

ENGINEERING CONSTRUCTION INDUSTRY TRAINING BOARD

QUINQUENNIAL REVIEW STAGE ONE REPORT JULY 2003

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Chapter 1

EXECUTIVE SUMMARY

Introduction

This report sets out the findings from the first stage of the Quinquennial Review of the Engineering Construction Industry Training Board (ECITB) carried out between March and June 2003. It focuses primarily on whether the functions of the ECITB are still necessary and, if so, whether they should continue to be carried out by a Non-Departmental Public Body (NDPB). It will be followed up in a few months by the Stage Two report. This will examine in more detail the organisational issues identified in this report and analyse the adequacy of the Board's financial and management systems to meet its strategy and objectives. The Stage Two report will also cover issues of efficiency and effectiveness, progress against key performance indicators and the use of new technology.

The Quinquennial Review Team in the Department for Education and Skills (DfES) carried out a Quinquennial Review of the Construction Industry Training Board (CITB) alongside the Review of the ECITB.

Background

The ECITB is a statutory body governed by the Industrial Training Act 1982, as amended. Its primary purpose is to initiate, improve and facilitate training and develop training standards for use throughout the engineering construction industry, with a particular emphasis on ensuring an adequately trained workforce and establishing and enhancing national training standards. The ECITB is based in Kings Langley, Hertfordshire, employs some 50 staff (around half of whom are based regionally) and had an income of nearly £14 million in 2002, of which over £11 million was raised by a levy on employers within the industry. The bulk of the remaining income comes from Learning and Skills Councils (LSCs) and European funding. The ECITB spends its income primarily on training activities for the industry, e.g., apprenticeships, grants to employers to part-finance other training, the provision of advisory services, and the development of NVQs/SVQs.

The ECITB is classified as an NDPB. It was set up following the closure of the EITB, of which it formed a part. The ECITB has statutory powers to raise a levy to support training from all employers 'in scope' to it. Small firms are excluded from the levy. Head offices pay a lower rate of levy than engineering construction sites.

Purpose and structure of review

The primary function of a Quinquennial Review is to focus on the functions carried out by an NDPB and NDPB status itself. The ECITB also functions as an Industrial Training Board, a function governed by the 1982 Industrial Training Act. In order to answer the question, 'are the functions of this NDPB still necessary?' we have also had to consider whether an ITB is still needed for the engineering construction industry.

When considering NDPB status, a significant factor is that the ECITB does not receive funding (grant-in-aid) direct from Government. Most of its revenue is raised from employers via a levy. In this respect, it differs from the majority of NDPBs which depend wholly or mainly on Government sponsorship. This means that the views of employers assume even greater importance than is usual for NDPBs.

Evidence was collected from all sides of the industry. This included a range of employers and employers' organisations in the engineering construction industry and trade federations and trades unions as well as those concerned with education and training. A steering group of relevant Government Departments and other interested parties was set up and the Review Team worked closely with the ECITB itself.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Progress by the ECITB

Members of the ECITB Board and other key stakeholders feel that real efforts have been made by the Executive to move things in the right direction since the last Quinquennial Review in 1997/98, but that this is not having sufficient impact. The pace of change needs to speed up. The structure and organisation of the ECITB itself, the way in which the ECITB Board is constituted, and the relationship between the Board and the executive are identified as key factors holding back progress. The report also identifies other areas for improvement. There is also concern that some staff members have not

adapted to new conditions in the industry or to the ECITB's drive for more customer focus.

The ECITB is well aware of the views of Board members, employers and others across the industry and has already taken the first steps towards acting on them. In 2002 the Board commissioned A T Kearney to conduct research with the industry and to make recommendations to the Board in advance of the results from the Quinquennial Review. The Board discussed the report on 23 April 2003 and endorsed the report's recommendations with some caveats. The Board also took the decision to make the findings available to the Quinquennial Review Team in DfES. Those findings form part of the evidence base for this Review. The findings and recommendations put forward by this Review are largely supported by those of the ATK Review.

The ECITB has made progress in taking steps to qualify the engineering construction workforce. The Assuring Competence in Engineering Construction (ACE) card is being introduced to replace the Safety Passport Scheme and the skills database held by the ECITB. The skills database focused less on competence than on time served. The ACE card, which will take up to five years to embed, registers skills and competences.

In addition, the ECITB are developing a number of training initiatives in response to customer and industry need. These include a variety of e-learning and on-line learning opportunities; and a graduate apprenticeship framework.

Progress against recommendations from 1997/98 Quinquennial Review

The ECITB has made progress against the recommendations from the last Quinquennial Review but some actions are not yet complete or have not yet achieved the desired outcome. In particular, the 1998 Quinquennial Review found that the National Skills Development Scheme (NSDS) was falling short of its potential. Whilst the ECITB has reviewed the scheme, there has not been a significant change in perceptions by employers and take up remains low. This is reflected in the findings and recommendations from the current review. Similarly, the General Grant system was reviewed following the 1998 Review. The current review recommends further work on this.

A number of recommendations are still being progressed, or are ongoing. The changes which are already under way should continue, taking into account the further recommendations of the current review as appropriate.

Summary of Conclusions and Recommendations

On the basis of consultation responses, interviews and our desk-based research, we feel that the ECITB should be retained. The industry needs a body with an overview of training to ensure a base of skills needed to compete in today's market. There is no practical alternative available. The ECITB is the most appropriate body to provide the service industry requires. However, there are a number of changes which the Board will need to make to do this.

Without ITB status, the ECITB could not function and standards and skill levels in the industry would be placed in jeopardy.

Recommendation 1: A statutory body in engineering construction with the power to administer a levy should continue. The functions of the ECITB remain vital for the engineering construction industry and for the UK economy. The ECITB should continue to act as an industrial training board, carrying out these functions including establishing, collecting and administering a levy to support skills and training issues on behalf of the construction industry.

The principle of a system of a statutory levy enjoys support across the industry, including employers and trades unions. It continues to be appropriate to the industry and is the best means of ensuring a base of skills in an environment where margins are tight. However, the views of employers and unions are that there is desire for greater flexibility.

Recommendation 2: Reflecting the concerns expressed about methods of assessment and the administration of the levy, the ECITB should examine the levy (and grant) process with a view to reducing bureaucracy for employers – and for themselves.

Consultation on the continuation and level of the levy is carried out through employer federations (as set out in the legislation). However, in line with similar trends in society generally, membership of employer federations has been falling steadily and there is now some concern it may fall below the 50% baseline required by the legislation.

Recommendation 3: The ECITB should examine possible additional methods of establishing employer support for the levy.

Enforcement of levy payment is regarded as an important function for the ECITB in order to create a 'level playing field'. Some employers felt the ECITB could do more to pursue non-payment.

Recommendation 4: The ECITB should examine ways to strengthen its enforcement of levy payment, pursuit of non-payers and publicise how the system works, its benefits, and how non-payers are pursued.

The Review Team supports the conclusions recently put to and endorsed by its Board that the ECITB needs to:

- agree key value measures with its customers and stakeholders;
- use Key Performance Indicators (KPIs) to monitor progress, promote behaviours and manage the performance of the organisation;

- clarify the core competencies it needs and work to develop its capabilities in these areas;
- to develop a workforce with the right attitude and capabilities to improve performance.

Recommendation 5: The ECITB should pursue the recommendations from the A T Kearney report, outlined above, which were recently endorsed by the Board.

The industry feels that levy should be focused on craft and supervisory skills. Training for managers and professionals is increasingly undertaken by companies themselves and there is a widely held view that levy support is no longer necessary at these levels. The ECITB should consult with the industry on this and on continuing need for a Head Office levy.

Recommendation 6: The ECITB should consult with the industry on refocusing its priorities upon craft and supervisory level training and the continued need for the Head Office levy. Once a greater degree of comfort is achieved in these skill shortage areas, the ECITB might again consider expanding their range of provision.

Restructuring in the industry means that increasingly the ECITB needs to deliver its services at regional and local level. The current approach to regional delivery is not working particularly well. A stronger regional presence would help to bring ECITB services closer to its customers, enhance its ability to work with regional and local training initiatives and to attract external sources of funding.

Recommendation 7: The ECITB needs to refocus its business processes around the needs of its customers. To do this effectively it needs to reorganise so that it can respond to the differing regional needs of customers. The structure recommended by the recent consultancy report to the Board would allow it to achieve this.

The ECITB is increasing its engagement with initiatives, such as Ambition (a DWP initiative linked to New Deal) and is working more closely with a range of partners. The Review recommends that more focus and resource should be put behind this effort so that there is a step up in its engagement and partnership working with organisations such as the Learning and Skills Council (LSC), local LSCs, Regional Development Agencies (RDAs), Scottish Enterprise, Highlands and Islands Enterprise, the Welsh Development Agency (WDA) and other bodies to ensure complementarity of provision and funding, and with schools and colleges to promote recruitment to the industry.

Recommendation 8: More focus and resource should be put behind partnership working with organisations such as the Learning and Skills Council (LSC), local LSCs, RDAs, Scottish Enterprise, Highlands and Islands Enterprise, the Welsh Development Agency (WDA) and other bodies to ensure complementarity of provision and funding, and with schools and colleges to promote recruitment to the industry.

The quality of the ECITB's training provision is recognised as very high. However, there is evidence to suggest it could provide better value for money and that it could take more account of employer skills needs. The ECITB should clarify employer and employee priorities and focus its provision accordingly. Having done that, it should publicise the improvement in value for money.

The quality of the apprenticeship scheme is seen as very high, and drop-out rates are extremely low. Retention rates after one year are, typically, in excess of 80% and, after three years, remain over 70%. But we were told that the scheme could be improved in other ways, such as reviewing the cost and location of training.

Recommendation 9: The ECITB should re-examine the apprenticeship scheme with a view to improving value for money and employer 'ownership' of the scheme.

There is widespread agreement both within the ECITB and in the industry generally that the principles behind the National Skills Development Scheme (NSDS) are excellent. The scheme is a standards-based training scheme intended to lead to craft status for both unskilled and semi-skilled adults. Existing craftspeople can also acquire additional engineering construction skills through the scheme. But the scheme is not working. Take-up and outcomes are low and the ECITB recognises the need to address perceptions of the scheme as well as some aspects of delivery, such as management of trainees and ensuring delivery mechanisms meet employer needs.

Recommendation 10: The ECITB should consider urgently how to improve the NSDS scheme to make it more workplace friendly and to set in place tracking arrangements so that individual achievement can be recorded and built on and individuals encouraged to progress to a Level 3 qualification.

There is felt to be a lack of clarity and unnecessary bureaucracy around the ECITB's decision-making processes; committee structure and Board papers. The Board should examine its structure with a view to streamlining and achieving clarity of process and decision making.

The governance arrangements for the ECITB are generally felt to be over-bureaucratic. There is a desire for greater clarity over responsibilities and authority within the Board and the Executive.

Recommendation 11: Governance arrangements should be clarified and streamlined, making the decision making process considerably more transparent. The A T Kearney Report provides suggestions for change in this area and the ECITB should work with DfES to introduce more suitable arrangements.

Women and ethnic minorities are under-represented in the engineering construction workforce. The ECITB has a vital influencing and leadership role in encouraging employers to recruit a more diverse workforce and in encouraging these groups to consider entering the industry.

Recommendation 12: The ECITB should continue to pursue its diversity agenda and examine further ways of bringing more non-traditional groups into the industry.

The recommendations in this Quinquennial Review and the proposals for restructuring put forward in the recent A T Kearney report add up to a considerable programme of change for the ECITB and its operations.

The industry believes a restructured ITB is the solution to its skills and training needs and wants to see this implemented. DfES should work with the ECITB on a delivery plan, with clear targets and outcomes.

Recommendation 13: DfES should work with the ECITB to draw up a plan to deliver the organisational and cultural changes and the improvements in outputs recommended in this Review and in the A T Kearney report, with clear targets and outcomes identified. DfES should then monitor progress against this plan at regular intervals over the next two years.

On the basis of the evidence so far, we feel that the application of NDPB classification to the ITBs needs to be reviewed. While some elements of the accountability framework that goes with that status continue to be necessary, it is not clear that all elements are necessary or proportionate. The application of two different control frameworks is also a source of some confusion. However, this must be weighed

against the overwhelming support for the statutory levy in the industries, for the continuity and stability the levy provides, and for the constitutional issue of representation. Stage Two of the reviews should include an analysis of the nature and requirements of NDPB classification and the options for simplifying the arrangements to secure a clear, robust and proportionate framework of accountability.

Recommendation 14: DfES should investigate, with the Cabinet Office, the application of NDPB status to the ITBs and the options for improving the accountability framework.

If a company falls within scope by virtue of its main activity it is liable to pay levy, provided it is large enough. Some sub-sectors put cases to us for their removal from the scope orders in the course of the Review and we found a lack of clarity over how such issues should be pursued. Whatever definition of scope is used there will probably always be some problems at the margins. Where there are grey areas around the definition of scope, it is important that there is clarity on how sub-sectors can seek clarification from the Secretary of State on their inclusion in the scope order and the criteria used to reach those conclusions.

Recommendation 15: DfES and the ITBs should clarify how sectoral bodies can pursue concerns over scope issues, ensure that advice is available to associations and federations on how such cases can be raised with the ITBs and the Secretary of State; and also clarify the criteria used to reach conclusions.

Currently, the only group that has a right to representation on an ITB Board is employers and they must comprise a majority of the membership. However, the Secretary of State and the two remaining ITBs have made a discretionary choice to continue to offer a place on the Board to two trade union representatives. The Review is recommending that ITBs should continue to represent both sides of industry. The principle should be that there are some Board members who can represent the views, perceptions and interests of individual employees in the industry.

Recommendation 16: DfES should consider how best to ensure that trade unions continue to be represented on ITB Boards. Two trade union representatives currently sit on the Boards of the ITBs, and this level of representation should continue.

Chapter 2

RESULTS FROM THE CONSULTATION WITH EMPLOYERS AND OTHER STAKEHOLDERS

Summary

There is support for the continued existence of an ITB and the levy/grant approach in the engineering construction industry. The nature of the work is largely peripatetic, and a levy approach to developing craft and supervisory skills suits the industry. Without such an approach, skill shortages would worsen, threatening the health of the industry in the UK and that of its clients. However, there was a widespread view that the ECITB has been slow to respond to changes in the industry and that it needs to improve its administration, focus its efforts and radically overhaul its structures and processes.

The engineering construction industry

The engineering construction industry is concerned with process plant contracting: the design, supply, construction and commissioning of process plants which are industrial units in which a physical or chemical change occurs during processing of materials. Engineering constructors build and maintain any plant ultimately used to produce processed goods, including power stations, chemical plants, pharmaceutical plants, breweries, oil refineries, oil and gas terminals (on and off-shore), glass works, water treatment plants and food processing plants.

Contracts cover a whole spectrum of projects, from feasibility studies to projects such as multi-million pound oil refineries and fertiliser complexes. However, increasingly, in the UK the industry is concerned with repair and maintenance and new build now only accounts for a minority of the workforce. The UK engineering construction industry operates on a global basis, with an increasing proportion of its income coming from overseas work, and is the second largest and most successful engineering construction industry in the world after the US.

The functions of the industry are important for the competitive health of the UK. It is an infrastructural industry and many other sectors of the economy depend on the quality and quantity of the skills available and the way in which they are deployed, both geographically and managerially. The industry's contribution to GDP is 1.5%, and a recent engineering construction paper produced for Ivan Lewis estimated that the industry underpinned approximately 25% of the UK economy.

The consultation

The Review Team conducted a consultation of stakeholders as a major part of evidence base for the Review. The consultation consisted of an on-line questionnaire, written responses, and face-to-face and telephone interviews. All employers on the ECITB database were invited to respond to the consultation, along with other stakeholders such as Trades Unions and employer bodies. A list of those interviewed is at Annex 3.

The stakeholder consultation yielded mixed views. There was strong support for the continued role and function of the ECITB, but stakeholders also felt there was a need for substantial change in its operations.

The engineering construction industry is small, and clients, contractors and unions are well known to each other. Very similar views were expressed across the industry itself on the need for the ECITB to improve administration and overhaul structures. Differing views came from individuals and organisations outside the industry. Here we were told that the ECITB had made an effort in recent years to become less bureaucratic and to get closer to its customers; that they work well with partner organisations; and they appeared a professional and well run organisation. They were also seen as proactive and doing a good job for their sector, especially given their small size.

Support for the statutory levy in engineering construction

The principle of the levy was fairly widely supported. The majority of craft workers are employed on site, moving from one short-term project to another. The work is highly skilled and relatively dangerous. The skills of craft workers and supervisors, including health and safety skills, are of paramount importance to employers, clients and trade unions. A levy is seen as the best way in which the industry can assure this. Clients (mainly large multinational companies), large employers and unions were particularly clear on this point.

A few respondents felt that, in the absence of the levy, craft skills would be maintained by employers as a response to health and safety legislation and the specification of competence requirements by clients. This was not the majority view.

A minority of people argued that Government should be funding training in the industry via general taxation or that it should be left to the open market. But the majority felt this would reduce the amount and quality of training and increase poaching.

The message from most respondents was clear. Without an ITB with levy-raising powers it would be difficult to organise training to ensure a continuing base of essential craft and supervisory skills. Without that current baseline of skills the industry would not be as competitive as it today, nor would it be able to pursue improved productivity and profitability in the future.

Respondents inside and outside the industry said the levy approach worked well because of the structure of the industry. It would not be appropriate in an industry with a different structure, particularly where direct employment dominates.

Many companies expect to carry out fairly extensive training and development over and above the payment of levy, but levy-funded activities are seen as key to maintaining the base of craft skills. We were told that the off-shore industry in particular has an exemplary record for training. Even so, given the very short term nature of projects it would be difficult to ensure adequate arrangements for apprenticeships and new entrants without the resource provided by the levy.

Administration of the levy/grant system by the ECITB

Levy collection ranks in the ECITB customer satisfaction survey as the least popular service that the ECITB provides. There was a strong view that the administration attaching to the levy and grant system could deter businesses from claiming grants. One employer referred to the levy/grant arrangements as 'an industry in themselves' and some larger employers, in particular, employ staff solely for the purposes of levy/grant administration.

A number of people interviewed said that the ECITB could make information about levy and grant clearer and more accessible.

Satisfying the requirements for grant for the National Skills Development Scheme (NSDS) was particularly difficult for smaller firms. The ECITB's proposed more regional-based approach might be expected to ensure small firms receive more help and advice on such issues.

Recommendation 2: Reflecting the concerns expressed about methods of assessment and the administration of the levy, the ECITB should examine the levy (and grant) process with a view to reducing bureaucracy for employers – and for themselves.

Assessing employer support for the levy in engineering construction

Although levy arrangements in the industry have a statutory basis, they can be seen as, in effect, voluntary because employers in the

industry vote each year for their continuation and for the percentage to be paid. This aspect of the levy is not widely understood. The views of the industry are taken through employer federations, which in turn consult widely with their members. We were told that the debate this engenders every year is taken seriously and is seen as important for the legitimacy of the ECITB.

If a majority of employers in the sector are in favour of continuation, the ECITB puts a case to the Secretary of State for Education and Skills; a Statutory Instrument is drawn up detailing the level of levy and is debated in Parliament.

Consultation through employer federations is set out in the legislation. However, membership of employer federations generally is falling, and in engineering construction it can fluctuate quite significantly. The project-based nature of the industry means that companies may join and leave federations according to the project they are currently engaged in. There is now some concern that membership may fall below the 50% baseline required by the legislation. There is also concern that limiting decisions to members of federations is becoming undemocratic. We believe the industry should consider wider mechanisms for involving non-federated employers – such as formal consultations. However, we do not feel it would be appropriate to move towards a ballot approach. An independent Employer Survey could be supported by a formal consultation, for example.

Recommendation 3: The ECITB should examine possible additional methods of establishing employer support for the levy.

Levy enforcement

Given that there is a statutory levy in place, the general view was that everyone in the industry should be paying it. A well-enforced levy was seen as creating a 'level playing field'; non-payment could give an unfair advantage to competitors and meant the full benefit was not being gained for the industry. We were told that, in engineering construction, non-payment could give an unfair advantage to competitors during the tendering process, in particular for the onshore sector. The ECITB were felt to be rather lax in chasing non-payment of levy and in registration of firms.

During our Review of the CITB, there was praise for recent changes in the way non-payment is pursued in construction. The ECITB could look at how this has been achieved and should take steps to inform the industry about how non-payment is pursued.

Recommendation 4: The ECITB should examine ways to strengthen its pursuit of non-payers and publicise how the system works, its benefits, and how non-payers are pursued.

The ECITB response to changes in the industry

The industry entered a new phase five to six years ago. The 'rush for gas' was over, the industry was getting smaller and new build work

was being replaced by repair and maintenance where profit margins were lower. We were told that the offshore industry is now dominated by repair and maintenance work. Contractors have had to seek more efficient working methods through restructuring. These changes have implications for skills requirements and the general opinion was that the ECITB needed to do more to meet these changing needs.

Some people felt that while the industry had become more efficient and effective, the ECITB itself had not. It was still perceived as having a rather slow 'public sector' approach. Many interviewees felt there was a lack of customer focus and customer responsiveness.

The ECITB has been making efforts to improve its operations and to inject more speed and responsiveness into its work. For instance, there has been a 25% reduction in costs for the National Apprenticeship Scheme for Engineering Construction (NASEC). A strategy was introduced in 2000 to increase the flexibility of programmes to include more learners. This has produced distance learning options for management, supervisory and project management programmes; an SME (Small and Medium-Sized Enterprise) toolkit to help business performance improvement based around the EFQM (European Foundation for Quality Management); a new programme for SME access to supervisory programmes and the overhaul of 17 occupational standards and qualifications. A regular customer satisfaction survey is now carried out.

However, these actions have not yet led to improved perceptions among employers, nor to significant improvements in outputs. The ECITB needs to refocus its business processes around the needs of its customers.

The Review Team supports the conclusions recently put to and endorsed by its Board that the ECITB needs to:

- agree key value measures with its customers and stakeholders;
- use Key Performance Indicators to monitor progress, promote behaviours and manage the performance of the organisation;
- clarify the core competencies it needs and work to develop its capabilities in these areas;
- to develop a workforce with the right attitude and capabilities to improve performance.

Recommendation 5: The ECITB should pursue the recommendations from the A T Kearney report, outlined above, which were recently endorsed by the Board.

Refocusing on key skill shortage areas

Respondents told us that there needed to be a greater focus on the key skill shortage areas in the industry. These are at craft and supervisory level. Clients and large employers expressed these views particularly strongly and voiced fears about the future of the industry in the UK, and the sectors that depend on it, if these skill needs continue to grow.

When the ECITB was first set up it had only two main products – the Fellowship Programme for Head Office staff and the Apprenticeship programme – NASEC – for craft skills. These were funded by the Head Office levy and the site levy respectively. Since that time the NSDS scheme has been added for site staff and many new courses have appeared for head office staff.

There was a strong opinion, especially amongst larger employers, that the Head Office levy is no longer appropriate:

- Engineering construction staff working in head offices tend to be highly skilled professionals and managers whom companies want to train and develop in their own ways. Higher level professional and managerial skills needs could be met through other means.
- Employers feel the process is bureaucratic, with money circulating pointlessly as they pay the levy and then the ECITB pays them back to do their own training for higher level staff. There was also a general view that grants from levy funding for professional and technical staff were restricted to too narrow a range of providers.

The general opinion in the industry was that the ECITB should cease to collect a Head Office levy and to provide training for head office staff. Instead it should focus on key site-based trade skills and supervisory skills. Supervisory skills are a particular problem in the industry and contractors and clients feel the effective management of trade skills is suffering as a

result. In a survey of clients, six out of seven said supervisory skills were poor and one said they were adequate.

However, the definition of 'Head Office' skills needs to be clear. As the ECITB's workforce development plan shows, Head Office skills not only include 'generic' managerial and administrative skills, and high level engineering professional skills, but also some which are industry specific and in short supply. These include procurement, contract management, piping design, systems engineers and CAD technicians. The ECITB funds training for some of these skills and, for others, brokers a service with providers such as the LSC and award a completion grant.

That said, the ECITB's resources are limited. It should therefore consult with the industry on how best to refocus its resources towards training at craft and supervisory level and on whether head offices should continue to be covered by the levy/grant approach.

Recommendation 6: The ECITB should consult with the industry on refocusing its priorities upon craft and supervisory level training and the continued need for the Head Office levy. Once a greater degree of comfort is achieved in these skill shortage areas, the ECITB might again consider expanding their range of provision.

Small Firms

In both the engineering construction and the construction industries the levy has a

redistributive effect transferring resources for training from larger levy-paying companies to smaller companies that provide training. This redistributive effect is marked in construction, where resource transfers to small employers. In engineering construction medium-sized employers appear to gain most, although both small and medium-sized employers gain more net direct value after levy than the largest companies.

The redistributive effect is important because it demonstrates that many of the criticisms made of the levy approach in the 1960s and '70s do not apply to its current use in construction and engineering construction.

Critics of the levy approach in the earlier period argued that small firms paid more in levy than they got back; that the type of training done by small firms was not recognised by the ITBs and that levy was largely irrelevant for larger companies because they already trained and were often more advanced in their approach than the ITBs themselves. The net result was that the amount of levy paid by medium and large firms tended to be returned to the same firms as grant, while small firms failed to benefit.

The redistributive effect means levy is being used effectively to increase the total pool of skills in the industry because:

- levy is targeted on the firms least likely to train;
- the needs of smaller firms are being addressed by the levy/grant system;

- larger firms already spend considerable sums on training, over and above the amount they pay in levy;
- levy collection and administration is adding value to the industry. Money is not simply circulating between large firms paying it and receiving it back in grant.

In engineering construction, in 2002, there were 429 companies operating within the industry and registered with the ECITB. 315 companies contributed to the levy in 2002, with 80% of levy income being provided by 59 companies. A T Kearney calculated 'return on levy' for companies. The results show a variance in return on levy with medium sized companies appearing to gain slightly more than small companies, although both received more back than the largest. This is a weaker distributive effect than is seen in construction, where there are large numbers of very small firms. The weaker effect in engineering construction suggests the criticisms of the Head Office levy – that it tends to go back to the firms that pay it – is probably correct (with the exception of the largest who provide much support over and above the levy for managers and professionals).

Regional arrangements

We were told that the shift towards repair and maintenance work rather than new build, and associated increasingly strong local labour deployment, meant that the ECITB needed to reorganise in order to operate more effectively at local and regional level.

The current regional system of Manpower Development Advisors (MDAs) was not working well. There was not enough resource focused on the regional level, MDAs were overstretched and employers complained that their MDAs were not able to get either responses or flexibility from head office. The A T Kearney survey of the industry found that 92% of external interviewees felt that the ECITB should operate more effectively at regional/local level. This would allow it to work with regional and local training initiatives and attract funding through local Learning and Skills Councils (LSCs) and Regional Development Agencies (RDAs), Scottish Enterprise, Highlands and Islands Enterprise and the Welsh Development Agency (WDA). It would also allow it to work with local companies to attract more young people from local schools.

The A T Kearney report recommends an organisational structure based on regional customer facing teams supported by marketing, customer services and administrative support departments. The ECITB Board have accepted this recommendation, which we endorse.

Recommendation 7: The ECITB needs to refocus its business processes around the needs of its customers. To do this effectively it needs to reorganise so that it can respond to the differing regional needs of customers. The Review Team feels that the structure recommended by the recent consultancy report to the Board would allow it to achieve this.

Partnership working

The ECITB's ability to work with partners has improved recently and a member of staff has been appointed with responsibility for this area. However, most of our respondents felt that there should be more focus on this, particularly on working with funding bodies to bring in additional revenue for training activities.

Recommendation 8: More focus and resource should be put behind partnership working with organisations such as the Learning and Skills Council, local LSCs, RDAs, Scottish Enterprise, Highlands and Islands Enterprise, the WDA and other bodies to ensure complementarity of provision and funding, and with schools and colleges to promote recruitment to the industry.

New entrants to the industry

The numbers of new entrants coming through each year are considerably lower than those needed to maintain the baseline of skills in the industry in the face of natural wastage through retirement. This is a major concern to many in the industry.

According to ECITB figures the industry needs to recruit around 550 new craft level workers into engineering construction every year, simply to replace those leaving the industry through retirement. When other reasons for leaving the industry are taken into account, for instance movement to other sectors, that figure rises to between 660 and 1000.

This contrasts sharply with the number of apprentices who come through the NASEC scheme. 173 young people were taken onto the scheme in autumn 2002. This represents an increase over the previous year but still leaves a considerable amount of work to achieve the ECITB's target of 550 new entrants per annum by 2005. Major clients of the industry are particularly concerned about this.

The nature of the industry does not encourage a steady flow of new recruits and the ECITB can only act as 'facilitators'. Employers want skills where and when contracts arise, but do not necessarily want the responsibility of direct employment. As a result jobs in the industry can appear unattractive. In engineering construction, where Level 3 is the minimum skill level for employment, large projects such as refinery shutdowns only offer six to eight weeks work. As one client said, "how do you attract people to enter and stay in an industry like that?" Part of the reason for continuing skill shortages is that, compared to other industries, security and career progression are not widely available. Nevertheless, these features also apply to the construction industry, which has recently succeeded in attracting considerably higher numbers of young people wishing to enter the industry following recent publicity campaigns.

The quality of the apprenticeship scheme is seen as very high, and drop-out rates are extremely low. Retention rates after one year are, typically, in excess of 80% and, after three years, remain over 70%. However, we were told that the scheme could be improved:

- The apprenticeship scheme (NASEC) is seen as fairly expensive and could offer better value for money. The ECITB has already reduced the costs of the scheme but the feeling is that there is more scope to achieve better value for money – especially in light of the lower costs of apprenticeships funded from other sources, for example the LSC.
- The NASEC scheme is centrally run by the ECITB itself and there were concerns about the non-employed status of apprentices. There are sometimes difficulties finding placements for apprentices and there was no employer ‘ownership’ of individual trainees. The ECITB staff we spoke to recognised the need to get better value for money from the scheme and felt increased involvement of employers could be part of the solution.
- Some people felt the focus should be less on excellence in craft skills and more on a level of skill that was ‘fit for purpose’. As one respondent put it: “not every pipe-fitter needs to be a Rolls Royce pipe fitter”.
- There was some demand for more multi-skilling of craft apprentices (though this was not universal). A variety of small and large employers mentioned multi-skilling in the context of the industry needing to be more flexible.

The A T Kearney report supports these findings. It found that NASEC was seen as vital for the skills base of the industry, was central to its needs and that upstream technician training was regarded as excellent. However, there was scope to increase the numbers by at least 50%, to reduce costs and to make the scheme more locally oriented.

Recommendation 9: The ECITB should re-examine the apprenticeship scheme with a view to improving value for money and employer ‘ownership’ of the scheme.

The National Skills Development Scheme (NSDS)

There is widespread agreement both within the ECITB and in the industry generally that the principles behind NSDS are excellent, but the scheme is not working. The original aim of the scheme was to address the issue of the ageing workforce by taking unskilled labourers already working in the industry and raising their skill levels. In practice, however:

- Employers say it is complex and difficult to manage. It requires a range of jobs and tasks and people with the skills to take others through the modules. This requires a sophisticated management structure, which is harder to achieve for smaller employers (although the new regional structure proposed by the ECITB should be able to offer support to them).

- The unions say that there is no clear progression route through to Level 3 qualifications. Since the scheme was started in 1994 almost £7 million has been spent on it and while 21,330 certificates of validated achievement have been awarded to participants, only 259 NVQ Level 3s have been awarded.
- There are no tracking or follow-up arrangements in place for individuals who have taken part.

Recommendation 10: The ECITB should urgently consider how to improve the NSDS scheme to make it more workplace friendly and to set in place tracking arrangements so that individual achievement can be recorded and built on and individuals encouraged to progress to Level 3.

Governance

We spoke to a number of ECITB Board members, including employers in the industry and employee representatives. Frustration was expressed by Board members over the slow pace of change and the ECITB staff we spoke to also expressed frustration at this. There was concern about bureaucratic procedures; over the length and inaccessibility of Board papers and the number of committees. The decision-making process needs to be shorter, less bureaucratic and more transparent. The feeling was that a smaller strategic body was needed, along with greater clarity over roles and responsibilities.

The A T Kearney report has confirmed the observations of this Review – that the governance model needs to be restructured to improve and enable the focus on delivering value to the industry. The CEO and the Chairman are seen as trying to move things in the right direction, but the processes and administration must change in order to achieve the outputs the industry needs.

There is a shared view that the Board of the ECITB is too large, which results in bureaucracy. It is caught between a consultative and an executive role which results in compromises in both. There are too many sub-committees, with the result that decisions are pushed back and forth between the executive, the sub-committee and the Board and sub-committees are too involved in management issues.

A number of ECITB Board members were under the impression that the problems of governance experienced by the ECITB partially arose from its classification as an NDPB and the resulting administrative procedures (which is not the case). This is discussed in more detail elsewhere.

We suspect that it is these structural issues that cause some Board members to feel that, on occasion, views expressed at the Board are ignored and that decisions are being ‘taken in back rooms’. The poor attendance at meetings reflects the sense of frustration among Board members. There was a strong plea for a leaner model with clarity of authority and responsibility.

Recommendation 11: Governance arrangements should be clarified and streamlined, making the decision making process considerably more transparent. The A T Kearney Report provides suggestions for change in this area and the ECITB should work with DfES to introduce more suitable arrangements.

Diversity

The engineering construction industry has an ageing workforce and the profile is overwhelmingly white and male. The table below shows the on-site and off-site spread in 2001 and 2002.

| On-site | 2001 | 2002 |
|-----------------|-------|-------|
| Males | 99.1% | 99.2% |
| Females | 0.9% | 0.8% |
| Ethnic minority | 1.0% | 0.8% |
| Off-site | | |
| Males | 80.0% | 80.7% |
| Females | 20.0% | 19.3% |
| Ethnic minority | 3.0% | 2.8% |

Around 10% of the directly employed workforce is women. However, very few work at craft level with most working at head offices. Over 70% of women in the industry are engaged in administrative or clerical work.

Ethnic minorities are under-represented in the workforce. This may be partly attributable to the age profile of the workforce (certain sectors find it difficult to attract younger recruits, regardless of ethnicity) and to the ethnic profile of the regions where engineering construction is concentrated. Nevertheless, proportions are low.

Ethnic minorities are expected to account for half the growth in the workforce over the next ten years and women already make up over half the workforce. Attracting new workers from these groups must be an important priority for the ECITB.

The ECITB recognises the need to increase levels of ethnic minority participation in engineering construction, and to attract women into non-traditional areas of work, and has begun to act on this.

The ECITB is participating in JIVE, a project under the ESF-funded EQUAL programme, which aims to break down gender segregation in the engineering, construction and technology sectors. It also increased the number of female trainees recruited to the NASEC apprenticeship programme in 2002. However, numbers are still small.

There is scope to do more to encourage ethnic minorities into the industry, and to encourage employers to draw in people from ethnic minorities. The industry has acknowledged skill shortages and an ageing workforce. It also, particularly at higher levels, operates at a national as well as a regional level. All of which points to the need and feasibility of drawing people from ethnic minorities into engineering construction.

Trends and attitudes to diversity are part of the whole industry culture and the ECITB has a vital influencing and leadership role here. It is industry, not the ECITB, that creates the gender and ethnic make-up of the workforce. However, the ECITB must encourage employers to recruit women and ethnic minorities, ensure there are no obstacles in the way training is provided and encourage these groups to see engineering construction as a viable career option. It also needs to persuade employers in the industry that a more diverse workforce is part of the solution to continuing skill shortages

Recommendation 12: The ECITB should continue to pursue its diversity agenda and examine further ways of bringing more non-traditional groups into the industry.

Information Technology

The ECITB is seeking to improve their service through more effective use of IT in both internal administration and provision of training.

It is in the process of implementing a web-based Customer Relationship Management system. This aims to introduce an online balance sheet for each customer so that they can see what they have paid in levy and received in grant.

In the next phase of implementation of the new IT system, training providers will be able to access the system direct. This will enable providers to enter details onto the NASEC database and to enter details directly onto Safety Passports.

The ECITB is trialling on-line learning for the Offshore Supervisory Management Training and Development programme. This usually involves four days in a classroom for each module. The pilot on e-learning means people on the course can do it while they are offshore – which is popular with both the employers and employees. Other initiatives include: developing on-line training for NVQ assessors and verifiers; and preparations for setting up a virtual college, drawing in Ufi learndirect.

Stage Two of the ECITB Quinquennial Review will consider how effectively it is making use of IT to achieve its strategic goals.

Delivering the recommendations of the Quinquennial Review

The recommendations in this Quinquennial Review and the proposals for restructuring put forward in the recent A T Kearney report add up to a considerable programme of change for the ECITB and its operations. The industry believes a restructured ITB is the solution to its skills and training needs and wants to see this implemented. DfES should work with the ECITB on a delivery plan, with clear targets and outcomes.

Recommendation 13: DfES should work with the ECITB to draw up a plan to deliver the organisational and cultural changes and the improvements in outputs recommended in this Review and in the A T Kearney report, with clear targets and outcomes identified. DfES should then monitor progress against this plan at regular intervals over the next two years.

Chapter 3

THE FUNCTIONS OF THE ECITB

The functions of the ECITB are still necessary. Chapter 2 showed that the levy/grant approach works, given the particular circumstances found in engineering construction. The current legislative framework means that, in order to raise a levy, the ECITB must continue as an Industrial Training Board and we recommend that it does so. Classification as an NDPB appears to have some disadvantages and DfES should look further at the implications of change in this classification. Finally, the ECITB needs to work with DfES and the SSDA to consider its future position in the new Skills for Business Network.

Current mission, role and remit of the ECITB

The ECITB's mission is:

- To attract and to encourage the training and development of sufficient people within the engineering construction industry.
- To ensure high levels of competence and safety and environmental awareness.
- To increase the capability of the industry to compete in world markets.

Role and Remit

The Engineering Construction Industry Training Board (ECITB) is dedicated to ensuring that there are sufficient, well-trained and qualified people entering the engineering construction industry and being retained within the sector to maintain its competitiveness.

The cyclical nature of the industry, with much work undertaken on a project-by-project basis, makes it difficult for companies within the industry to maintain high levels of people investment.

The prime responsibility of the ECITB, therefore, is to support and facilitate the high level of training required by the industry. They are enabled to do this through statutory powers to raise a training levy. The funds raised enable the ECITB to provide:

- Modern Apprenticeship and adult re-skilling programmes which aim to deliver competent people with the full range of skills needed by the industry.
- Flagship training programmes for supervisors and team leaders, direct support for management development, with Masters programmes delivered in partnership with universities.
- Comprehensive research and analysis of the labour market trends and a detailed forecast of the manpower requirements across the United Kingdom.
- Significant grant support to employers' own training.
- A system of training, quality monitoring and approval, competence assessment and award of appropriate vocational qualifications built on national standards.

Background

The formation of the Engineering Construction Industry Training Board (ECITB) in 1991 followed the abolition of the larger Engineering Industry Training Board (EITB), of which it had been a part. The retention of a statutory body for engineering construction followed widespread pressure from major employers and clients in the industry for the continuation of a statutory levy. The industry has, through its representative employer organisations, continued to persuade the government to retain the ITB.

The ECITB's remit is defined by statutory order. In broad terms, it covers the design, project management, construction, installation, maintenance and dismantling of process plant (e.g., power stations, chemical plants, oil & gas refineries, food processing plants) in Great Britain. The key occupations are professional engineers, technologists, technicians, project and site managers at the professional level. At craft level they are pipefitters, welders, mechanical fitters, steel erectors, platers, electricians and instrument technicians.

Do we still need an ITB for Engineering Construction?

The primary function of a Quinquennial Review is to focus on the functions carried out by an NDPB and NDPB status itself. However, the ECITB also functions as an ITB and was set up as such before it was classified as an NDPB. In order to answer the question, 'are the functions of this NDPB still necessary?' we have also had to consider whether an ITB is still needed for the engineering construction industry.

This report has shown that the statutory levy in the engineering construction industry is seen as important. The ECITB was established in recognition of the special difficulties involved in meeting the training needs of an industry where the labour force is highly mobile and where, due to the short duration of most contracts, there is less opportunity for individual employers to offer training. These factors still apply.

To continue to administer a statutory levy the ECITB must remain an Industrial Training Board and we recommend that it does so.

Recommendation 1: A statutory body in engineering construction with the power to administer a levy should continue. The functions of the ECITB remain vital for the engineering construction industry and for the UK economy. The ECITB should continue to act as an Industrial Training Board, carrying out these functions including establishing, collecting and administering a levy to support skills and training issues on behalf of the engineering construction industry.

NDPB Classification

The findings of the review suggest that, whilst ITB status for the CITB and ECITB continues to be necessary, we should examine the need for continuing classification of the ITBs as NDPBs.

What is an NDPB?

Cabinet Office Guidance defines an NDPB as “a body which has a role in the processes of national government but is not a Government Department or part of one, and which accordingly operates to a greater or lesser extent at arms length from Government”.

NDPB classification is not a legal definition. It is a classification for a group of public bodies, most, but not all, of which receive some form of direct Government funding. A framework of control and accountability has developed around NDPBs as a result of this classification.

Which organisations are NDPBs?

There are four categories of NDPB. The CITB and ECITB are Executive NDPBs. These carry out a wide range of administrative, regulatory and commercial functions, generally operate under statutory provisions, employ their own staff and have responsibility for their own budgets. This group accounts for around a quarter of all NDPBs. In 2002 there were 192 Executive NDPBs, 11 of which were the responsibility of DfES.

The other three categories are: Advisory NDPBs (the largest group): Tribunal NDPBs and Boards of Visitors. Not all bodies fit into a single category.

Accountability

NDPBs enjoy varying degrees of independence. The responsible minister is accountable to Parliament for the NDPB’s degree of independence, for its usefulness as an instrument of government policy and ultimately for the overall effectiveness and efficiency with which it carries out its functions. Ministers are also accountable to Parliament for public money spent by an NDPB.

ITBs do not receive direct Government funding. They are funded via a levy on employers in their industries who are ‘in scope’ to them. At the same time, however, there is an important underlying constitutional principle:

A statutory levy is often seen as a form of taxation because Government requires firms to pay a certain percentage of their profits to the ITB for this purpose. If statutory levy is a form of taxation then the principle of ‘no taxation without representation’ should apply and Ministers should continue to be answerable to the electorate for it. Any move away from NDPB classification would require Government to demonstrate that the principle of accountability still held firm through ITB status.

However, we have seen that the levy is, in effect, voluntary because the industry itself chooses whether to continue with it and the level at which it should be paid. This is an important principle which must be retained.

What are the issues for ITBs?

In the case of the two remaining ITBs, there are some current practices that are rooted in ITB status (which is legally defined) and others associated with NDPB classification. This means the work of the Boards is constrained by two separate frameworks of control, accountability and review – on the one hand the need for accountability to the Secretary of State as an ITB; on the other the framework which applies to NDPBs.

During Stage One of the ITB Reviews, we found confusion over which framework of accountability gave rise to which procedures. For example, a number of ECITB Board members were under the impression that the problems of governance experienced by the ECITB arose from its classification as an NDPB (which is not the case). It has proved difficult for the Review Team to separate these strands. The view of the Review Team is that the framework of regulation and control which currently applies as a consequence of NDPB status needs to be simplified and clarified. If the regulatory framework set out in the primary legislation specifically for the ITBs is taken as a given, the question then needs to be asked which further elements of the NDPB accountability requirements also need to apply to the ITBs, in order to give a combined regulatory framework which is proportionate and fit for purpose.

The key feature of ITBs is the statutory levy. It is this which the industry feels is essential to maintain standards and a base of skills in the industry, and this is founded in the ITB legislation, not in NDPB classification.

As to the further controls associated with NDPB status:

- The ITBs are entirely funded by industry. They receive Government funding for individual initiatives in the same way that other, non-NDPB, training providers do.
- NDPB status is perceived (albeit not always correctly) as a cause of the bureaucratic procedures and ‘public sector feel’ that still adversely affects the image of the ITBs.
- The Government-wide procedures of accountability for NDPBs mean the ITB is required to conform to a number of administrative procedures. The staff resource involved, both for the DfES and the ITBs, could be better focused on the outputs and outcomes of the ITBs’ work.
- Board members felt Nolan procedures on appointments made it difficult to ensure the Board fully reflects the make-up of the industry and that employer representation is at as high a level within the company as possible. However, there are sound reasons for such procedures, not least the need for transparency and diversity in the make-up of public bodies. Whatever classification was applied to the ITBs, Board appointments would still be scrutinised by the Office for Public Appointments which covers a wide range of public bodies.

Conclusion

On the basis of the evidence so far, we feel that the application of NDPB status to the ITBs needs to be reviewed. While some elements of the accountability framework that goes with that status continue to be necessary, it is not clear that all elements are necessary or proportionate. And the application of two different control frameworks is a source of some confusion. But this must be weighed against the overwhelming support for the statutory levy in the industries, for the continuity and stability the levy provides, and the constitutional issue of representation.

Stage Two of the reviews should include an analysis of the nature and requirements of NDPB classification and the options for simplifying the arrangements to secure a clear, robust and proportionate framework of accountability.

Recommendation 14: DfES should investigate, with the Cabinet Office, the application of NDPB status to the ITBs and the options for improving the accountability framework.

Scope and Application of Levy

Identifying and registering the establishments that fall within its scope is one of the prime functions of an ITB. The definition of scope was originally intended to act as a proxy for the skills required in an industry. If a company falls within scope by virtue of its main activity it is liable to pay levy, provided it is large enough. Sub-sectors felt the scope order was not clearly defined and had found it difficult to get either the ECITB or the Department to give them a satisfactory answer on definitions and procedures.

The original 1964 legislation introduced a system of ITBs across the economy and the definition of scope assumed the vast majority of employers would be in scope to an ITB. The question originally was not whether an establishment was in scope, but to which Board. The current situation means that there is a sharp cut off between those in scope (where more than 50% of the functions of an establishment are in the industry) and those not in scope.

In engineering construction, the off-shore sector is more mature than the on-shore sector. Oil and gas fields are smaller and lifting equipment much more sophisticated, so that where construction would once have taken place on site, now structures are more often built in shipyards (or module yards) and then transported to the site pre-assembled. This takes companies out of scope, with the consequent loss of levy and often to the chagrin of companies who use the same skills but who assemble on site and therefore remain in scope.

The issue of what constitutes an establishment is particularly relevant in engineering construction. There are a number of large, multi-site (and often multinational) companies in the sector, but only establishments that are 'mainly' engineering construction are liable to pay levy. Frequently levy is paid at company rather than establishment level. As one interviewee said, "It's the establishment that's liable – but it's the enterprise that pays". Large multi-site companies would not find it difficult to reorganise their business to avoid payment of levy. However, we were told that in practice this was rare.

We have considered whether there might be alternative ways of defining scope that can overcome these problems. For example, in film and media the voluntary levy is based on the costs of individual productions (excluding the costs of actors). Our conclusion is that there will always be a difficult cut-off point however scope is defined.

Whatever definition is used there will probably always be problems at the margins. In theory, it would be desirable for the levy to be linked to occupational skills rather than the nature of workplaces, but the latter is probably still the best proxy available for the former.

There will, inevitably, be some grey areas around the definition of scope. This means it is important that there is clarity on how any sub-sector can seek clarification from the Secretary of State on their inclusion in the scope order including the criteria for reaching decisions.

Recommendation 15: DfES and the ITBs should clarify how sectoral bodies can pursue concerns over scope issues; ensure that advice is available to associations and federations on how such cases can be raised with the ITBs and the Secretary of State; and also clarify the criteria used to reach conclusions.

The role of Trade Unions on ITBs

When the ITBs were first established in 1964 the legislation stated that they would have a tripartite structure with equal numbers of employers and trade unionists plus an unspecified number of educational lists represented.

The 1989 Employment Act, which dissolved the Training Commission, removed the statutory right for trade union representation on the ITBs. The current situation is that the only group that has a right to representation on an ITB Board is employers, and they must comprise a majority of the membership. Other members are appointed as the Secretary of State sees fit. The Secretary of State and Scottish Education Ministers also have a right to each appoint one person to attend Board meetings and committees but those people do not have voting rights.

However, the Secretary of State and the two remaining ITBs have made a discretionary choice to continue to offer a place on the Board to two trade union representatives. There is no evidence that trade union representatives are treated any differently to other Board members.

There has been an important growth of a 'licence to operate'[†] approach in the construction and engineering construction industries. We believe this is a positive step, a view shared by both sides of the industries and by all the respondents to our consultations on the two ITBs. The introduction of 'licence to operate' approaches is in the interests of the industries as a whole. It is in the interests of clients, who need to be assured that everyone on site has reached a particular level of competence and has had the necessary health and safety training. Employers will know that their employees have reached a particular skill level and individual employees will have the assurance that the people they work alongside, in what are challenging environments, know what they are doing.

[†] Note references to 'licence to operate' in this report do not denote a statutory regime; it is a purely descriptive term.

Nevertheless, the responsibility for assuring competence, in the long-term, will fall on the individual employee who must ensure they have the relevant craft qualifications as well as the right health and safety training for the job they do. It is to the credit of the trade unions in both industries and to the individuals working in them that the schemes have had such widespread support. In principle, the costs of training and assessment could fall on the employee, although this would probably be recouped through wages. We should stress that, in practice, arrangements are currently in place in both industries to get Government funding to cover the costs of introducing both schemes.

On a wider front, Government wants to see individuals take more responsibility for their skills and training in future across the economy as a whole. This means that it becomes more important to ensure employee representatives play a fuller part in organisations responsible for promoting training than they have in the past.

All members of an ITB Board are expected to represent the best interests of the industry as a whole rather than the interests of the organisation to which they are affiliated. We do not feel that to ensure continued representation of trade unions opens the ITB Boards up to demands from other interest groups for representation. Currently, only one side of industry has a right to representation on an ITB and we believe that ITBs should be seen as recognising and incorporating a partnership across both sides of industry.

Levels of trade union membership have been falling across many industries for some time. It is still relatively high in engineering construction, however and is probably the most appropriate method of representation. We considered whether there were other ways in which employees in an industry might be represented, but there are no obvious alternatives.

We would not want to see a situation where every single trade union involved with the workforce in the industry has a place on the Board of an ITB. This would suggest that Board members represent their organisations, which they do not. The principle should be that there are some Board members who can represent the views, perceptions and interests of individual employees in the industry. They would not be sitting on the Board as representatives of their individual union, but representing the interests of the industry as a whole. We believe the current trade union Board membership on the ECITB Board is well able to do that.

Recommendation 16: DfES should consider how best to ensure that trade unions continue to be represented on ITB Boards. Two trade union representatives currently sit on the Boards of the ITBs, and this level of representation should continue.

Chapter 4

OPTIONS FOR DELIVERY

The presumption underlying Quinquennial Reviews is that Government should provide as public services only those functions which prove necessary and are best carried out in the public sector. In the case of this review we are concerned with the extent to which the ECITB's functions are necessary to the achievement of Government policy objectives for improving the skills of the workforce and national competitiveness and to meet the wishes of employers.

In the case of the statutory ITBs, their position differs from that of many other NDPBs in that they are financed primarily through levies raised from employers in the industry they cover, on the basis of a broad consensus within the industry that a levy is desirable. There is no direct public contribution to the costs of the ITBs and the views of the employers within the industry must therefore loom correspondingly larger in weighing the arguments for and against the various options.

The findings from the A T Kearney Report bear out those of this Review and the views of consultees with respect to options for delivery.

Industry track record and feedback indicates no willingness to invest across the industry through other means. It also suggests training would be likely to reduce if the requirement was lessened, owing to the tight margins operating within the industry.

We considered the option of merging the ECITB with other sector bodies which bear some similarity, either in terms of constitution or activity. The two options would be to merge ECITB activity either with CITB or with the Science and Engineering Manufacturing Training Association, SEMTA, an SSC. However, these options are seen neither as desirable nor feasible by the industry itself and its clients. The focus of

the CITB is much broader and on different skills at different levels to that of the ECITB. In addition, the CITB itself is changing and is awaiting a decision on the formation of a Sector Skills Council for construction, of which it will form the largest part. Merger with SEMTA would mean SEMTA operating two parallel systems, levy and non-levy. However, this should be reconsidered in two to three years time, alongside the question of the role of the ECITB in the new Skills for Business network.

Other options include privatisation or taking the functions into central Government. Whilst either might be feasible, neither is viewed as desirable. Our evidence suggests that a wholly public body, or a new private body, would not have credibility within the industry. The ECITB, with the support of employers, is the most credible option.

To take the functions into Government would require a considerably higher cost to the Exchequer, both in terms of administration and in grant, given that the levy-raising powers attach to the ITB legislation.

If privatised, it is unlikely that a body with similar sector support and knowledge of the sector would be found. In addition, the new body would need to find an alternative means of funding training as they would not be an ITB and therefore would not have levy-raising powers. As the findings of the review have shown, the sector remains heavily in support of a statutory levy system, given the particular characteristics of the industry.

Accountability

The ECITB should remain accountable to Parliament as a levy-raising body. The means of doing this will be examined in Stage Two, when considering options around NDPB status.

Value for money

The A T Kearney report estimates potential savings of c.£800,000 if an appropriate merger could be negotiated. One-off costs would be in the region of £1 million. However, for the reasons already discussed, we do not feel this is the right time to attempt to negotiate such a merger. We are recommending this is reconsidered in two to three years time.

Other options are likely to provide regulatory and financial burden if Government funded. If privately funded they are unlikely to meet industry need for the reasons set out above. The ECITB is the best option to achieve value for money, but it needs to introduce changes in the way it is organised, structured and the way it operates, as detailed elsewhere in this report.

Costs to the Exchequer of a Levy-Raising Body

The essential differences in costs to the Exchequer between maintaining a statutory ITB that has a levy raised from industry, with no Departmental programmes channelled through it, and any voluntary alternative would be:

- a small reduction in the use of Parliamentary time (about an hour a year on Levy Order debates);
- some reduction in Ministerial input (e.g., making Board appointments and scope changes);
- some reduction in the workload of the sponsor team in DfES as a result of withdrawal of the Department's roles in administering the Industrial Training Act (interpretation and correspondence about the legislation, preparation of Levy Orders and a formal assessor role on the Board and its committees) and administration in Finance Directorate and Leadership and Personnel attaching to NDPB status for ITBs.

Chapter 5

BACKGROUND TO THE ENGINEERING CONSTRUCTION INDUSTRY AND THE GOVERNMENT FRAMEWORK

The UK engineering construction industry is the second most competitive in the world (after the US) and, in terms of overseas contracts, is the most competitive. Nevertheless, the last five to ten years have seen intense pressure on companies to improve their competitive profiles, resulting in considerably lower profit margins.

Engineering construction has seen considerable change in the organisation of the work process. There has been a marked shift from new build to repair and maintenance in the UK market, where the latter now accounts for over 75% of the workforce. There is little major new build on the horizon within the UK.

Large clients have insisted on ever-increasing transparency in the way costs are broken down in the tendering process to drive down all extraneous costs. We were told there is some over-capacity in the sector. This, and the fact that many of the larger firms are foreign owned, creates a highly competitive environment in the industry. There is a complex system of sub-contracting in place.

A recent DTI study highlighted the impact these changes have had on the supply chain, where there has been little shift towards a more co-operative partnering approach seen in some other areas. Interestingly however, there is significant co-operation between large clients, managing contractors and unions over the timing of large projects. This is also one of very few industries in which there is a national pay agreement and a National Joint Council, funded by the main employer federation, which polices this. This is a high-skill industry with a base of Level 3 skills or equivalent, a good health and safety record and unionisation of the workforce is comparatively high.

At April 2002, the engineering construction industry employed some 49,000 people, approximately 20,000 of whom work on sites. Just under 20,000 people work in head offices (19,778) as technical, managerial and administrative staff, and 18% (8712) of the total are employed under labour-only sub-contract agreements on sites and in head offices. There were 429 companies operating within the industry and registered with the ECITB. 268 of these employed fewer than 50 staff while 12 employed over 1000.

The industry has a base employment figure of around 35,000. This can rise to 50,000 in times of peak activity.

The pattern of skills and skill needs in the industry

The ECITB is not expecting significant growth in employment, but some 5000 people are expected to be needed to join the industry in the next five years, mainly to replace those who are leaving through retirement.

Recent qualitative research into the future skills needs of contractors has shown that the most widespread need is for craft level workers. A number of companies believe there will be a shortage of craft workers over the next five years. This is linked to the increasing age profile of the industry and the lack of young entrants.

Other skills issues were mentioned such as the need for technicians and engineers involved with design and project control and the need for graduates. Companies feel that skills shortages would be present at all levels in the coming years.

Skill Shortages in the engineering construction industry

This report argues that the existence of an ITB with levy-raising powers is seen as important for the health of the engineering construction industry. Yet many of those we spoke to during the review told us that, in spite of the levy, there were worrying skill shortages in the industry. How can we explain the apparent paradox that both industries (this situation applies equally to the construction industry) which have a statutory levy also experience severe skill shortages, especially in some parts of the country? Does this mean the levy doesn't work? Our view is that the levy does work for these sectors, and that the explanations for continuing skill shortages are complex. Our view of these is set out below.

The levy has provided a base of skills crucial for survival. For example most apprenticeships are supported via levy. But at current levels it is not intended to replace individual employer investment. Employers still need to take responsibility to train on top of levy-funded activity, and many do so. There is also a vital role for the ECITB in drawing down funding from other (mainly Government) sources.

The nature of the industry does not encourage a steady flow of new recruits and the ECITB can only act as a facilitator. Employers want skills where and when contracts arise, but do not want the responsibility of direct employment. As a result jobs in the industry can appear unattractive. The itinerant nature of the industry means progression is a problem and this has an impact on the quality of supervisory skills at craft level. Even excellent project management will not be fully effective in deploying existing skills without good supervisory skills.

An element of current skill shortages is historical. There are gaps in the age profile that reflect periods of recession. Current skill shortages may not reflect current performance and use of the levy.

The 'geography' of skill shortages is not related to the levy. We were told that craft workers were slightly less likely than in the past to be willing to move around the country to where their skills were needed. Levy was not designed to, nor could it, overcome this problem.

Employers, including levy payers, are clear they want the levy to continue and feel the situation would be worse without it. Any change now would be harmful and the continuity it provides is important.

Changes in the skills and training policy environment

The Industrial Training Act 1964 was brought onto the statute book as a result of widespread consensus that there was a pressing need for an increase in the quality and quantity of training to meet the needs of employers and of the economy as a whole. Employers in individual industries had common skill needs, but were unwilling to invest in training for fear of ‘poaching’ of skilled workers. The Act therefore established and empowered Industry Training Boards (ITBs) to raise a levy from employers to promote training in the sector, and to use the levy money to pay grants and make other arrangements to pursue this aim. The levy/grant approach set out in the 1964 Act only remained in place until 1973.

By 1970 the ITBs had substantially increased the amount of training being carried out, but there was a view that this was a once-for-all effect and that to continue with the levy approach was unnecessary (Senker, 1992). A 1973 Act introduced exemptions from levy for employers who could demonstrate they were already providing training. Widespread application of exemptions seriously eroded the income the Boards raised through levy and Government financial support became necessary, moving them further away from industry and closer to government.

Following the 1981 Employment and Training Act most of the smaller ITBs and some larger ones were abolished and funding support withdrawn from the remainder, which in future

were to be funded via a non returnable levy. A 1988 White Paper abolished all the remaining ITBs which were replaced by Industrial Training Organisations (ITOs) and then National Training Organisations (NTOs). The CITB was retained following representation from major employers and clients. The ECITB resulted from similar representation when the EITB was closed down. Both the CITB and the ECITB have only remained in existence because of the views of a majority of employers in the two sectors that they continue to be necessary.

Since 1997 the Government has sought to make the planning and delivery of education and training more responsive to the needs of learners and employers. For example the creation of the Learning and Skills Council in England and Education Learning Wales, are beginning to improve the supply and availability of education and training through local institutions and providers in different parts of the country.

To improve the demand side across the economy, sectors have been invited to establish Sector Skills Councils to bring about stronger engagement on the part of employers working with a more responsive education and skills system that meets their business needs. SSCs will take the lead in enhancing the contribution of skills and workforce development to productivity, business performance, employability and better public services

Annex 1

PURPOSE AND METHODOLOGY

Stage 1 of the ECITB Quinquennial Review

The ECITB Review (and the separate Review of the CITB) has taken a broader approach than usual. There are two reasons for this. First, government reviews of NDPBs and Agencies are being replaced by 'end-to-end business reviews' of service delivery, rather than a narrow focus on the body itself. While retaining the good practice lessons learned from past Quinquennial Reviews, we have looked broadly at the industry, its changing structure and the impact of this on skills to ask how effectively the ITB is tackling this. Second, the Review took place as the Government was developing a new national skills strategy. We took the opportunity offered by the two Reviews to look at the approach to training in the industries and to ask whether such an approach might have wider applicability. We have also considered the statutory basis for the activities of the two ITBs.

To answer these questions we consulted with all sides of both industries - with employers, clients, employer federations and other representative bodies, trade unions and with key partners. We also carried out a number of one-to-one interviews. We sought general opinions on the functions, efficiency and effectiveness of the bodies and also asked for any broader views on the levy/grant system itself.

To avoid consulting the same individuals and organisations twice, Cabinet Office guidelines recommend addressing the fundamental issues involved in both stages simultaneously and the ECITB Review has taken this approach.

A separate report is being produced on the findings from the Review of the CITB. There were, inevitably, a number of issues in common across both the Reviews, particularly on the principles of a levy/grant approach and the statutory underpinnings for the work of both Boards.

Methodology

As background to the Review we carried out some work looking at international comparisons of levy/grant approaches to training. This is covered in Annex 4. We carried out some analysis of the ECITB Customer Survey 2002 and the A T Kearney Strategy Review, 2003.

A consultation exercise with key stakeholders in the industry started on 24 March 2003 and finished on 16 May. The consultation was conducted according to Cabinet Office guidelines, although the consultation period was slightly shorter than the recommended 12 weeks.

Methods of Consultation

There were two distinct aspects to the consultation. First, a written and web-based consultation and, second, one-to-one interviews with key respondents.

A document giving background to the consultation and a questionnaire were sent to stakeholders at the end of March. The consultation document and a web-based questionnaire were also available through the DfES Consultation Website. Copies of the Consultation document were sent to all employers registered with the ECITB.

Stakeholders included bodies with a broad interest such as TUC and CBI. They also included trades federations, unions and employers suggested by the ITBs as relevant to their particular industries.

Because of the difficulties in targeting small and micro businesses the team issued notices to three trade journals, to alert as many businesses as possible to the written and on-line consultation.

The one-to-one interviews with stakeholders were mainly carried out face-to-face, although a few were conducted by phone. A list of interviewees is at Annex 3.

Stage Two

If the recommendation from Stage One is that NDPB status should cease, and if that is accepted, then it is not strictly necessary to proceed with Stage Two of a Quinquennial Review. Our recommendations are that ECITB should be retained as an ITB with levy-raising powers and that DfES should do further work to look at the issues involved in removing NDPB status. We therefore feel it is appropriate to continue with Stage Two of the Review.

Stage Two will examine the adequacy of the Board's financial and management systems to meet its strategy and objectives. It will also cover efficiency and effectiveness, progress against key performance indicators and the use of new technology.

Terms of Reference

The Terms of Reference for Stage One of the Review can be found at Annex 6.

The Review Team

The review was carried out by Dr Jane Mark-Lawson, a Divisional Manager in the Department for Education and Skills, assisted by: Anne Donkin and Caroline Lucas in the DfES and Ian Moore and Joanne Long of Pricewaterhouse Coopers. Stephen Marston, Director of Adult Learning Group in DfES had oversight of the Review.

Management of the Review

The work of the Review Team was overseen by a Steering Group, the membership of which is listed at Annex 5. The Group's specific role was:

- to establish the scope and ground rules for the review;
- to direct and assist the work of the Review Team by approving work plans, considering emerging findings and offering views, and commissioning inputs to the review as requested by the team;
- to comment on the Review Team's recommendations before these were forwarded to Ministers.

Cost of the Review

The reviews of ECITB and CITB were conducted simultaneously and the total cost of Stage One for both reviews was approximately £68,000, comprising the following items:

| | |
|--|---------|
| Salaries + oncosts for DM, G7 and EO for 4 months | £38,500 |
| Consultancy fees | £25,496 |
| Travel and subsistence | £3543 |
| Publication of report | £5122 |
| Total | £72,661 |

Annex 2

SUMMARY OF QUESTIONNAIRE RESPONSES

Consultation Process

The questionnaire was made available on the DfES Consultations website and responses invited online. We issued notices to trade journals to draw attention to the consultation and website, giving details of how to respond either online, or by e-mail (a dedicated ECITB consultation e-mail account was set up), post or fax. In addition, we sent 420 questionnaires to ECITB members (plus a further 11 to trade federations, trades unions, educational establishments, etc.) and the ECITB publicised the consultation to its members.

Thirty-three responses were received, the most popular method of response being by e-mail. Some criticism of the online questionnaire was made – it was felt to be cumbersome and difficult to complete and this feedback will be passed to the DfES Consultation Unit.

The diverse spectrum of ECITB activities was represented in the responses including: all aspects of oil and gas production, power management, the petrochemical industry, design and project management, electrical engineers and steel erectors. Responses were also received from trades unions, trade federations and employer associations. The size of the companies that responded ranged from those employing some 3500 people, to smaller operators employing around 60. (Not all firms that replied indicated their size or turnover.)

The consultation findings and review recommendations reflect both the written consultation and the outcomes of more in-depth meetings and conversations with some stakeholders.

Consultation Responses

Overall, the questionnaire responses were broadly supportive of the ECITB's activities. Sixteen of the respondents thought there was a continuing need for the functions currently performed by the ECITB and there was praise for support received by respondents: 'Very good ... we rate ECITB as one of the better government organisations who actually deliver and help industry'. One employer said: 'In general, the ECITB do a good job for our company. They know the industry nationally and therefore have a broad perspective of what is actually happening'.

Some aspects came in for criticism however. It was widely felt that the ECITB was too bureaucratic and its administration 'top-heavy'. One trade union thought the administration too centralized to deal effectively with regional needs, and very slow in responding to industry requirements. One employer felt ECITB to be 'ineffective' in facilitating business growth and another thought it could be more active in promoting what it had to offer.

Twenty-nine respondents thought that there was room for change within the ECITB and offered a variety of suggestions for future development. There was a suggestion from one employer that: 'The ECITB needs to change, streamline its process and establish a framework for consultation within the industry', while another felt that ECITB should: 'Focus solely on the big issue – to improve the industry's image as a whole to new entrants'. More radically, another recommended 'restructuring ECITB to create an industry-controlled training board rather than a government body'.

Three employers and one trade federation urged more focus on apprentice recruitment and craft training leaving managerial and professional development to the discretion of individual companies. There was a fairly wide-spread body of opinion that the Head Office levy was no longer appropriate and that Head Offices should be removed from scope.

The levy provoked a great deal of comment. Nine of those who responded were very positive that the levy should continue to fund training. A trade federation felt that: 'The levy remains essential to provide funds to reward those employers who train at the expense of those who do not'. Employers commented on the levy as follows:

- 'An effective means of sharing cost in a workforce environment which has a significant itinerant workforce element.'
- 'It acts as a focus and an incentive to develop skills.'

- 'The levy is a good way of funding skills developed in an industry like engineering construction.'
- 'Routes to the industry probably benefit from a central funding source, i.e., the levy.'

However, nineteen respondents were dissatisfied with the levy system as it is currently operated with phrases such as, 'archaic', 'old-fashioned', 'poorly-managed' and 'inefficient' being applied to it. One employer felt that there were inconsistencies in levy administration and enforcement and that it did not provide value for money, while another felt that it took control for training away from the individual company. A common criticism was that there was a lack of flexibility in offering grants for training.

The 10 specific questions we asked through the consultation are as follows

1. a) What in your view is the main purpose (or purposes) of the ECITB?
b) How effective is ECITB in publicising what it does?
c) Would you like to see its purpose and role change in the future, and if so how?
2. a) Do you think there is a continuing need for the functions currently performed by ECITB?
b) If so, is the ECITB the right body to perform them now and in the future?
If not, how could the arrangements be changed for the better?

3. a) What is your view on the levy as a way of funding skills development?
b) How effectively does the ECITB manage the levy?
c) Do you feel skills and training in the industry could be maintained in a different way, i.e., without a levy supported by statute, and if so how?
4. How effective is the ECITB in helping businesses to grow and become more competitive?
5. How effectively does the ECITB succeed in:
 - a) Identifying skill trends in the industry
 - b) Ensuring the provision of high quality, relevant training
 - c) Advising on and encouraging employer participation in workforce development
 - d) Acting as a voice for the sector in skills issues.
6. In your view, how effective are the relationships between the ECITB and its stakeholder organisations (e.g., the Learning and Skills Council, RDAs, Scottish Enterprise and Highlands and Islands Enterprise, relevant employers' organisations, trades unions, other government departments, etc.)?
7. In your experience, how effectively does the ECITB operate nationally and regionally/locally?
8. a) What are the strengths and weaknesses of the ECITB?
b) Are there any particular current or future issues it needs to tackle?
c) Do you have any examples of good practice in the activities of the ECITB?
9. How successful is the ECITB at:
 - a) encouraging people, in particular from non-traditional groups, to enter the sector;
 - b) ensuring the workforce has the skills necessary to increase the competitiveness of the businesses in the sector; and
 - c) ensuring the take-up of relevant qualifications for those working in the sector and encouraging raised standards in the sector?
10. a) Do you pay a levy to the ECITB?
b) Have you received a training grant from the ECITB in the past year?
c) It would be helpful if you could tell us the type of business you are in and the size of your business in terms of turnover and/or numbers employed.

Annex 3

CONSULTATION INTERVIEWS

ECITB

| Name | Position in ECITB |
|---------------|--|
| James Rowland | Chairman |
| David Edwards | Chief Executive Officer |
| Gordon Pratt | MDA – Company Services |
| Keith Aldis | Company Relationship Director |
| Pat Johnston | Director of Finance & Board Secretary |
| John Harris | MDA – Standards Setting & Development |
| Mark Chapman | National Co-ordinator, ACE Initiative – Awarding Body |
| Mark Poole | Head of Partnering & Funding – Research & Business Development |

ECITB Company Interviews

| Company | Location | Business | Name |
|----------------------------------|------------|---------------------------------------|--|
| CEL International Ltd | Coventry | Process engineering contractor | Roger Burley, Human Resources Director |
| LES Engineering | Grimsby | Onsite construction (power/utilities) | Mike Jex, Managing Director |
| Mitsui Babcock | Renfrew | Major contractor | Lindsay Pritchard, HR Director Europe |
| Petrofac Facilities Management | Aberdeen | Contractors & duty-holders | Jim Attack, MD, Louise Ferguson, HR |
| SEC Electrical & Instrumentation | Reading | Electrical contractors | Colin Barnes, Operations Director |
| Watson Steel Structures Ltd | Bolton | On & Off-site construction | Rodney Hall, HR Director |
| Amec | Darlington | Downstream oil/gas | Steve Lee, Managing Director |

ECITB Trade Federation Interviews

| Organisation | Location | Name |
|---|-----------|--|
| Amicus/AEEU | Wakefield | Paul Corby |
| Cogent | Aberdeen | John Ramsey, Chief Executive & Laurie Wilson |
| Electrical Contractors' Association | London | David Tym |
| Engineering Construction Industry Association | London | Brenig Williams, Chief Executive |
| ECIA | London | David Cowan, President |
| ECIA | London | Steve Lee, Vice President |
| NJC for the Engineering Construction Industry | London | Lewis Sampson, Director |
| Offshore Contractors' Association | Aberdeen | William Murray, Secretary |
| SEMTA | London | Michael Sanderson, Chief Executive |
| Metskill | Sheffield | Lindsey Millington, Chief Executive |
| Capital Client Project Group | Essex | Jeff House (BP), Secretary |

ITB Quinquennial Review – Stakeholder interviews

| Organisation | Location | Name |
|---|----------------|---|
| CBI | London | Margaret Murray, James Binks |
| TUC | London | Iain Murray |
| DTI | London | Pat Jackson, Skills & Education Policy + others |
| DTI Oil & Gas Development | Aberdeen | Bill Cattanach, Deputy Director |
| Scottish Executive | Glasgow | Tony Cowden, Skills & Learning Division, Mhorag Patrick, Enterprise & Industry Division |
| National Assembly for Wales | Cardiff | Stuart Rees, Training, Skills & Careers |
| CITB | Bircham Newton | Two-day series of interviews |
| ECITB | Kings Langley | One day of interviews |
| Innovation Studies Centre, Imperial College | London | Professor David Gann |
| Skillset | London | Dinah Caine, CEO |
| SSDA | Wath-on-Deerne | Christopher Duff, Chief Executive |
| S4 Consulting | London | Simon Bartley |
| Cabinet Office, NDPBs | London | Rosemary Banner |
| SPRU, Sussex University | Brighton | Peter Senker |

Annex 4

INTERNATIONAL COMPARISONS

This chapter reviews some of the existing literature on the approach to training and skills development in some other countries, with the focus on those using a levy approach.

France

France has a highly interventionist and regulated system. A levy system was introduced in 1971, with separate levies collected by two different agencies which are used to fund youth and adult training. In 2000 there was a levy of 0.5% of the wage bill to pay for apprenticeships in industrial, commercial and craft sectors and organised by French Chambers of Commerce. A levy of 1.5% of the wage bill for those employing more than 10 people (or 0.15% for less than 10 employees) was collected by mutual fund agencies run by social partners to fund continuing training.

This does not appear to result in higher numbers of adults receiving continuing training, although it probably contributes to the comparatively high achievement of a Level 3 qualification by 19-25 year olds (alongside the different approach to vocational routes for young people). Under the 1971 legislation, employees have a right to training, including leave to do continuing training unconnected to their current job. In 1983, powers to develop and administer policy on continuing vocational and youth training was delegated to regions. A detailed comparison of the French and British approach is provided below.

Singapore

Singapore has a highly interventionist, state-regulated system, developed since independence in 1959 and focused on moving firms away from a low skill/low productivity continuum. A small country with a total population of 3 million and a work force of 1.5 million, they have a levy system (the Skills Development Fund) which only levies low-paying employers. The fund is used to provide grants towards the cost of workplace learning to upgrade skills. This was introduced as part of a plan to move the economy to higher value-added production. The levy in 2000 was 1% of labour costs for workers earning less than \$1500 per month. The number of employees funded by the SDF increased 12-fold between 1981 and 1991 to just over 400,000.

It is hard to find globally comparable data on participation in continuing vocational training. However, despite the success of the system, commentators note that there are still many adults who do not have the basic skills needed for the demands of higher value added industries.

Australia

Australia introduced a levy in 1990 (The Training Guarantee Act 1990) and then abandoned it in 1994 because of widespread criticism from business that it:

- failed to improve productivity;
- created burdens on business;
- had very little effect on training effort.

Commentators noted that the government had failed to persuade the business community of the desirability of a levy before or after its introduction and faced constant criticism in the financial press and from some of its own advisory bodies. This demonstrates the importance of any decisions on interventions to increase the amount of training being industry-led and sectoral specific.

New Zealand

The New Zealand Voluntary Training Levy was introduced in 2001. The principles of the New Zealand training levy are:

- a balloted industry training levy to support the infrastructure and administration of industry training;
- industry has a choice about whether to have a levy, and the levy design, independent of government;
- all potential levy payers have a voice in decisions to impose the levy;
- accountability for the levy is between the levying ITOs and levy payers;

- the levy is to be used for industry-wide benefit, not for benefits that accrue to individual firms.

The 2001 legislation means that an ITO can ballot its industry and if more than 60% of votes returned support the levy (both in terms of raw votes and weighted for firm size) the ITO can apply to the Minister for approval to introduce it. The levy order then remains in place for five years from the date of the ballot. To date no sector has made use of the legislation because of some difficulties in defining scope.

The main lessons on the levy approach are that:

- a levy system requires a high degree of consensus about its scale and method of implementation – this was achieved in France through its adoption by the social partners but failed to attract full support in Australia, leading to its eventual abandonment;
- levies can increase total spend on training and provision, and especially on general, transferable training but may also produce disparities (as in France, where provision and participation amongst small firms is relatively low);
- levies are a viable method of tackling market failure due to the poaching of workers by non-training employers by providing the basis for a more equitable distribution of funding of training; but can impact unduly on particular employers e.g., SMEs, as they do in France and did initially in the UK.

Continuing vocational training outcomes in Europe

The CVT2 survey which compares training across European countries shows that overall, UK training provision is spread more thinly across a wider number of participants so that in terms of the overall volume of training the UK is placed around the EU average.

Where the UK performs poorly is in respect to the time that each trainee spends on training. Here the UK was ranked last of the EU countries.

In the UK around nine in ten enterprises (87%) provided some form of training to their staff, and overall around half of employees (49%) total took part in training courses during 1999. On both these measures, the UK was ranked fourth of the EU countries, within a group of Nordic countries. The southern EU countries provided considerably less than the other EU countries. France was ranked 7th of the EU-15 countries with 76%.

On average, each training course participant in the UK undertook 26 hours of training. This ranked the UK last amongst the EU countries, just behind Germany (27 hours) and with only two of the acceding countries faring worse - the Czech Republic (25 hours) and Slovenia (24 hours). Spain topped the list with 42 hours. France was ranked 9th with 36 hours per trainee.

A useful measure of overall training effort is training course hours per employee, which takes account of both the percentage of employees receiving training courses and their average

duration. Denmark was highest with 22 hours per employee. The UK was in ninth place at 13 hours (i.e., about 2 days), close to the EU average (12 hours) and ahead of Spain (11 hours), Germany (9 hours) and Italy (8 hours). France was 5th with 17 hours per employee.

A comparison of continuing vocational training in Britain and France

In two recent articles Christine Greenhalgh has compared the incidence of and return to adult vocational training in France and Britain (Greenhalgh, 1999 and 2002). Using multivariate analysis, her 2002 article shows that, in 1993, the incidence of training as a percentage of the workforce was slightly higher in the UK than in France, although the difference in incidence is countered by slightly longer durations in France. However, France is at the top of the European training league in training for young people.

Greenhalgh examines a number of aspects of training provision in the two countries:

- Equity: Who gets continuing vocational training?
- Duration and Certification
- Private returns to training for employees
- Returns to employers who train.

Equity. In both countries the probability of training rises with the level of qualification and occupational rank of individual employees. This is in spite of the fact that equity of access to training was one of the aims of the French

legislation, access to training in France is more likely to be allocated via collective bargaining and the French legislation enshrines a right to continuing vocational training.

Looking at **Duration and Certification**, the French legislation does appear to result in higher durations, but there is little difference in the achievement of qualifications through CVT. Evidence from the CVTS2 (2003) shows that the average hours of training per trainee in the UK is 26, below the EU average of 31 while France is above average with 36 hours. In terms of qualifications, Greenhaugh shows that in 1993 there was little difference between England and France. Most employer training in both countries did not lead to qualifications. The data examined is from the early 1990s and Greenhaugh points out that, since then, both countries have tried to provide more routes to qualifications based on experience at work. (Greenhaugh, 2002, p.243). In the UK, in 2002, 29% of employees doing training sponsored by an employer in the previous 4 weeks were aiming for a qualification (*Spring 2002 Labour Force Survey*).

Private returns to training for employees

show little difference between the two countries. Unfortunately, while there is good French data examining the returns to employers who train there is little comparable British data.

In spite of the existence of an economy-wide levy system, it appears there is little difference between the two countries in the incidence of employer training or the likelihood that it will lead to better levels of qualification for

employees. The increase in the stock of qualified workers in France results from the higher qualifications of successive cohorts of young people entering the labour market. However, it is the case that, following the introduction of the levy in 1971 there was a very considerable increase in training in France (as there was initially in the UK following the 1964 Industrial Training Act).

Does this mean an employer training levy would work for Britain? The evidence set out by Greenhaugh suggests not, yet she concludes “despite all the caveats, the best policy route for Britain may still be...a compulsory training levy (2002, p.259). But she identifies many caveats. In favour of the levy is the increase in training in France since its introduction – yet continuing training in Britain has also risen. Against it “...is the possibility that regulation has created an expensive system in which the main beneficiaries are trained mobile workers and the rapidly expanding training supply industry” (2002, p.259).

A number of other factors suggest the reintroduction of a levy in the UK across many sectors would not be a good approach:

- there is currently little support for it from employers and levy approaches will not work without widespread support;
- the levy approach continues to work in construction and engineering construction in the UK because of three crucial features:
 - 1) there is continuing market failure in training provision;
 - 2) there is widespread consensus among employers that it is in the interests of the industry;
 - 3) the nature of the industries themselves (peripatetic workforce; no fixed workplaces; project-based work with a strong craft basis, etc.);
- the experience of training levies in the UK following the 1964 legislation proved overly bureaucratic. Government is committed to keeping the regulatory burdens on business to the necessary minimum, and we have a presumption against regulation unless it can be shown to be the only means of securing a benefit in the national interests. We have not yet reached that point in relation to skills.

Annex 5

STEERING GROUP MEMBERSHIP

Stephen Marston, *DfES (Chair)*

David Edwards, *Chief Executive, ECITB*

Peter Castle, *Board Secretary, CITB*

Hugh Try, *Deputy Chairman, Galliford Try*

Pat Jackson, *Skills and Education Policy, DTI*

Sara Marshall, *DfES, Divisional Manager,
Qualifications for Work Division*

Martin Boyle, *Head of Qualifications Branch,
Skills for Life and Work Division,
Scottish Executive*

Stuart Rees, *Head of Training Skills and
Career Policy Branch 2,
National Assembly of Wales*

Jane Mark-Lawson, *DfES (ITB Review Team)*

Anne Donkin, *DfES (ITB Review Team)*

Annex 6

TERMS OF REFERENCE FOR THE ECITB QUINQUENNIAL REVIEW

Stage 1

- To review the functions of the Boards, and the likely need in the future for these functions
- To consider whether some or all of the functions can be better performed through other means
- To review the efficiency and effectiveness of the Boards in carrying out its functions
- To consider the powers, terms of reference, constitutional status, membership and activities of the Boards
- To ensure initial findings are available for consideration in and, if appropriate, incorporation into, the Government's Skills Strategy
- To report the outcome of Stage 1 of the review by June 2003.

Stage 2

- To review the overall adequacy and effectiveness of the Boards' financial management and control systems
- To examine the quality and appropriateness of the planning and budgeting processes, including the management information systems which inform them
- To define key output and performance measures and mechanisms for reviewing the Boards' performance and achieving value for money
- To address any other issues arising out of Stage 1
- To report the outcome of Stage 2 and the whole reviews by the end of September 2003.

Annex 7

PUBLIC SERVICE AGREEMENT TARGETS AFFECTED BY THE ENGINEERING CONSTRUCTION INDUSTRY

DfES

- By 2004, at least 28% of young people to start a Modern Apprenticeship by age 22, with a wider vocational target to be set in the 2002 Pre-Budget report.
- Reduce by at least 40% the number of adults in the UK workforce who lack NVQ Level 2 or equivalent qualification by 2010, with one million adults in the workforce to achieve Level 2 between 2003 and 2006.
- The proportion of 19 year olds who achieve Level 2 rises by 3 percentage points between 2002 and 2004, with a further increase of 3 percentage points by 2006.

Department of Trade and Industry

- Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. Joint target with HM Treasury.
- Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.

- Improve the relative international performance of the UK's science and engineering base, the exploitation of the science base, and the overall innovation performance of the UK economy.

Treasury

- Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5% and make further progress towards increasing trend growth up to 2006.

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