Engineering Construction Industry (NAECI), signed in 1981, by employers and trade unions. This created a tradition of partnership in industrial relations and ‘web of understandings’ which underlie the approach to training.59

As in construction, a levy-able establishment is any establishment in Great Britain which is wholly or mainly engaged in the principal and related activities of the engineering construction industry. All staff employed by such an establishment are within scope and have to be declared to the ECITB and assessed for the levy. At the present time, for on-site employees and LOSC staff, the levy is fixed at 1.5 per cent payable on gross wages

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55 For the best recent overview see Gibson Review (2009).
57 The information and data in this section and the following sections, ‘Governance and management’ and ‘The grant and training’, is based either on interviews with relevant ECITB staff or on documentation; in the latter case, where possible, it is cited in the footnotes and the bibliography.
58 Senker (1992, p. 139).
and LOSC payments. For off-site staff it is fixed at 0.18 per cent. Employers are exempt from paying site levy if payroll payments, in respect of site-based workers, are less than £275,000 per annum. Furthermore they are exempt from paying a levy on off-site workers if payments are less than £1m per annum.

In terms of its footprint coverage, it has recently been determined that the nuclear industry would continue to be in scope. The ECITB is working with employers in the nuclear sector to determine how the levy and grant can best meet their needs for both decommissioning and new nuclear build programmes. There is also engagement with new and emerging industries such as wind and off-shore power generation. As with the CITB, the ECITB has a legal requirement to assess employers that are in scope.

In 2010, the number of employers on the levy-grant register was 380, of whom 238 were levy payers. The levy income for that year was £22.2m. At the present time, it is estimated that 20 per cent of companies pay 80 per cent of the levy. The ECITB receives other funds from public bodies and also from commercial activities. In 2010, the total non-levy income was £3.1m. The levy thus provides around 87 per cent of total income. In 2010, grant expenditure was £20.5m. Numbers were not obtained on how much was paid in grant to how many non-levy payers. Over time, the ECITB has built up reserves of £21.4m, relatively larger than those of the CITB, but deemed necessary to smooth out funding and ensure that trainees receive the support necessary in the event the ECITB may close.

The levy is collected in largely the same way as with the CITB. However, there are two points. First, the ECITB levy-collection operation is simpler and on a much smaller scale. Second, levy payments are more dependent on a small number of big firms. Below we return to how the levy is spent.

7.3 Governance and management

There are many similarities in governance and management with the CITB. Thus, the ECITB is a NDPB accountable to parliament, but it receives no grant-in-aid direct from government. The board of the ECITB and its committees are responsible for raising the levy and for policy and strategy concerning grant expenditure. A majority of the board are employers who are the only ones who can vote on levy rate. Employer representation is both direct viz. sitting on the board and other committees and indirect viz. through the three employers’ and trade associations which exist in the industry and which also sit on

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60 In the context of this report, it should be noted that interviews with employers, within the nuclear industry, were not conducted due to the lack of clarity regarding whether the nuclear industry would continue to be in scope.

the board. Other members of the board include union and public interest representatives. As with the CITB, one challenge, according to one of the ECITB interviewees, is ‘getting people to come forward [and participate], given regulations’. However, it was added that attendance at board meetings is good.

The day-to-day management rests with the chief executive and his staff. In 2010 this amounted to 88 at national, regional and local level posts. In mid-2000, the ECITB restructured itself more on regional lines, establishing regional forums, with these also electing board members, and with regional customer accounts managers. The ECITB is less of a multifunctional organisation than the CITB, in that it is not a SSC, training provider, managing agent, or NSA. However, it is a qualification awarding body and it has commercial activities.

Two key aspects of governance are the same as with the CITB: (1) the ECITB and the levy are subject to government and parliamentary oversight via BIS and the renewal of the Levy Order in parliament; (2) also, the ECITB has to show positive employer consent and support. It does this in a slightly different way from the CITB. First, prescribed employer’s and trade associations are asked as to their opinion. Second, the ECITB elicits the views of ordinary employers through its regional forums. Third, in 2009, the board conducted a poll of levy-paying employers in relation to the 2009 Levy Order. For the 2013 levy the Board decided to approve a levy-grant for just one year. Employers considered that they should retain flexibility on the issue of levy rates, in view of the uncertain economic conditions and the reserves held by the ECITB. As one of the ECITB interviewees said, ‘This put us on notice … We can never be complacent.’

7.4 The grant and training

The following principles apply to ECITB grants and training. Any in-scope firms may claim, but it is firms and not individuals which claim. Grant money is spent on actual training support, training advice, market intelligence and the promotion of careers within the industry as well as the industry itself. The ECITB has used grant money to support the apprentice wage as well as training costs. Grant money can be spent on training ranging from level 2 to 5; it can be for both attendance and achievement, but should mainly support recognised awards and qualifications. Courses may be of a long or short duration. To qualify for the grant, the training must be on defined, structured programmes, approved by the ECITB or with accredited training providers.

There is a wide range of training, with the ECITB supporting more than 70 courses. Not surprisingly, given the relative size of the sector, these are less complex than those
provided by the CITB. Nevertheless, to an outsider at least, they are not always easy to understand in terms of content, length, and numbers completing courses.

First, around half of grant expenditure goes on apprenticeship training. Up to 2007, the ECITB operated a unique scheme. It employed the apprentices itself, paid them an allowance, and paid for and managed their training, while sub-contracting the off-the-job element to training providers. This was said to be an expensive scheme, costing around £50,000 per year per apprentice, with 80 per cent of the cost of this coming from the levy. The rest mainly came from other government sources. However, though it was high quality and high completion, numbers were very small with about 150 starts per year.

Since 2007, in consultation with the industry, the ECITB has adopted a different model. The employment of the apprentice has now been handed over to the employer, with the ECITB providing support with recruitment, training support and assistance with the off-the-job training via training providers. However, it remains training to level 3. The ECITB states it gives back £12,000 directly to the employer for each apprentice. Under these arrangements starts have risen to 750 per year.

Second, most of the rest of grant expenditure has gone for training to up-skill the existing labour force. Traditionally, this was done under a national skills development scheme which was also innovative, offering modular and flexible training up to level 3. This has now been replaced by TECSkills which is also ‘aimed to validate the competence of the labour force and with the aspiration to get them to level 3’. Grant support is given and the employer receives £1,000 for each level 3 VQ (vocational qualification) achievement. In addition, for existing staff and with the support of large client companies, the ECITB introduced two cards: the Assuring Competence in Engineering Construction (ACE) card, in 2003; and the Client Contractor National Safety Group (CCNSG) card, in 1991. In 2010, the former had 1,895 registrations and the latter had circa 45,000 individual card holders.

Third, the ECITB supports training for technician, professional, supervisory, and managerial staff. Training for these groups of workers was said to be of increasing importance. Some of the training is of short duration and statistics are given in terms of numbers on courses and instances of learning. Finally, the ECITB is involved with health and safety training which has become increasingly important for access to large sites.

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62 For a simplified guide see ECITB (2011).
63 In 2002 the apprenticeship training programme was reduced from four to three years duration, with the reduction being for off-the-job training.
64 Information provided via interview with ECITB staff.
A number of general points may be made about the ECITB grant and training. However, as in the caveat issues with the CITB findings, it must be stressed that these are based on limited evidence which the research was able to collect. They also serve to raise questions for further research.

- The ECITB has scale and scope and the ability to maintain training through peaks and troughs of the business cycle. It has developed a number of good qualifications and supports training providers and group training associations.

- Its apprenticeship training is of a high level (up to level 3) and many apprentices progress into supervisory and managerial positions. One important role it has played in the apprenticeship area has been in finding alternative employment for apprentices whose employer has ceased to operate or has been unable to provide a satisfactory apprenticeship base. However, apprentice numbers are still said to be too low for the future needs of the sector. It is not clear how much there is by way of advanced apprenticeships.

- There has always been important training conducted of existing workers. However, there is also a large amount of on-site accreditation, under ACE, which is in part being driven by CSCS and health and safety considerations. It was not possible to ascertain how much training is involved in this.

- It was not always clear who was paying for training, especially upgrade training, in terms of whether the money was coming from the grant or was being paid for by employers on top of the grant.

- As with the CITB, it was not possible to ascertain whether employers benefited differentially by size.

- The statistical evidence available on courses and training is not always easy to understand. It is stated in terms of instances of learning, numbers on courses with possibilities of double counting, and percentage increases with an uncertain baseline.

- Finally, as in the case of the CITB, training grants go to employers, but the sector has a large proportion of self-employed individuals; it is unclear how these indirectly receive grant money for continuing training.

### 7.5 Views of stakeholders

In the case of these interviews various views were expressed. Again it is stressed that the number of those interviewed is limited and opinions are indicative rather than representative.
Of the 12 stakeholders interviewed, 10 were employers, one the major trade association, and one a trade union. In the case of the employers, direct in scope employment ranged from 23 to 1,300, with a median of 150. Indirect employment was more difficult to estimate, but ranged from 10 to 300. The employers were spread throughout the industry, covering work in energy, petrochemicals, water works, and manufacturing plants. Most of the employers had mixed staff, but two were entirely professional and design companies. The employers were also spread throughout England and Scotland, but with some concentration in the North West and Midlands.

All the employers referred to skill shortages of various kinds, including craftsmen and design staff, though it was added that shortages were eased in the present recession. Skills gaps were also referred to, especially at supervisory and middle management level. Several interviewees referred to an aging labour force.

All the employers except one paid the levy. Levy payments ranged from £5,000 to £750,000, with a median of £50,000. The amount payable had varied considerably over time, depending on the amount of work in hand. One employer was in scope, but too small to pay; s/he said that the company was ‘relieved’ not to pay, but used the ECITB courses and attended forums. S/he added that ‘we’re positive, but if we had to pay, we might feel differently and might prefer to keep our own money’. Of those paying the levy, most said that it was easy doing the calculations and there was no contestation around the due amount. One of the larger employers said that in terms of their administration it took one person a week or more to calculate the levy payment. As to the level of the levy, most of those in favour thought, in the words of one, that it ‘was about right, perhaps it’s not high enough, but employers will not pay more’.

All the employers had received grant. Most said it was not too difficult to draw down grant and used terms such as ‘straightforward’ and ‘easy to use’. One said that his/her company was sometimes so busy it had not claimed.

In terms of training, the grant was mainly used for apprenticeship courses. Eight employers had apprentices, with numbers ranging from an intake last year of none, to some taking on 2 or 3, to one with a stock of 100 apprentices. However, all reported that at the present time numbers were reduced. Most said they were happy, in the words of one, ‘to let the ECITB and college do it’. All said that the new system of apprenticeship training was better, though one remarked: ‘At first we thought, “Hey, we have to pay”, but then we discovered we had more control … and with directly employed status.’ Some also used the grant for adult training, especially up-skilling the semi-skilled. One small

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65 Information provided via interview with ECITB staff.
employer commented that it was via ECITB training that s/he was able to initiate a second shift. ECITB training was also used for supervisory, project, and design staff.

Of those critical of the ECITB levy-grant, one interviewee said the numbers of apprentices have always been ‘abysmal’ and even the new arrangements have not helped sufficiently. However, the same interviewee also felt the levy should be retained, but employers should ‘demand more value for money’. Two expressed unhappiness that the grant could only be used on ECITB approved courses.

Views on governance and management differed. Most were positive and felt the ECITB was employer-led. The regional forums were said to be good, but several claimed to be too busy to attend. On management, most were positive about the system of local accounts managers who were said to perform an essential link role and keep employers informed. However, several referred to ‘bureaucracy’ and one said stated the system was not transparent: ‘I’m not sure how the money is spent, but I should go along to meetings more’. Another said the ECITB was not employer-led: ‘The ECITB staff make the key decisions and employers merely rubber stamp them’.

In terms of value for money, eight of the ten employers were positive. In the absence of the levy, most said they would do less training, especially in the present climate. Nonetheless, one said s/he would do less because someone else would ‘pinch’ their trained staff. Moreover, said another, ‘training would be of lower quality and less consistent…. It would fall away’. Another felt they would still do apprenticeship training, but not broader training. A further comment was that employers might make training ‘more focussed. But this could be ‘both a good and a bad thing’.

Some put a figure on what they received back and this ranged from ‘typically more, to ‘almost all’, to ‘about two-thirds’. Several indicated that it is the apprenticeship training which is the best: ‘this makes us quids in’. ‘It allows me to get more out of my budget’. Two added the rider that ‘we have to work at it to get value for money’.

By contrast, several felt, if the levy was removed, they would do just as much training – ‘we have to, the clients demand it’. One of the critics said: ‘We get nowhere near as much as we put in. We train because we have to – it’s driven by customers and insurance.’ Though this same employer said s/he might put less ‘into the kitty’. One critic stated quite strongly that ‘If we did it ourselves, we would add more value. At present, we game the system and put people on courses to get money back. In other words, we go for grant whether we need it or not. This detracts us from firm-specific training’. This same critic also said that the health and safety training was ‘of low quality … dubious … a money spinner for the ECITB. But men have to have it to get on site’.
When asked about areas of improvement the following suggestions were made: the need to bring into scope non-UK companies with no local establishment, but which bring staff into the UK; the need to bring off-site prefabrication more into scope; the need to ‘sort out’ overlap between sectors, especially power and nuclear, and whether or not they are in scope. Particular employers requested more for their areas e.g. for graduate and professional training and for sub-sectors such as water works. There were also suggestions for improvements in governance and management. These included the following: keeping bureaucracy down; more transparency, especially about approved providers; the need to listen more and to organise more forums; and the need to work more closely with the relevant SSC, because of areas of duplication. The need to increase apprentice numbers was also stressed.

Three expressed a view on extension to other sectors. One said in general, ‘Yes, the principle is good, but it would be difficult to construct … to put it together. If you get involved, it’s good. But any other sector would need to show value for money’ (in terms of making training more efficient). Another referred generally to sectors where there were real skills needs and with cyclical and mobile labour. Another referred to the need ‘to rebuild UK manufacturing’. However, another said the levy system is mistaken ‘in principle’ and should not be extended, as it constituted a tax on employers.

In sum, a range of views were expressed by the employers interviewed, though, on balance, most were positive. The more critical position cannot be explained in terms of size or ownership or even sub-sector. Some of the small firms were very positive – one stated ‘we do not ourselves have the structures’ to achieve what training they could with the levy-grant.

7.6 Conclusions

In drawing conclusions, first, there is data supplied by the operator itself. In particular, there is the assessment of employer attitudes. As stated above, this is done via prescribed trade associations and through regional forums. The ECITB also conducts surveys to gauge employer satisfaction and to ascertain priorities. It was also noted above that for the 2013 levy the Board decided to approve a levy-grant for just one year, citing the need to retain flexibility, in view of the uncertain economic situation and the level of reserves.

Second, there are a number of authoritative reports. The last governmental quinquennial review was conducted in 2003 and is hence dated. It concluded: ‘The industry needs a body with an overview of training to ensure the skills needed to compete in today’s market …. Without ITB status, the ECITB could not function and standards and skill
levels in the industry would be placed in jeopardy’. It noted, in particular, the quality of apprenticeship training and high completion rates, while adding that numbers were low. It made a number of recommendations which included, amongst other matters, the examination of new methods of showing support, improvements in regional focus, increasing the number of apprentices, improving the national skills development scheme for older workers, and reducing bureaucracy.66 The ECITB conducted its own Strategic and Suitability (Quinquennial Review) Review in 2010.67

The last OFSTED report on the ECITB as a managing agent was in 2008. It stated that training had been satisfactory over time. It noted that apprenticeship completion rates were above the national average. ECITB leadership and management were also deemed to be satisfactory and reasonable progress had been made since the earlier review.68 Having ceased to be a managing agent, the ECITB is no longer subject to OFSTED review. Also, since it is not a SSC, it is not subject to NAO review.

However, the official 2009 Gibson review for the Secretary of State for Business stated that the skills in the sector are as good as those in other countries and added, ‘This reflects the high quality training being provided the ECITB, backed by contractors and trade unions’. In particular, it commended apprenticeship training and related awards and qualifications. It endorsed the levy and recommended that it should be extended to contractors not established in the UK.69

Third, the research conducted for this study suggests that, overall, employers think the levy-grant system has real benefits and less training would be done in its absence. However, there were some strong employer critiques of these points. Comments about certain aspects of the training were made (see Section 6.5). Here two further final comments are added. First, the ECITB collects extensive statistics. However, it was not always clear as to how to interpret some of these statistics. Thus, units of training sometimes refer to ‘training interventions’ and ‘activities’ and sometimes percentage increases are quoted without an absolute base line. Second, there is one useful econometric study of the value of apprenticeships, which has been carried out by the ECITB. This is a study of the returns to apprenticeships per se and not an evaluation of the ECITB’s role in this.70 However, there would seem to be no real robust cost-benefit analysis conducted as to the value of grants. This is a more general point which will be reverted to later in the report.

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67 ECITB (2010b).
70 Dickerson and McIntosh (2010).
8 Creative Skillset and the Skills Investment Fund

8.1 Industry background

The film industry is made up of a number of subsectors – pre-production, production, facilities/services, distribution, and exhibition. The report is primarily concerned with production and facilities/services since these are the sections covered by the levy. Within these areas, technologies are diverse and some are rapidly changing. For the most part, firms are very small, though some large firms, including large US multinationals also operate in the industry. For the most part though, film productions create ‘single purpose vehicle’ companies to service the needs of a particular film. In this way, a company may be formed and wound up in as little as three months. The industry is highly concentrated in London and the South East. It faces increasing global competition for locales where films may be made.

The industry directly employs 40,000 full-time equivalents and supports a total of 100,000 jobs in all the sub-sectors. Within the production areas, there is a very occupationally diverse workforce, covering creative, managerial, film crew (e.g. camera and grips), and craft areas (e.g. electricians, carpenters/painters and decorators, hair and make-up, and costume). Graduates make up a large proportion of the workforce. In the production sector, the workforce is characterised by very high levels of freelancers or self-employed (estimated to be around 90 per cent). Some of the craft areas have an aging labour force.71

Entry into the industry tends to be in early/mid-20s and the nature of the film production industry makes training difficult, given high mobility between productions and employers, interrupted by periods of unemployment, and long hours while working on a film. Training in some areas such as camera work is also expensive and difficult to organise. For freelancers, aside from the cost, trainees may have to turn down work to train or train when not working. As a result, historically there was very little formal training. This has led to skills shortages and skills gaps.72

71 Oxford Economics (2010, pp. 1, 34).
72 Grugulis and Stoyanova (2011).
8.2 The Skills Investment Fund (SIF)\textsuperscript{73}

In this context, in the late 1990s, a group of industry stakeholders came together to discuss the possibility of a training levy system to cover film production. The catalyst was the film policy review, commissioned by the Department for Media, Culture and Sport in 1997, which sought to make the film industry more competitive at home and abroad. One of the areas for recommendation within the strategy was the ‘need to ensure an adequate supply of appropriately skilled people’ requiring ‘a sustained increase in investment in training’ (DCMS, 1998). A film industry levy was a response to this.

In 1999, the SIF was established, with the agreement of British and foreign film producers. The design is as follows. All films, based or shot in the UK, are asked to contribute to the SIF. Contributions are voluntary, unless the film receives public funding, in which case it is a condition of the funding that the levy is paid.

According to interviewees, the industry had wanted to tie the levy to the receipt of tax breaks which are significant for film makers, but they thought this was disallowed by the Treasury. Contributions are based on 0.5 per cent of a film’s budget (less certain exclusions such as copyright costs, overheads unrelated to production, and the SIF payment itself). Contributions based on payroll were deemed to be less workable because of the fluidity of the labour force, the biasing effect of high ‘star’ fees, and questions of confidentiality surrounding salaries. It was also suggested by the trade union that a levy based on wages would have been an incentive to minimise payroll.

Under the SIF, there is no small firm exemption, though inevitably it is very small productions which are not detected or do not pay. However, the levy is capped at £39,500. The reasons for the cap are as follows: to give films greater certainty in budgeting; to minimise the costs of making calculations which would be onerous for major films; and so as not to discourage the production of big films in the UK, including those made by US companies.

The SIF has continued to operate under these principles, bringing in around £0.7m per year. In 2010 this fell to £613,858, which was raised from 69 productions. Between 2000 and 2011, a total of £8m has been raised. Most of the levy comes from a few big films e.g. it might be as much as 70 per cent from a dozen titles. Over the last five years, productions contributing at the cap have accounted for around 55 per cent of total

\textsuperscript{73} The information and data in this and the following sections, ‘Governance and management’ and ‘The grant and training’, is based either on interviews with relevant Creative Skillset staff or on documentation; in the latter case, where possible, it is cited in the footnotes and the bibliography.
income. Around 16 films were said to be capped each year. Finally, an important point: SIF money has also been ‘partnered’ with other funds, especially lottery money via the British Film Institute (BFI). These have been substantial amounts, but it was pointed out that they are vulnerable to changes in lottery and government funding policy.

8.3 Governance and management

The Film Industry Training Board sets overall policy and consults with employers, trade associations and trade unions about the operation of the SIF and grants. At the present time, Creative Skillset, as the SSC and the moving force behind the SIF, administers the scheme for the industry. Administrative costs are small, with one full-time staff member carrying out most of the work. Film productions either report voluntarily or are tracked down through various sources and a form is then sent to the production company. It is estimated that compliance with the levy is around 70 per cent of the total possible which might be raised. At present, the SIF is accounted for within Creative Skillset accounts.

8.4 The grant and training

The following principles apply to SIF grants and training. Any firms in the sector may claim, as also may individuals working in, or seeking to enter, the sector. Grant money in spent on recruitment, training advice, and training support. Broader matters of occupational standards, qualifications, and market intelligence activities are funded by Creative Skillset as the SSC. The grant can be used to subsidise the wage of the trainee. Grant money can be spent on training ranging from level 3 to 5 and can be for both attendance and achievement. Courses may be long or short duration and not necessarily attached to qualifications. Money from other sources is added to grant money to support training.

The SIF supports a wide spread of training. These are guided by the skills strategy for the film industry and priority is in areas such as new entrants and apprenticeships, new technology, talent development, business skills, and health and safety. As with the two ITBs, to the outsider, the relationship between grants and courses is not always easy to understand.

About 60 per cent of the grant goes to new entrants and, within this, there is a shift towards more apprenticeship-type training which also attracts other government funds. As stated above, delivery of apprenticeship training is difficult since workers move between productions with periods of unemployment in between. Apprenticeships were

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74 Insurance requirements for young people (below 18 years of age) on set can be a barrier to participation.

75 Skillset (2004 and 2010).
said to be related to national qualifications at levels 3 and even 4. There are also trainee placements of various kinds, under which firms obtain access to subsidised trainees provided by Creative Skillset. One of these is the Film Craft and Technical Trainee Placement Scheme which cost £150,000 in 2010-2011. A trainee will undergo initial training for around two days followed by a placement of up to 18 weeks in a UK film production.\footnote{Trainees, under the Film Craft and Technical Trainee Placement Scheme, enter into a short term employment contract with the production company. They receive a minimum payment of £300 per 40 hour week. For hours worked in excess of this they receive £7.50 per hour. The Scheme contributes 70 per cent towards trainees' wages in arrears. See: \url{http://www.craftandtech.org/trainee/}.} Apprenticeships are made up of classroom elements (which it was said might be 2 months) and then placements (which might be for up to 8 months). No figures were provided on apprenticeships.\footnote{Data supplied in interviews with Creative Skillset staff.}

The SIF, in conjunction with funding from The National Lottery, also supports a number of Film Academies, colleges and centres of excellence around the country, which provide pre-entry courses and also offer short courses and freelance support programmes. In addition, the SIF funds the Creative Skillset Craft and Technical Skills Academy which provides entry and on-going training in craft areas such as lighting, carpentry, plastering, costume and wardrobe, and hair and make-up.

For those other than new entrants, there are a large number of short courses, master classes, and bursaries for areas such as camera/lighting/sound, craft construction, wardrobe/ hair/make-up, script, editing, accounting, and management. In terms of on-going training, the SIF is also involved with health and safety training, which has always been important in the sector and has become increasingly so. However, unlike with the two ITBs, it is not driven by any card scheme for entry onto sites.

On average it was stated that around 2,700 individuals are supported in training each year across all activity supported by Creative Skillset’s film skills strategy, ‘A Bigger Future’.\footnote{Skillset (2004 and 2010).} Since the initiation of the film skills strategy in 2004, over 10,000 places on training schemes have been funded, including training for new entrants and continuing personal development of various kinds.\footnote{Data supplied in interviews with Creative Skillset staff.}

A number of general points may be made about the SIF grant and Creative Skillset training. What is more, the points here raise questions for further research.

- Creative Skillset, as a SSC, would seem to have developed a wide spread of qualifications, support for training providers, and initiatives (e.g. the Screen Academies and the Skills Academy). It has the ability to organise training in
circumstances where there are problems of turnover and information deficiencies and asymmetries, at least as great as and probably greater than in the other two sectors.

- In this sector training grants go to employers and would very much seem to support freelance individuals.

- Entry and apprenticeship training is up to a baseline of level 3 and many who have done apprenticeships are said to progress and move into supervisory and managerial positions. However, the difference between apprenticeships and short placements is unclear. No figures were provided on apprentices.

- As with the two ITBs, it was not possible to ascertain whether employers benefited differentially by size. However, in this sector, individuals can claim directly to the SIF.

- It is not always clear how much money is going to which particular areas. Though it was stated that the majority goes to new entrant training, the nature of this training and apprentice training in general was not always clear.

- Finally, as with the two ITBs, the statistical evidence available on courses and training is not always easy to understand.

8.5 The pursuit of a statutory levy

After a period of consultation led by Creative Skillset, industry stakeholders decided in 2004 to seek a statutory levy. The main reasons for pursuing such a levy are as follows: there is 30 per cent non-compliance with the voluntary levy; there are feelings of unfairness on the part of levy-payers; and support for the voluntary approach might wane, if those who do not contribute are seen to be benefitting unduly. It was also stated that a statutory levy would provide a more assured income and enable longer-term planning to deal with skills shortages and gaps. There is a belief that a higher income could be usefully deployed, and Creative Skillset research suggests that a minimum income of £1m is required to meet industry needs, complementing national lottery investment from the BFI.80

In 2005, a formal consultation was initiated. The responses to this from the sector were strongly in favour of a statutory levy, based on the design of the SIF viz. with a 0.5 per cent contribution on a film's budget, with an upper cap. But also with the addition of a minimum budget threshold below which productions would be exempt, though films below the threshold might still claim grants. In 2008, the Film Industry Training Board (FITB) was established under the 1982 Act to oversee the creation and operation of the mandatory levy. The Board is comprised of an independent chairperson, four employer

80 This data was supplied in interviews with Creative Skillset staff.
representatives, and four industry organisations, including Creative Skillset, the BFI (formerly the UK Film Council), and the Broadcasting Entertainment Cinematograph and Theatre Union (BECTU).

Some of those interviewed referred to the pursuit of a mandatory levy since 2004 as ‘The Long March’, because it has still not yet been possible under the 1982 Act to inaugurate the statutory levy. According to interviewees, there have been a number of factors which have slowed down progress. First, the Department for Business, Innovation and Skills (and its predecessors, the Department for Innovation, Universities & Skills and the Department for Education & Skills) had to determine with the Nation Governments whether the levy would cover the whole of the UK. In the end it was decided to cover England and Wales alone. Second, it has had to ascertain whether such a levy is possible under EU law concerning state aid and anti-competitive practices. Third, it has had to ascertain whether a levy based on production costs was possible under the 1982 Act.  

Whilst the issue of a mandatory levy remains unresolved there are ongoing developments to encourage investment in specific areas of the industry. In the 2012 Budget, the Chancellor of the Exchequer announced that video games, animation and high-end television production would be able to receive corporation tax reliefs from April 2013, subject to State aid approval from the European Commission and after open consultation with industry. On this latter point, HM Treasury specifically seeks to ‘consider how the benefits from the tax reliefs can be utilised to invest in UK skills and talent development’ (HM Treasury, 2012, p.31). Furthermore, it is hoped by Creative Skillset that high-end television will join the SIF in the future.

8.6 Views of stakeholders

Again, the caveat on research findings applies here as it does to those findings for the CITB and the ECITB. Of the 8 stakeholders interviewed, five were employers, two represented trade associations one represented a trade union. In the case of the employers, direct employment ranged from 6 to 41. The number of films they produced in one year ranged from 2 to 4 and the number of staff who might be taken on for each production ranged from 50 to 250.

All the employers said that the London area was good for acquiring skilled labour and sourcing was mainly through networks and known agencies. However, according to one employer, ‘when production people turn up, we expect them to be trained’. Nevertheless,

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81 A levy order was actually beginning to be explored when the basis of the existing levy (production costs) was challenged.
shortages were referred to in a number of areas, such as camera and grips, animation and visual effects, plus crafts such as electricians and painters/decorators. Several also referred to the aging labour force as constituting a problem for the future.

In terms of governance and management, one of the employers sat on the board of Creative Skillset, as did two of the other stakeholders. It was generally felt that Creative Skillset was well governed, with a ‘healthy turnover’ of employers involved. Staff were said to be efficient and good at keeping contact with stakeholders concerning the SIF and grants.

All the employers had paid the levy and said that paying in was not an administrative problem. Most of the payments had been capped and sometimes the amount resulted to ‘higgling and haggling’. One thought that smaller firms tried to ‘chisel’ and pay less than was correct. All felt that the 0.5 per cent on production was the best or indeed the only way to pay into the SIF. In the present climate it was said to be ‘trickier to find levy money’

However, there was some disagreement on the cap. One thought the £39,500 should be subject to revision. Another thought the cap was good ‘because financiers and producers know what they are paying’. This interviewee also suggested it might be raised along with the Retail Price Index. Another thought the cap should be tiered, with a sliding scale, though conceded this would be more difficult to administer. By contrast, another interviewee said the cap was regressive ‘supporting the big boys who pay less’; however, it was added that, if it was raised to, say £100,000, Hollywood major production companies would ‘jib’ at this. Another said that the availability of tax credits justified raising the cap. Another commented that ‘big star films will not want to pay more’. One opposed raising the cap for fear it would drive out large productions.

All the employers had participated in Creative Skillset training schemes, which might or might not be related to the SIF. All took trainees on apprenticeships or placements of various kinds. In terms of receipts, two employers said they were not really sure what they got out of the SIF. One commented that ‘you never get more than £39,500 of training’. Generally, however, it was thought to be good that the SIF acted as a wage subsidy and this might be as much as 70 per cent of the pay of young entrants. One criticism was that trainees were not always available when they were wanted.

It was generally thought the SIF training was a good mixture between entry and continuing training and Creative Skillset did a good job in ‘juggling’ between the two. However, one criticism of the training was that it was a very complex ‘patchwork’, with little structure and few qualifications. Apprenticeships, it was stated, should be the ‘holy
grail’ and the Craft and Technical Academy was playing an important role here. One commented that they ‘never had a film which lasted long enough to take an apprentice.’ Thus, one area of improvement was more apprenticeship training, based on sharing throughout the industry.

In sum, all the employers were supporters of the present levy and four out of the five employers interviewed were in favour of moving to a statutory levy. Disappointment was expressed that this had taken so long to introduce. The mandatory levy was said ‘to offer certainty and to future-proof the system’; ‘it will deal with the 30 per cent who do not pay’; ‘it will give SIF greater legitimacy’. One had more mixed feelings and said ‘it could just push some of us over’. Another opposed it because it would introduce ‘inflexibilities’, but added that it might be appropriate for the bigger firms which really benefit. Another interviewee expressed the opinion that alternative forms of funding, from government and from lottery money, were likely to fall in the future and therefore the SIF should be strengthened.

Several interviewees expressed positive views about extension. One interviewee suggested that the SIF could be extended to distribution and exhibition where it was claimed there are real training needs and where it would be easier to collect. This same interviewee also referred to the exhibition industry and live entertainments such as concerts. Another referred to other areas in the creative and media sectors, including theatre. A third mentioned computer games because it is a young but fast expanding sector with great potential.

8.7 Conclusions

In reaching conclusions, along with the limitations of the research stressed in the previous sections, because of the voluntary nature of the SIF, there is less evidence available.

First, although there were said to be stakeholder surveys carried out the Creative Skillset, there are none on employer support for the levy, such as conducted regularly by the CITB and periodically by the ECITB.

Second, there are two authoritative reports to which reference may be made. The 2009 NAO report referred to Creative Skillset as a ‘well run SSC’… ‘with a strong track record of close engagement with its sector…. It has demonstrated good performance against the majority of key tests’. The report specifically commended the sector for the SIF and for ‘supporting high numbers of freelancers, short-term contract workers, and small and micro businesses in developing flexible learning and industry required training’. It stated
that, though Creative Skillset was successful in leveraging additional training funds, it requires a more robust long-term financial plan.\textsuperscript{82} Second, the recent Film Policy Review Panel report to government refers positively to the SIF and recommends that Creative Skillset should continue to deliver training, especially apprenticeships and internships.\textsuperscript{83}

Third, the research conducted for this study suggests that overall employers and other stakeholders think the SIF has real benefits and less training would be done in its absence. Here, one further final comment is added about training. There would seem to be quite strong and continuing support for a statutory levy despite the protracted time it has taken to put such an arrangement into place. If it is not possible to obtain a statutory levy, the sector would continue with the voluntary SIF, but, for the reasons given above, this would be seen as second best.

\textsuperscript{82} National Audit Office (2009b, pp. 5-8, 25).
\textsuperscript{83} Film Policy Review Panel (2012, pp. 67-8, 73).
9 Conclusions

This section draws conclusions and presents some considerations concerning factors which might facilitate, or act as obstacles to, the creation and operation of levy-grant systems. Two points are made at the outset. First, the limitations of the study should be noted in terms of the scale of the research (particularly the stakeholder sampling), the coverage of stakeholder interviews and the consequent implications for its representativeness. Second, each of the three schemes have been described and analysed above and some summary facts are outlined in Table 3 below.

Table 3 Comparisons between Levy schemes

<table>
<thead>
<tr>
<th></th>
<th>CITB</th>
<th>ECITB</th>
<th>Film Skills Investment Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year established</td>
<td>1964/65</td>
<td>1975/77 MEECI 1991</td>
<td>1999 voluntary SIF; 2008 FITB</td>
</tr>
<tr>
<td>Geographical coverage</td>
<td>Great Britain</td>
<td>Great Britain</td>
<td>Voluntary SIF UK; FITB to be England and Wales</td>
</tr>
<tr>
<td>Status</td>
<td>Registered charity and NDPB</td>
<td>Registered charity and NDPB</td>
<td>Registered charity, company limited by guarantee</td>
</tr>
<tr>
<td></td>
<td>Statutory levy</td>
<td>Statutory levy</td>
<td>Voluntary levy</td>
</tr>
<tr>
<td>Scope</td>
<td>Construction, but areas of building services out of scope e.g. electrical contracting</td>
<td>Engineering construction</td>
<td>Film production</td>
</tr>
<tr>
<td>Single- or multiple status, function</td>
<td>ITB, NDPB, SSC, NSA, managing agent, training provider, for profit activities</td>
<td>ITB, NDPB, for profit activities</td>
<td>Voluntary SIF, FITB, SSC, for profit activities</td>
</tr>
<tr>
<td>Training provider</td>
<td>Training provider and managing agent</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Levy calculation</td>
<td>0.5% on direct labour payments (PAYE) and 1.5% on labour-only sub-contract payments (LOSC)</td>
<td>1.5% for site workers and 0.18% for offsite workers, based on gross earnings and labour only payments</td>
<td>0.5% of film budget with a cap of £39,500</td>
</tr>
<tr>
<td>Small business exemption</td>
<td>Yes £80,000</td>
<td>Yes. Less than £275,000 site and £1m all others</td>
<td>No, but proposed under FITB</td>
</tr>
<tr>
<td>Registered employers in scope</td>
<td>80,337</td>
<td>372</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Understanding Training Levies

<table>
<thead>
<tr>
<th>Levy payers</th>
<th>Grant claimers</th>
<th>Number of employees covered/in scope</th>
<th>Levy income</th>
<th>Total income</th>
<th>Grant expenditure</th>
<th>Reserves</th>
<th>Staff – total</th>
<th>Staff directly involved in collecting the levy</th>
<th>Apprentices in training</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,150</td>
<td>19,058</td>
<td>1.3m</td>
<td>£167m</td>
<td>£279.0</td>
<td>£113.2</td>
<td>£45.3m</td>
<td>1,389</td>
<td>51.5 collection and payment</td>
<td>20,200</td>
</tr>
<tr>
<td>239</td>
<td>Not available</td>
<td>77,000</td>
<td>£23.6 levy</td>
<td>£26.1m</td>
<td>£21.8</td>
<td>£21.7m</td>
<td>88</td>
<td>3 collection</td>
<td>2,500</td>
</tr>
<tr>
<td>70 productions</td>
<td></td>
<td>40,000 full-time equivalents direct, supporting 100,000</td>
<td></td>
<td>£12.6m turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Author and CITB, ECITB and Creative Skillset. Data from 2010 (except ECITB which is 2011).

Note: The CITB figure for staff involved in the levy includes staff directly employed in collecting the levy and paying out grant claims. This figure includes 20 mobile verifiers, whose role is to check employers’ declarations and claims and 4.5 in the scope and appeals team.

The section does not therefore directly assess one scheme against another, not least because each is very much the creation of its own sector and history.

The study began by outlining the theory and reasoning behind the creation of levy-grant systems. Though it might be ideal in a free market economy to rely on market forces of supply and demand and individual initiatives by employers, as well as potential and actual trainees, in practice market forces do not always work. Market failures of various kinds may occur. Failures, in terms of poaching externalities, informational imperfections, and informational asymmetries were outlined. Table 2 presents arguments for and against levy-grant systems as a way of dealing with these problems.

In addition, it must be kept in mind that, if there are market failures in the training area, there are other alternatives which must be considered before or alongside statutory levies. Thus, there is a case for a voluntary levy-grant, though, as we have seen in the case of the film industry, that sector recognises some benefits of a voluntary arrangement, but strongly desires to establish a statutory system. There is a case for
levy-exemption systems, though it was suggested in section 5 that when these were tried in the UK in the 1970s they proved unstable.

Other forms of employer collective action have been reviewed elsewhere, including group training associations and NSAs.\textsuperscript{84} In addition, there are other voluntary and statutory employer-led systems where standards are set by customers or clients, and examples of these were seen with the card systems in construction and engineering construction. And there are other voluntary and state-led alternatives to consider, as laid out in the Best Market Solutions approach from the UKCES.\textsuperscript{85}

The brief survey of overseas experience and of the academic literature on levy-grant systems proves inconclusive. This is because of the tendency in the literature to include, in overview studies, very different types of arrangements, as illustrated earlier (pages 16-17). There is also a lack of good statistically-based studies from which to draw upon.

In terms of outcomes, the review of the three cases suggests the following, based on materials provided by the levy operators, other authoritative studies, and the material collected for this study.

- The three levies seem to have the support of most employers in their sector. A majority of employers support the arrangements. In the case of the film industry, the employers support the establishment of a statutory levy and have adhered to this despite the long process of introducing such a system.

- Based on other studies and on the materials collected for this research, the levies seem to have a net positive effect on the quantity and quality of training. For many employers and for the sectors as a whole, they therefore add something. However, this is not to deny that some employers, especially large employers, might be able to source and deliver training themselves more cost effectively than under the levy-grant system.

- There is the question of additionality viz. are these systems ones where money is paid in and then the same money is paid out, minus handling costs? The administrative costs of collecting the levy and paying out the grant are real, but not substantial, in particular in the case of collecting the levy. The levy operators contend that against this should be set two considerations: first, they ease the free-rider and informational problems and more training is done; second, their other activities bring

\textsuperscript{84} Cox et al. (2009).

\textsuperscript{85} For an idea of possible solutions for employers, who wish to collectively increase their investment in workforce skills, see the government’s skills strategy paper. This highlights a range of tools (e.g. occupational regulation schemes, high performance working tools, human capital reporting, inter-employer networks etc.) that sectors might wish to use to raise their skills ambitions, as mapped out by the UKCES (BIS, 2010, pp. 23-24).
in money which, minus costs, can then be redistributed. The extent of the refund ratio is an area for further research.

- Despite claims to the contrary in the literature, there is no firm evidence that either large firms or Small to Medium sized Enterprises (SMEs) benefit most or are particularly disadvantaged. In fact, in the case where there is a small business exemption, there must be some redistribution of resources towards SMEs.

- One question raised at the beginning was the effect on employer behaviour. It has already been stated that, on balance, employers seem to do more training under these arrangements than would otherwise be the case. Some employers referred to pressures in terms of ‘fairness’ norms, while others saw it in terms of ‘getting money’ back. In the terminology of behavioural economics, the motivations are both in terms of ‘acquiring gains’ and ‘avoiding losses’. However, another behavioural outcome might be a tendency to ‘game’ the system, so as to make sure they obtain some return on the levy paid, and there was some evidence of this in both construction and engineering construction.

- In terms of effects on employer behaviour, there is also the question of time frame. It could be the case that a levy-grant system may initially have a significant positive effect. Over time, two arguments could then be put: either the effect wears off or the behaviour gets built into behavioural routines. On balance, the interviews suggest that the latter has happened under these arrangements and employers have come to think rather more long-term and strategically about training.

- There is the question of deadweight viz. employers may use the training grant to subsidise training which they would have provided anyway. There was some evidence of this, in the case of the certification of existing skills in the construction and engineering construction industries. However, on balance, employers interviewed felt this was not the case.

- A final point to stress concerns government funding. The levy-grant systems per se are not publicly funded, in terms of payment out of the public purse, they require only a small monitoring cost (the workload of the BIS sponsor team, ministerial input, parliamentary input), and they therefore have no effect on public sector borrowing requirements.

Specific points concerning improvements were made in each of the three levy sections, drawing on the comments of employers and other sources. Reference should be made back to these. A number of general points are made here about the operation of the levy-grant system and the overall legal and administrative context.
Each of the levy operators produced extensive statistics and details of training provided. However, as noted, there are problems in terms of data quality, in respect of definitions, categories, population coverage.

Though the CITB and ECITB have conducted or sponsored good research, it was not always clear to what extent they have evaluated the grant per se other than by employer polling. There is scope for more sophisticated analysis in this area using various econometric techniques.

There is the question of the overall legal framework under the 1982 Act, as amended, with its Orders and Regulations. The employers interviewed thought this operated well in terms of polling their opinions and periodic renewal. However, as the case of the film industry suggests, arrangements for establishing a levy-grant system work less well. Another area which might be considered is whether, once a system has been established, in-scope employers should be legally obliged to register.

A further research objective was to consider the lessons which might be learned in order to encourage employers to participate in levy-systems more widely. The comments which follow are based on several considerations: a review of the literature on levies; a review of the wider theoretical literature on employer collective action86; and a review of the present levies and in particular the opinions of employers and other stakeholders. There are three sets of considerations concerning: (1) conditions; (2) processes; and (3) design.

First, there are certain conditions which would seem to make sectors and sub-sectors more or less well suited for levy-grant type arrangements.

- A starting condition is that there should be evidence of long-term skills shortages and gaps caused by market failure, in particular in terms of poaching externalities, but also informational deficiencies and asymmetries.

- The majority of employers in a sector must agree that a levy-grant type system is an important part of the solution. This should also be supported by other relevant stakeholders and potential beneficiaries, in particular representative organisations of employees, such as trade unions and professional associations.

- Any levy should be decentralised to specific sectors and subsectors with common needs. The ECITB and SIF would suggest specific sub-sectors, but the CITB shows that a levy can also operate in a sector covering several sub-sectors. The boundaries of any sector should be identifiable.

86 Cox et al. (2009); Dar et al. (2003); Ostrom (1990).
• Theory would suggest that levies might work better where there are a small number of firms since this makes it easier to administer and monitor arrangements. The case of the ECITB would support, and that of the CITB would question, this condition.

• The three sectors are ones where there are significant fluctuations in work, both over the season and over the business cycle. This may be a significant condition.

• The three sectors are also ones with a large freelance or self-employed or LOSC-type labour force. This may also be an important consideration and it should be noted that fluidity of this kind may be increasing in the UK labour force.

• Following on from the above points, a core condition is that the sectors which might be most appropriate for levy-grant type arrangements will be ones where training is difficult to organise and/or expensive.

• One criteria for introducing a levy may be health and safety concerns. This plays a significant part in construction and construction engineering.

• One condition may be that there is already some sort of ‘industry consciousness’ or ‘community of practice’ in the skills or in other areas which can underpin any levy-grant system. It might also be where a set of traditional arrangements have come under strain and where there is a felt to be a need to create a new system. This was very much the case with the creation of the ECITB.

Second, though conditions may be more or less favourable, there are also certain process factors which are important to consider if moving towards a levy-grant system.

• Employer interest and commitment is crucial. However, there is the question as to how this is to be created given: (1) levy-grant arrangements may be seen as ‘off the agenda’; and (2) the experience of the film industry in moving towards a statutory levy. Government may need to ‘nudge’ employers in this direction and here changes in the 1982 Act are relevant.

• A case could be made for moving through a stage process, from a voluntary to a statutory levy. This might be a way of showing that a system can be created.

• Employers and other stakeholders should be involved from the start in the design of the arrangements. SSCs, NSAs, trade unions, and professional associations would have an important initiatory and guiding role.

Third, along with conditions and processes, there are also design considerations. This goes back to the points raised in section 3 and in each of the industry cases.

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87 Ostrom (1990).
• There is a choice between levy-grant or levy-exemption schemes. The latter give more discretion to the employer, but the historical evidence suggests that levy-exemption schemes are difficult to operate and liable to collapse.

• There is a choice to be made about whether schemes should have multiple functions and also be multi organisational in nature. Multiple functions include such activities as: recruitment; standard setting; the maintenance of qualifications and frameworks; labour market intelligence; and working with further and higher education. In regard to being multi organisational should a scheme have SSC or NSA roles as well? In UK policy terms, the choice is whether levy-grants should be stand-alone ITBs or joint with a SSC or NSA. Here there may be a trade-off between greater competition and economies of scale and scope.

• There is then the question of the scope of the levy-grant in terms of geography, type of labour, and the boundaries of the industry. It was suggested above that there is a strong case for drawing industry boundaries relatively narrowly.

• Decisions as to the rate of the levy, differential payments, and capping are very much industry specific considerations. However, there are two general points here. First, the film industry suggests that it should be possible for the levy to be based not just on wages, but also on other measures such as production costs or turnover. Second, there would seem to be a good case for a small business exemption, and it should be noted that the FITB plans to introduce such.

There is then the question as to how the grant is paid. First, there are questions as to whether the grant is paid in kind viz. services or whether it is paid in cash. In both cases, the grant may cover only direct costs, such as course materials, attendance at college, examinations etc. It may also cover wage costs of the trainee or of anyone providing on-the-job training. The three examples here have a mix of these.

• The present system of governance and accountability seems to work for the two ITBs, with their boards, direct and indirect participation on boards, the polling of employers, and government oversight. There is no provision for trade unions or professional association representation on boards. But in practice all three have this and, given employee interest in the question of training, this would seem to be desirable.

• It would be invidious to mention very specific industries and so particular references are only made to very broad sectors and rely also on suggestions from the various stakeholders. Construction and engineering construction employers referred to various areas of business services engineering as ones where a levy-grant system might be appropriate. Film stakeholders referred to other areas of the creative, performing, and digital arts. Outside of these areas one might consider the following:
transport, especially maintenance areas; services, including parts of hospitality and retail; parts of the health and social care sectors; and areas of information and communications technology.

Further research would seek to overcome the limitations of this study in a number of ways. First, the research could be extended with a more detailed consideration of the three levies, including the use of a larger sample of employers. Second, there is scope for a study of the three levies using more statistical data and econometric techniques. Third, more comparative research could be carried out, in particular on the operation of levy-grant systems in France, the Netherlands, Germany (for construction), Denmark, Korea, and Singapore.
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