

Discussion on the Welsh Government's Co-investment in Skills Framework Response to the Enterprise and Business Committee

Introduction

CITB Cymru Wales welcomes the opportunity to respond to the National Assembly's Enterprise and Business Committee consultation on the Welsh Government's Framework for Co-investment in Skills. As the sector skills council and industry training board for the construction sector in Wales, part-funded through a levy raised from construction employers, we are in prime position to advise on how co-funding can be used to optimise training and skills delivery for the post-19 vocational sector.

Firms in the construction sector are already implementing many of the principles of the Framework for Co-investment in Skills through the grant and levy structure of CITB Cymru Wales. This has existed for over 50 years and is well supported by the sector.

To what extent will the policy of co-investment help to meet the Welsh Government's aim of "ensuring that Wales develops a competitive edge in mobilising a productive and skilled workforce"?

The Welsh Government's Framework for Co-investment in Skills represents an important step in refining Wales' skills system, ensuring that it meets the needs of a 21st Century economy. However, to be successful it must be seen in the wider context of skills funding in Wales. For instance, reductions in funding for the Young Recruits Programme (YRP) are likely to have had an impact on the recruitment intentions of employers. It is for this reason CITB Cymru Wales supports the reinstatement of funding for the YRP at the enhanced rate.

The recent *Policy Statement on Skills* correctly highlights the challenge facing employers, seeking to grow their businesses¹. This is particularly important in the construction sector with the latest labour market intelligence from the Construction Skills Network 2015-19 suggesting that the sector will grow by 5.8% per annum over the coming five years². Notably, this level of growth will lead to strong employment growth with Wales' annual average recruitment requirement (ARR) projected at 5,320, which represents 4.8% of base 2015 employment³.

A number of significant projects are likely to drive this growth in Wales, including Wylfa Newydd on Anglesey, the Swansea Bay Tidal Lagoon and investment in the A465. Ensuring that Wales' skills supply meets the needs of employers at the local level is therefore imperative in maximising the dividends paid by this projected growth.

As well as the *Policy Statement on Skills* the accompanying **reforms to the suite of qualifications available in Wales as a result of the *Review of Qualifications for 14 to 19-year-olds* will streamline qualifications on offer, and establish rigorous standards**

¹ Welsh Government. 2014. *Policy Statement on Skills* [Online]. Available at: <http://gov.wales/docs/dcells/publications/140129-policy-statement-on-skills-en.pdf> (accessed 26th May 2015)

² CITB Cymru Wales. 2014. *Industry Insights: Construction Skills Network Wales 2015-19* [Online]. Available at: <http://www.citb.co.uk/documents/research/csn%20reports%202015-2019/construction-skills-network-wales-2015-2019.pdf> (accessed 26th May 2015).

³ *Ibid* P.4

to ensure the quality and robustness of Wales's qualifications landscape⁴. The training pathways which lead to these qualifications, and how such training pathways are funded, present an additional channel through which to support the development of a world-class skills base.

The Framework for Co-investment in Skills identifies three key factors in terms of influencing the levels of investment in the Welsh skills base. They are demand, supply and utilisation of skills. CITB Cymru Wales believes the current reforms set out in the Policy Statement on Skills will go some way to achieving these aims. A number of these factors are already catered for through the grant and levy system operated by CITB. This means that firms in the construction sector are already applying co-investment principles to a large extent.

Targeted funding for an appropriate suite of skills for Wales, or areas of Wales, is essential in underpinning a diverse and self-sustaining workforce. Provision of jointly-funded apprenticeships should therefore be aligned to the skills needs of a given area. For instance, in relation to the demand for skills, CITB Cymru Wales work closely with Regional Learning Partnerships to provide labour market intelligence to inform local skills demand.

With regards to the supply of skills, the Sector Qualification Advisory Boards (SQAPs) have a key role in informing the nature and content of qualifications in Wales, with close dialogue and partnership with the construction sector. CITB Cymru Wales believes the current pilot of the construction SQAP provides a model for this way of working.

The third aspect of Welsh Government policy relates to the utilisation of skills. This relates to how skills are utilised within firms to maximise productivity. In this respect, CITB Cymru Wales is working closely with Welsh Government on research to examine the issue in the construction sector.

Will employers engage with the principle of co-investment? Are levels of training likely to increase or decrease as a result?

Research from the UK Government Department for Business, Innovation and Skills notes that the average overall net cost to the employer over the training period leading to a completion of a Level 3 Apprenticeship in Construction is £23,932. This research recognised that despite net costs of training reducing over the length of training with the improved productivity and the amount of supervision time decreasing, there is still a net cost to the employer as the apprentice is still only able to operate at 70% of productivity. This suggests that coupled with the potential removal of level 2 apprenticeships; there is a need to fully consider how the construction industry can continue to deliver quality opportunities for young people.

Furthermore, a CITB survey of 566 construction employers in England to inform the UK Government's response to the Richard Review suggested that 86% of firms would see a negative impact should employer contributions to the cost of an apprentice increase.⁵ **This suggests that introducing co-investment in certain areas could have a significant impact on skills investment.**

⁴ Welsh Government. 2012. *Review of Qualifications for 14-19 year olds in Wales: Final report and recommendations* [Online]. Available at: <http://gov.wales/docs/dcells/publications/121127reviewofqualificationsen.pdf> (accessed 26th May 2015).

⁵ This is taken from a CITB survey of employers undertaken to inform the UK Government's proposals emerging from the Richard Review of Apprenticeships in 2013.

It is therefore critical that co-investment is applied in a targeted way to ensure that the opportunities for growth highlighted in the Construction Skills Network report are able to be capitalised upon by construction firms based in Wales and their employees⁶.

The current co-investment proposals refocus apprenticeship funding to support those under twenty five years of age over the coming years. **Traditionally, the construction sector has recruited largely from the under twenty five age range at level 2.**

CITB Cymru Wales believes that by focusing on the under 25 age range, co-investment could have a significant impact on the pool of available talent from which to recruit to meet industry needs in the future. For instance, this could have a greater impact on females wishing to return to –or enter – the industry following a career break having the ability to gain an apprenticeship in a new job role.

The 2013 Employer Skills Survey (ESS) also suggests that firms in Wales have increased the amount they spend on skills and training from £1.5bn to £1.6bn since 2011⁷. Whilst this suggests a greater appetite for skills investment on the whole, it is important to recognise the significant variation by size of firm with the smaller firms investing more. For instance, the ESS suggests firms employing between 5-24 employees spend £3,540 per person trained while those employing 50-99 spending £1,720. Co-investment therefore needs to be sensitive to firm size, which is particularly relevant in the construction sector, which comprises over 95% SMEs⁸.

What impact (if any) will increased financial investment from employers have on the quality and relevance to the labour markets of training courses?

In order for employers to increase their investment in skills, it is essential that they have faith in the quality and relevance of the qualifications being provided. As the industry training board and sector skills council for construction, CITB Cymru Wales is well placed to inform the reform of qualifications in Wales.

As previously mentioned, **bodies such as the pilot Construction SQAP will have a key role, liaising with Qualifications Wales and the Regional Learning Partnerships, in informing the nature and content of qualifications in Wales.** Increasing levels of employer investment could lead to a greater interest among employers in the quality of qualifications to ensure a return. However, if employers believe the quality of Welsh qualifications is insufficient, or that they require only specific elements of a particular qualification, there is a danger that they may change behaviour and divert investment away from products such as apprenticeships towards other qualifications that are at a lower level or are not as broad based. This issue should be examined closely and kept under review as the co-investment framework is implemented.

Experience from reforms in England suggests that where funding has been passed over to SMEs directly, the administrative burden and practicalities of significant involvement is

⁶ CITB. 2014. *Industry Insights: Construction Skills Network Wales 2015-2020*. [Online]. Available at: <http://www.citb.co.uk/documents/research/csn%20reports%202015-2019/construction-skills-network-wales-2015-2019.pdf> (accessed 1st June 2015).

⁷ UKCES/Welsh Government. 2014. *Employer Skills Survey 2013* [Online]. Available at: <http://gov.wales/docs/caecd/research/2014/140604-employer-skills-survey-2013-wales-report-en.pdf> (accessed 25th May 2015). P.70.

⁸ Welsh Government. 2014. *Size Analysis of Welsh Business* [Online]. Available at: <http://gov.wales/docs/statistics/2014/141023-size-analysis-welsh-business-2014-en.pdf> (accessed 1st June 2015).

prohibitive. For instance, in a CITB survey 86% of construction employers surveyed in England believed that placing funding in their hands would deter them from employing an apprentice – due to increased responsibilities in managing finance and quality⁹. Given the similar preponderance of SMEs in the construction sector in Wales, this suggests that the SQAP model, where training providers, employers and the public sector are brought together to design the content of qualifications is more appropriate. It also reinforces the importance of bodies like industry training boards in taking a holistic view of the sector and providing support to firms of all sizes.

Whether any additional training should be exempt from co-investment for example for new start-up businesses;

The Welsh Government previously provided enhanced support for employers through the Young Recruits Programme with a wage subsidy of £100 per week and one off grants for recruitment costs. This was well supported by industry and encouraged a number of firms to take on apprentices. It was therefore disappointing that this was not carried on into the current 2015-16 budget, despite the continuance of funding for shared apprenticeship schemes. **CITB Cymru Wales therefore believes the Welsh Government should reinstate funding for the programme at the enhanced rate.**

Beyond work based learning, the development of specialist centres of excellence in construction to cater for emerging labour needs will be essential responding to specific project needs, or innovative future technologies. **CITB Cymru Wales recently sought tenders to deliver an innovative Welsh training solution that would see investment from CITB of up to £5m in a construction training facility.** Such an approach would allow for excellence in specialist training across plant, low carbon, infrastructure training requirements for major projects and craft skills which cannot always be catered for through traditional work based learning routes.

As this training model starts to take shape, CITB Cymru Wales will consult with industry and other stakeholders on what is needed to meet Wales' construction skills and training needs. This model will enable a step-change in training supply, in which new and innovative ways of working will be combined with traditional skills to equip the construction workforce with sustainable employment for the future. **It is therefore vital that the co-investment framework does not act as an impediment to the success of this new model and can help facilitate this innovative way of working.**

Are there alternative methods of sharing the costs of training, for example a training levy?

The CITB has operated a levy for over 50 years. The construction levy is a successful and popular mechanism for guaranteeing financial support from the construction sector for the development of its workforce – a mechanism which the industry has voted to keep¹⁰. **The levy provides excellent value for money in Wales, with the sector benefiting from a return of circa £6 million in grants from an industry contribution of £4.5 million during 2014.** There are currently around 4,168 CITB registered employers with addresses in Wales of which around 24% had claimed grants or had benefited from other support during 2014.

⁹ This is taken from a CITB survey of employers undertaken to inform the UK Government's proposals emerging from the Richard Review of Apprenticeships in 2013.

¹⁰ CITB carried out a two part consultation across Great Britain; consulting representative employer associations as in previous years, as well as taking a sample of the views of employers who are not members of employer organisations. As part of this work, 86% of employers who together are likely to pay 79% of the value of the levy are in favour of the proposals.

Working in partnership with industry to ensure that this fund is invested to best effect will lay the foundations for a healthy skills system, which is responsive to Wales' economy and future proofed for the years ahead. The levy system is well established and highlights how co-investment can work in practice.

In response to feedback from the construction sector that the levy process was complicated, CITB has sought to reform the operation of the levy mechanism in order to simplify the process of returns for construction firms. **In consultation with employers throughout Great Britain, CITB will from 2017 onwards implement a system that aligns with HMRC's Construction Industry Scheme.** This is set out in the Industrial Training Levy (Construction Industry Training Board) Order 2015.¹¹

How the levy works

- As the levy itself is employment based it is calculated in respect of all employees that are on payroll ('direct' employees and sub-contracted workers), not on profitability.
- This maintains a link between levy paid and the benefit an employer gains from employing skilled workers.
- Employers whose total emoluments (wage costs) are below £80,000 are exempt from paying the levy.
- Around 56% of construction firms in Great Britain are below the exemption threshold and pay no levy. But these smaller firms can still benefit from the grants and services offered by the CITB and are encouraged to do so.
- CITB also has a small firms' reduction band which allows employers with total wage costs of £80,000 to £100,000 to receive a 50% reduction in the levy they pay.
- The small firms' reduction band which allows employers with total wage costs of £80,000 to £100,000 to receive a 50% reduction in the levy they pay, will be increased to £400,000
- The aim is to strike a balance between making sure small businesses are not overburdened with costs, with the need to ensure that the costs of training are spread fairly across the industry

CITB Cymru Wales is confident that the levy model has been successful and that other sectors could benefit from a similar approach. As such, we are happy to discuss this model further with the Enterprise and Business Committee and advise on how the levy and grant system works in practice in construction and could do in other sectors.

The use of European funding

CITB Cymru Wales welcomes the recent announcement of apprenticeship funding via the European Social Fund for West Wales and the Valleys. In the past, European funded projects have suffered from short-termism. This is also true of Welsh Government budget settlements more generally, as seen with the Young Recruits Programme. As such, CITB Cymru Wales would urge the Welsh Government to provide commitments over the longer term for programmes such as apprenticeships in order to provide clarity to employers. This is particularly important for the period following the current convergence programme. Given that a significant proportion of ESF funding is used in skills funding, this issue must be properly considered to ensure long-term sustainability.

¹¹ Industrial Training Levy (Construction Industry Training Board) Order 2015 [Online]. Available at: http://www.legislation.gov.uk/uksi/2015/701/pdfs/uksi_20150701_en.pdf (accessed 26th May 2015).

About CITB Cymru Wales

CITB Cymru Wales is the largest representative body of construction employers in Wales, representing over 10,000 construction companies through the CITB Cymru Wales Committee and three regional fora. We work in partnership with government, industry, and education providers to maximise opportunities for skills, training and development within the Welsh construction sector, and to provide the right skills, in the right place, at the right time to support economic growth.