



Department  
for Business  
Innovation & Skills

**COMBINED TRIENNIAL REVIEW OF  
THE INDUSTRY TRAINING BOARDS  
(CONSTRUCTION, ENGINEERING  
CONSTRUCTION AND FILM)**

Final report

DECEMBER 2015

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The Triennial Review of the Construction Industry Training Board (CITB), Engineering Construction Industry Training Board (ECITB) and Film Industry Training Board (FITB) took place under the Coalition Government however it was not possible to publish the report before the May 2015 general election.

The Review took as a given the existing skills funding arrangements, including the statutory levies in the construction and engineering construction sectors. The Terms of Reference stated explicitly “*This is not a review of the policy relating to Skills funding, to which the Government remains committed*”.

The Review examined the case for retention of the ITBs as NDPBs in this context and further examined the effectiveness of the governance of the ITBs. **It concluded that the main case for retaining the ITBs as NDPBs rests on the need for the statutory levies to be administered by statutory bodies. Without this need, there would be a range of options for delivering the activities of the ITBs.**

In the Budget on 8 July 2015, the new Government announced that it will introduce a levy on large UK employers to fund post-16 year old apprenticeships. Government has consulted with employers on the implementation of the Apprenticeships Levy. The CITB and ECITB will consult with employers in their respective industries before the introduction of the apprenticeship levy on whether they should continue to pay the industry levies in their current form.

**Given these skills funding policy changes, it would be premature for the Triennial Review to make recommendations on the future of the ITBs. The right time for the government to address this will be when the future levy arrangements for the sectors are clearer.** The government has, however, judged that it is better to publish the findings of the review now than to prolong it. Many of the findings and considerations in this report will be relevant to those future decisions.

**The Review makes specific recommendations that will improve the performance of the ITBs against their existing missions. The ITBs have already started to act on these recommendations.**

# EXECUTIVE SUMMARY

## The Review of the Industry Training Boards

There are currently three Industry Training Boards (ITBs) in operation in the UK: the Construction Industry Training Board (CITB), the Engineering Construction Industry Training Board (ECITB) and the Film Industry Training Board for England and Wales (FITB). Even though each training board operates in a different industry, it has been decided to review all three bodies in the same triennial review due to the similarity of responsibilities and the fact that they each have the same objective to raise skills in the sector via a training levy.

Both the CITB and the ECITB operate a statutory training levy. This is a mandatory levy placed on construction and engineering construction employers based on a percentage of labour payments. The levy proceeds are then redistributed in the form of grants to subsidise training costs in the sector. Small firms are exempt from paying the levy for both the ECITB and CITB dependent upon their level of expenditure on labour, although they are still eligible to receive training grants, and other forms of support. The FITB acts to raise skills in the film production sector. There was positive feedback from the industry in 2004 to implement a statutory levy, but this has not yet been legislated for by Parliament. In the meantime, the FITB are operating a voluntary levy based on film production costs.

### Scope of the Levy

The scope of the CITB covers most construction activity, for instance from house building to major civil engineering works. CITB has over 75,000 registered firms and raised approximately £240m of revenue in 2012. The ECITB in comparison is a much more specialised and focussed training body, with just 370 registered firms and revenue in 2012 of £27.5m. It covers activities through the design, project management, construction, installation, testing, commissioning and maintenance of plants, for instance offshore oil and gas exploration, building new renewable power generation, decommissioning old and commissioning new nuclear generation.

At first glance, it may be difficult to appreciate the difference between the two remits of the CITB and ECITB. Construction includes a broad range of building work, including residential, commercial and large scale civil construction and starts with planning, design, and financing and continues until the structure is ready for occupancy. Meanwhile, engineering construction is much more focused around processing and machinery, and the operation and maintenance of those machines.

The FITB meanwhile oversee a voluntary levy (the Skills Investment Fund) which is operated by Creative Skillset (a sector skills council). This is operated in anticipation of a statutory levy being implemented in the near future. The

voluntary levy raised £700k in 2013 and has a compliance rate of 70% for productions within scope to contribute. It is not necessary for a voluntary levy to be operated by an NDPB, and given that there is currently no political commitment to implement a statutory levy, it is necessarily the findings of the Review that the FITB no longer be considered as an NDPB.

## Findings

A Review Team was established in September 2013 to undertake the Triennial Review and make recommendations. All recommendations are those of the Review Team based on their findings.

There remains a significant market failure argument to support the existence of the levy operated by CITB, and this is backed by the majority of stakeholders with whom the Review Team have spoken. However, due in part to its size and the number of firms within its scope, the CITB experience difficulties in some of its operations. For instance, the review team has received feedback from small firms who have avoided requesting training grants from the CITB in case they are then requested to pay the levy, despite being exempt due to their small size. There is also much evidence from the construction sector that the processes are overly burdensome and bureaucratic. There are opportunities to modernise the Industrial Training Act 1982 which should allow some efficiency gains, such as outsourcing back office functions, to be achieved.

The stakeholders engaged by the Review Team were in the main supportive of the functions that the ECITB carry out and also that the ECITB deliver these effectively, as evidenced through the results of the survey run by the Review Team. However, within those responses, there was a split between those employers with a long standing relationship with the ECITB (including members of the Engineering Construction Industry Association, Offshore Contractors Association, and British Chemical Engineering Contractors Association) who generally supported the need for the functions of the ECITB including the training levy, compared to representatives of employers recently brought into scope who did not believe that the functions of the ECITB were relevant to their sector.

The Review Team recommends that in order to provide certainty of scope the Department for Business, Innovation and Skills carry out a Review of Scope of the 1991 Board Order relating to the ECITB. Current discussions with the Offshore Wind sector regarding the inclusion of the sector within the ECITB scope demonstrate the need to provide a long term framework based on overcoming a defined market failure in the provision on skills in the sector.

## Commonalities between CITB and ECITB

The CITB and ECITB both operate a statutory training levy and provide “construction” skills solutions. Therefore one option to realise potential efficiency savings would be a consolidation of the two organisations, either as a full merger or with some form of common leadership.

However, although these organisations appear similar, they offer very different training products to a different company base with different purposes in mind. One supports principally general construction skills, whilst the other supports the engineering industry and very specific tasks around machine processing in large plants such as Oil & Gas Extraction, Power Generation, Offshore Construction, Pharmaceuticals and so on.

The role the ITBs play necessarily means that they must have an in depth knowledge of their sector and its skills needs. This would be difficult for one or the other organisation to take over from the current occupant. Given the difference in the activities of the registered firms, the Review Team do not - at this stage - believe that the longer term benefits of a merger would be greater than the transitional costs that would arise. However, this may alter depending on the findings of a further review into the scope of the ECITB and should be considered further in light of the findings of that review.

Given that the objectives of the ECITB and CITB are broadly similar - to raise the skills level in the industry via a statutory training levy - the Review recommends that the two organisations should work together to learn from best practice and address any efficiency gains. The second stage of the Review will consider how this may be achieved via governance arrangements.

For a further comparison of the CITB and ECITB, please see summary table below.

**It is generally acknowledged that skills shortages continue to characterise these sectors.**

## Recommendations

### **CITB:**

The future of the CITB should be considered in the light of the decisions to be taken around skills funding in the construction sector, taking into account any changes resulting from the introduction of the new apprenticeships levy. More immediately, the review recommends that:

1. The CITB improve the way in which it delivers a number of its functions and in particular simplify levy and grant process, reduce bureaucracy and improve the level of support offered to SMEs.
2. The existing legislation should be reviewed so as to allow the CITB to operate as a modern organisation, and in particular enable it to realise efficiencies and operational improvements in certain mid-office and back-office functions.
3. The CITB should work more closely with the ECITB where there are common issues. In particular, Stage 2 of the Triennial Review will consider where there may be benefits from common leadership and closer governance arrangements.

4. Following and during the recommended review of the Industrial Training Act 1982, the CITB should continue to focus on improving effectiveness and realising any efficiencies in existing CITB charitable trading and training activities, that allow further resources to be invested into additional training support for the sector. Following the review of the Act, the BIS sponsor team may wish to consider whether the CITB should expand into new commercial markets. The Review Team notes that this will both be complex and subject to a range of stakeholder views.

### **ECITB:**

The future of the ECITB should be considered in the light of the decisions to be taken around skills funding in the engineering construction sector, taking into account any changes resulting from the introduction of the new apprenticeships levy. More immediately, the review recommends that:

1. Despite the general level of support for the continuation of the ECITB, employers from certain sectors raised questions about the wording of the 1991 Board Order and its current relevance. To prevent ad-hoc challenges about the scope in the future, it is the recommendation that the Department for Business, Innovation and Skills (BIS) review the Scope and wording of the 1991 Board Order.
2. This Review of Scope ensures that the ECITB is addressing a specific market failure in each sector. The Review of Scope should take account of the views of all stakeholders and consider the impact of any changes on the industry as a whole as well as on individual sectors.
3. The Review of Scope should also clarify the process by which ECITB engages with new or emerging industries which may fall within scope.
4. Upon completing the Review of Scope, the Department for Business, Innovation and Skills should revisit the evidence base to determine whether a separate NDPB is still the appropriate model to carry out the functions necessary.
5. Whilst considering the scope of the Industrial Training Act 1982, as recommended above, BIS should also consider amending the details of the Act to allow the ECITB to establish and operate subsidiaries and take advantage of modern trading and commercial practice. These will allow greater flexibility and improve efficiencies so that more funds are available to invest in training.
6. Although this is not directly part of the terms of reference of the Review, stakeholder feedback suggests that the UK Nuclear Sector now has a number of overlapping bodies all concerned with skills issues in various ways. Therefore BIS should review the roles and responsibilities assigned to these bodies in order to ensure a coherent approach to skills development is maintained across the entire sector.



7. There is a continued need for effort by the ECITB to further improve the way in which it delivers a number of its functions and in particular it should simplify the grant process, improve the consistency of the performance of regional account managers, increase its support for SMEs and better tailor training courses to ensure customer needs continue to be met.
8. The ECITB and CITB should work more closely together to identify common issues. In particular, Stage 2 of the Triennial Review will consider where there may be benefits from alignment of approach, sharing of services and improved governance arrangements to avoid duplication of effort.

**FITB:**

1. Unless there is a clear policy commitment and timetable from government to implement a statutory film sector levy by the time of the next Triennial Review, the FITB should not remain as a NDPB.
2. The BIS sponsor team should work with colleagues in the Cabinet Office and the Department for Culture, Media and Sport to examine the case for a statutory levy. They should also work with the FITB to support the continued success of FITB's contribution to the sector if the NDPB status cannot be justified. The valuable advisory function and the voluntary training levy can continue without NDPB status.

## Summary Table of the ITBs

<b>ITB</b>	<b>CITB</b>	<b>ECITB</b>	<b>FITB</b>
<b>Status of Levy</b>	Statutory	Statutory	Voluntary
<b>Income generated from the Levy (2012)</b>	£144m	£25m	£0.7m
<b>SME Exemption</b>	Yes	Yes	Yes
<b>Level of Support</b>	High level of support for the continuation of the functions. Reasonable level of support for the CITB carrying out these functions	High level of support for the functions carried out, and in general, a high level of support for the ECITB to carry out these functions. However, there are notable exceptions from certain industries who do not believe they benefit from the ECITB functions.	High level of compliance for voluntary levy
<b>Is there a clear market failure?</b>	Yes. High level of self-employment and large number of small firms, coupled with project based work leads to underinvestment in skills.	Yes. Similar to CITB, a strong prevalence of contract working leads to underinvestment in skills.	Not assessed. The Review concerns whether a public body is required to undertake the current activities of the ITB.
<b>Is it necessary to be a public body in order to carry out functions?</b>	Yes – in a sector based model, it is necessary for the CITB to be a public body in order to administer a statutory levy	Yes – in a sector based model it is necessary for the ECITB to be a public body in order to administer a statutory levy	No – it is not necessary to be a public body to administer a voluntary levy
<b>Recommendation</b>	Modernise legislation and increase efficiency of CITB operation	Review scope of leviable sectors to ensure addressing market failure to the benefit of industry	Remove NDPB status as it is not necessary for a public body to deliver a voluntary training levy.

## Summary comparison of income, expenditure and full time equivalent staff for the ECITB and CITB

Activity	CITB (2012)		ECITB	
FTE Staff	1,365		83	
Number of firms on the levy and grant register	73,167		372	
Number of firms paying the levy	25,182		243	
Total number of employers claiming a grant	14,267		335 (est. from survey return)	
	<u>Income</u>	<u>Expenditure</u>	<u>Income</u>	<u>Expenditure</u>
Levy income/Direct grant funding to companies	£143.8m	£78.2m	£24.9m	£19.6m <sup>1</sup>
Total non-levy activities, including skills challenges and non-direct grant support	£99.4m	£133.0m <sup>2</sup>	£2.6m	£3.5m <sup>3</sup>
Investment income	£2.27m	n/a	£0.65m	n/a
Non-charitable activities	£0.174m	£0.158m	£1.948m	n/a
Direct Costs	n/a	n/a	n/a	£7.0m
Levy collection and grant processing costs	n/a	£4.88m	n/a	£0.374m <sup>4</sup>
Governance costs	n/a	£1.01m	n/a	£0.147m
Gain/Loss on revaluation of assets	n/a	£5.67m	£0.13m	n/a
<b>Total</b>	<b>£245.605</b>	<b>£222,949</b>	<b>£27.714m</b>	<b>£30.287m</b>

<sup>1</sup> For ECITB above comprises only of Grant Funding

<sup>2</sup> Includes day to day operating costs. The 2012 accounts do not provide consolidated figures. More detailed staff figures are detailed later in this report.

<sup>3</sup> Comprises of £1.0m investment management costs and bad debt provisions and of £2.4m support costs allocated across levy.

<sup>4</sup> Levy collection costs comprise of £227K of direct costs (included in the £7.0m total direct costs) and £97K of support costs (included in the £2.4m total support costs).

# INTRODUCTION - STAGE ONE

## Scope and Purpose of Triennial Reviews – Stage One

The Cabinet Office has identified two principal aims for Triennial Reviews:

To provide robust challenge to the continuing need for individual Non Departmental Public Bodies (NDPBs) – both their functions and their form (Stage One); and

Where it is agreed that a particular body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance (Stage Two).

This report covers Stage One of the Review of the Industry Training Boards (the Review), namely: the Construction Industry Training Board (CITB), the Engineering Construction Industry Training Board (ECITB) and the Film Industry Training Board for England and Wales (FITB). The programme of departmental Triennial Reviews is agreed on a rolling basis with the Cabinet Office. The Cabinet Office agreed that BIS would carry out a Triennial Review of the Industry Training Boards commencing in the third quarter of 2013. All reviews are to be conducted in line with the following principles:

- i. **Proportionate:** not overly bureaucratic; appropriate for the size and nature of the NDPB
- ii. **Timely:** completed quickly to minimise disruption and reduce uncertainty
- iii. **Challenging:** robust and rigorous, evidencing the continuing need for functions and examining and evaluating a wide range of delivery options
- iv. **Inclusive:** open and inclusive. Individual NDPBs must be engaged, key users and stakeholders should have the opportunity to contribute. Parliament should be informed about the commencement and conclusions
- v. **Transparent:** all reviews should be announced and reports should be published
- vi. **Value for Money:** conducted to ensure value for money for the taxpayer

## Process and Methodologies

### Structure of this Report

This report considers the three Industry Training Boards (CITB, ECITB, FITB) separately. Cabinet Office guidance on Triennial Reviews requires that the first Stage of the review should identify and examine the key functions of the NDPB; this is carried out in Section 1 of each ITB chapter. It should assess how the functions contribute to the core business of the NDPB and the sponsor department and consider whether the functions are still needed. Where the department concludes that a particular function is still needed, the review should then examine how this function might best be delivered, and this is done in Section 2 of each chapter.

When assessing how functions should be delivered, the review should examine a wide range of delivery options. This should include whether the function can be delivered by local government, the voluntary or private sectors, or mutual. It should also include an examination of different central government delivery models, including whether the function can be delivered by the sponsoring department, by a new or existing Executive Agency or by another existing central government body. It is Government policy that NDPBs should only be set up, and remain in existence, where the NDPB model can be clearly evidenced as the most appropriate and cost-effective model for delivering the function in question. Reviews must evidence that functions have been assessed against a wide range of delivery options.

In many cases, some delivery options can be quickly rejected. However, for each function under consideration, the review should identify all viable delivery options and undertake a fuller assessment of these options. Where appropriate, this should include a cost and benefits analysis. If one of the delivery options is the NDPB option, this must also include an assessment against the government's 'three tests':

1. Is this a technical function (which needs external expertise to deliver)?
2. Is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions)?
3. Is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?

### **The BIS approach**

Triennial reviews are consistent with the BIS commitment to review its arm's-length bodies. The reviews have been run as a single programme, governed by the Triennial Review Group (TRG) and supported by a Programme Manager from the Finance Directorate. The TRG is comprised of BIS Directors.

A Challenge Panel provides robust challenge to the review and includes representation from BIS, the Cabinet Office and a Non-Executive Director, and chaired by the TRG Chairman.

# Industrial Training Boards

## What are the Industrial Training Boards?

The Government introduced the Industrial Training Act 1964 (ITA 1964) due to concern over skills shortages and gaps. This provided for most private sector industries to operate a levy-grant system through Industry Training Boards (ITBs).

The reasoning behind introducing a training levy is that if left to the market there would be a sub optimal level of training carried out in the economy. For instance, firms would be unwilling to provide training if there is a risk that the skilled employee would then be poached by a rival firm<sup>5</sup>. To overcome this, a levy is applied to all firms in the sector and raised by the ITB who would then redistribute these funds to organise and subsidise training. The intention is that if all firms in an industry undertake training, or at least pay a training tax, then all firms would be “in the same boat” and the level of skills in the sector would increase.

Following several reviews and criticisms of the levy grant system, the Industrial Training Act 1982 (ITA) laid down new requirements for the establishment, operation and winding up of the ITBs. From this point most of the 21 ITBs that had existed at the start of the decade were progressively wound up, to be replaced by voluntary employer led training organisations that took over much the same responsibilities but operated without statutory levies. In 1989 the Government launched a consultation with relevant sectors, with the intention of converting all the remaining 7 ITBs in the same way and in the majority of cases consensus was reached with industry for successor bodies to take over these roles.

However employers in both the construction and engineering construction industry made strong arguments that statutory arrangements should continue to apply to them on the grounds of the special characteristics of their sectors and the strong prevalence of a market failure in the provision of training. These arguments were explicitly accepted by the then Secretary of State for Employment who remarked during the Parliamentary debate on the issue that *“there are particular problems in those areas concerned with a highly mobile labour force. In those industries there is much labour only sub-contracting, a high level of self-employment and a high use of short-term contract labour.”* [Hansard HoC 8<sup>th</sup> November 1989]. The market failure in both the construction and engineering construction sectors is explored in full later in the report.

## The CITB and ECITB

CITB and ECITB are statutory NDPBs<sup>6</sup> accountable to Parliament. However, they differ from most NDPBs in that they do not receive grant-in-aid direct

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<sup>5</sup> The market failure arguments are later explored in this report in Box 2

<sup>6</sup> An NDPB is a body which has a role in the process of national government but is not a government department, or part of one and therefore operates to a greater or lesser extent at arm's length from ministers.

from government. They raise most of their funds through their training levies and various commercial activities, including certain types of training, card schemes, health and safety testing, and research and consultancy.

Construction is an extremely large and diverse sector, covering a highly disparate range of industries and trades, everything from private house building to major civil engineering works. These activities are defined as all operations in the “construction, alteration, repair or demolition” of virtually anything from a single building to a piece of strategic infrastructure such as a railway, airport, tunnel or power station, as well as any ancillary or preparatory activities required to undertake such operations.

The engineering construction industry is focussed on engineering and construction skills, often higher level, high value activities but across a very wide range of industrial sectors. It covers activities throughout the full lifecycle of almost any type of processing and manufacturing units, from initial design and planning, through assembly, construction and installation of “any chemical, electrical or mechanical apparatus, machinery or plant” ,to ongoing maintenance and upkeep and eventual decommissioning. Examples of such units include (but are not limited to) power stations, oil refineries, nuclear reprocessing sites, steel mills, chemical works and pharmaceutical plants. The legislation also covers “any other installation involving processing of any product.”

CITB and ECITB are covered by ‘Scope Orders’, secondary legislation that lays down the boundaries of each Board’s coverage. These are drafted so as to be mutually exclusive i.e. a single establishment cannot be simultaneously defined as being under the scope of both ITBs (although different subsidiaries of the same parent company could be if their specific activities merited it). However it is possible that workplaces can be classed either as a construction or engineering construction site at different stages in their “lifecycle”. For example, during the initial building work on a new power station (what might be termed the “concrete pouring” phase) this would be classified as construction and the activities would fall under the remit of CITB. Once the main buildings have been signed off as complete and the fitting out of turbines, pumps, control units etc. has commenced it would become an engineering construction site and be covered by ECITB.

There is a large difference in the scale of the Boards: the CITB has 75,000 registered firms, (many of which will be sole traders or SMEs); ECITB has approximately 370 registered firms, the majority of which are large employers.

Levy Orders set the rate of each of the ITB’s levy, generally for three years, based on a percentage of direct labour payments (PAYE – pay as you earn) made by a firm during a specified reference period as well as a percentage of any payments made for labour-only sub-contract arrangements in the same timeframe. Levy funds are spent on training support and advice, standard setting, development of qualifications, sector recruitment and market intelligence. Small firms are exempt from paying the levy for both the ECITB and CITB dependent upon their level of expenditure on labour, although they are still eligible to receive training grants and other forms of support.

## **The FITB**

FITB is also an NDPB accountable to Parliament. Like the CITB and ECITB it does not receive grant-in-aid direct from government.

The film industry directly employs 40,000 full-time equivalents and supports a total of 100,000 jobs in all of the sub-sectors<sup>7</sup>. Within the production areas, there is a very occupationally diverse workforce, covering creative, managerial, film crew (e.g. camera and grips), and craft areas (e.g. electricians, carpenters/painters and decorators, hair and make-up, and costume). Graduates make up a large proportion of the workforce. In the production sector, the workforce is characterised by very high levels of freelancers or self-employed (estimated to be around 90 per cent)<sup>8</sup>.

In 1999 a voluntary training levy was established by a group of industry leaders. Then, in 2004 the Department for Education consulted the film industry on proposals to establish a statutory training levy on the film production sector in the UK. The response from industry was positive and so the FITB was established in 2008 in anticipation of a change to the ITA to permit the collection of a statutory levy on film production budgets (rather than on direct labour payments). The necessary legislative changes have not been made and in the interim a voluntary levy has been operated by Creative Skillset (a sector skills council) for the sector. Last year the voluntary levy raised £700k.

The Board meets quarterly to discuss and input in to the sector's skills requirement. It does not currently employ any staff.

## **Approach to Reviewing the Industrial Training Boards**

The ECITB and CITB both operate a statutory levy, whereas the FITB, in conjunction with Creative Skillset, operates a voluntary levy. This means that the approach to assessing the FITB is necessarily different.

A compulsory levy must be backed by a form of public body, be that a central government department, an executive agency, local government or an NDPB. A private firm or voluntary organisation for example could not have the legal power to collect and administer a compulsory levy. It is not necessary for a voluntary levy to be operated by an NDPB due to its non-enforceable nature. The impact of this is discussed in the FITB section of the report.

## **Approach to CITB and ECITB**

The operation of the training levy is the core function of the CITB and ECITB; all additional functions such as training support, health and safety advice etc. are supported by the training levy and driven by the needs of industry.

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<sup>7</sup> UKCES, Understanding training levies Evidence report 47, July 2012

<sup>8</sup> IBID



The ITBs receive no grant in aid: levy income funds a significant proportion of the activities provided by the ITBs and is supported by any commercial revenue to increase aggregate training support.

Without the levies, the bodies would potentially still have a role to play in sector skills development, for instance to advise and organise training, and the CITB holds the licence to operate as the Sector Skills Council for construction which it does in conjunction with the Construction Industry Council and CITB (Northern Ireland). However, these functions are unlikely to require the ITBs to be an NDPB; they could operate as other sector skills council or advisory bodies currently do, albeit drawing on non levy sources of funding.

Given the importance of the collecting and administering the training levy as the core function of the ITBs and therefore key determinant of their status, the Review first seeks to establish whether the training levy is necessary, through market failure analysis and stakeholder evidence.

If the levy is still necessary, the Review also considers the most effective way of delivering the levy in the current sector based model, including: levy collection by a new independent NDPB; merger between the ECITB and CITB to achieve efficiency gains; or, transferring levy collection to an executive agency or government body.

If the statutory training levy is no longer required, then other forms can be considered such as abolition of the levy, or an implementation of a voluntary levy.

The Review will also consider whether the additional functions, e.g. support for apprenticeships, health and safety training, that the ITBs carry out are still necessary and whether there are improvements that can be made in the way they are delivered.

The CITB and ECITB operate across Great Britain. This means that the ITBs need to engage with each nation's Government on skills priorities. There are differences in vocational education, apprenticeships and industrial strategy policies across the nations. Although this Review has not looked in detail at the different nation requirements it is acknowledged that any changes to the ITBs would require consultation across each nation.

The Review also considers whether there may be efficiencies in outsourcing certain back and middle office functions, which might include, for example, some of the process involved in levy collection. Further legislative changes are necessary to achieve additional efficiencies due to restrictions currently present in statute.

Whilst a compulsory levy must be backed by a form of public body, be that a central government department, an executive agency, local government or an NDPB, with legislative change it would be possible to outsource some of the administrative functions to another body whilst the ITB retained oversight, management and overall responsibility for the levy. If an organisation were to

take on the levy powers in its entirety, that organisation would be required to become a public body such as an NDPB.

The various options for delivery by other bodies are considered within the Review.

## **Stakeholder Engagement**

The Triennial Review of the ITBs was announced by Written Ministerial Statement on 1 July 2013, in line with Cabinet Office guidance. Following announcement the Review Team wrote to the Chairs of the relevant Parliamentary committees to inform them of the Review and provide them with an opportunity to comment. No input was received.

In carrying out its work, the independent Review Team based its conclusions on data drawn from a wide range of sources, including extensive stakeholder engagement:

## **Construction Industry Training Board**

The Review Team published an open online survey hosted by SurveyMonkey seeking comments from stakeholders on the function and form of the CITB. The survey was open for comment from 23<sup>rd</sup> September 2013 to 18<sup>th</sup> October 2013. The survey was publicised by the CITB and to contacts known to the Department for Business, Innovation and Skills (BIS), and hosted on www.gov.uk. In total, the survey received 1081 responses, of which 2/3rds of responses were from small construction employers. Annex A gives a summary of the consultation document conclusions.

The survey gave respondents the opportunity to make themselves available for follow up discussions. All those who volunteered were invited to take part in a series of workshops that were run by the Review Team, supported by a professional facilitator. Other key stakeholders known to the department and the CITB were also invited to take part. In total, the team held five workshops, two in London, and one in each of Sheffield, Glasgow and Swansea. Approximately 100 people attended, representing a wide range of stakeholders including small, medium and large firms, trade bodies, and learning providers.

Additionally, the Review Team had bilateral telephone conversations with specific stakeholders who could provide a strategic overview of the skills landscape in the construction industry. A list of those interviewed by the Review Team can be found in Annex C.

## **Engineering Construction Industry Training Board**

A similar approach was taken by the Review Team to consulting the ECITB stakeholders as was taken on the CITB. The Review Team published an open online survey hosted by SurveyMonkey seeking comments from stakeholders on the function and form of the ECITB. The survey was open for comment from 23<sup>rd</sup> September 2013 to 18<sup>th</sup> October 2013. The survey was publicised by the ECITB and contacts known to the BIS, and hosted on www.gov.uk. In total, the survey received 47 substantive responses from engineering firms, the large majority of whom were either medium (50+) or large (250+) employers. Annex B provides a summary of the consultation document responses.

The survey gave respondents the opportunity to make themselves available for follow up discussions and all were subsequently invited. Other key stakeholders known to the department and the ECITB were also invited to take part in workshops held in various locations across the UK. In total, 25 stakeholders attended the events, representing a range of views including small, medium and large firms, trade bodies, and learning providers.

Additionally, the Review Team had bilateral telephone conversations with specific stakeholders who could provide a strategic overview of the skills landscape in the engineering construction industry. A list of those interviewed by the Review Team can be found in Annex D.

## **Film Industry Training Board**

The Review Team attended an FITB board meeting on 16<sup>th</sup> October 2013 which included several senior industry stakeholders. The team also met Creative Skillset (the Sector Skills Council) to discuss the operations of the FITB. Due to the status of the FITB, in that it currently works with Creative Skillset to operate a voluntary training levy which is not backed by legislation, the team did not carry out a wider public consultation.

## **Other Levy Systems Operated by the UK Government**

There are a number of levies imposed on different sectors by the UK Government. Some operate effectively as direct taxes on industry, administered by HMRC. This includes the Bank Levy and the Climate Change Levy. These levies do not have outward facing functions comparable to the ITBs, although the Environment Agency plays a role in negotiating levy reductions through climate change deals with energy intensive industries.

The closest comparable example is the levy operated by the Agriculture and Horticulture Development Board (AHDB) which is also a Non Department Public Body. The AHDB is a public body that operates a statutory levy, funded by farmers, growers and others in the supply chain and managed as an independent organisation (independent of both commercial industry and of Government). It acts as a facilitator for research in improving efficiency, productivity and sustainability, and as a marketing body for the sector, including, export market development and food education in schools.

In 2008, 5 former levy bodies representing sub-sectors: the British Potato Council; the Meat and Livestock Commission; the Milk Development Council; the Horticultural Development Council; and, the Home Grown Cereals Authority, were replaced by one statutory levy board, the AHDB. However, each subsector is still recognised within the governance structure, and the levy from each subsector is ring-fenced. In addition, the meat subsectors are devolved in Scotland and Wales. Taking both the levy-funded and commercial operations plus grants, AHDB has an income in excess of £60 million and employs some 450 people (320 of these are levy-funded posts).

## **Historical Reviews of Industry Training Boards**

This is the first formal examination of the CITB and ECITB since 2003 when the conclusions of Quinquennial Reviews into these bodies were published by the then Department for Education and Skills. Those reviews had a broadly similar remit to the current exercise, namely to assess the functions being carried out by the Boards, whether these functions still needed to be carried out, and if so whether the Boards as NDPBs were still the most appropriate delivery method.

At that time it was concluded in both cases that the status quo should be maintained, due to continued support for the bodies from the relevant industrial sectors and what was described as a “firm link” between the statutory levy function and NDPB status. However each ITB report also made a wide-ranging series of recommendations for improvements to corporate governance, planning and delivery.

The next review of the ITBs did not occur until after the formation of the coalition Government in 2010 when they were included in a high level examination of all NDPBs instigated by the Cabinet Office. Although this exercise did not engage with stakeholders to the extent of the 2003 review, it did set out the main options for alternative delivery models (e.g. transfer to the private sector or redistribution of functions across different parts of Government such as HMRC and the Skills Funding Agency) and analysed the pros and cons of each.

Again, it was agreed to maintain the status quo on the grounds that the statutory levy function could not be devolved from a NDPB to private sector body, and alternative public models may not maintain the required level of political impartiality that the ITBs and industry deem necessary.

It should be noted that subsequent to the 2003 review ECITB’s coverage of the Nuclear Sector significantly expanded to include 3 major employers in scope (Sellafield, Magnox and Dounreay). While the broader landscape has seen the creation of several new Government bodies such as the Nuclear Decommissioning Authority, the Office for Nuclear Regulation and the Office for Nuclear Development; all of which are key stakeholders in the provision of skills for the industry. In addition there has been a sea change in UK energy policy direction since that time, with multiple new nuclear power stations now being planned for construction, the first of such activity since Sizewell B was completed in 1995. Hence this review will examine issues not previously addressed in relation to the Nuclear Sector.

Similarly FITB was only constituted in 2008 and so has never previously been the subject of a formal review.

# CONSTRUCTION INDUSTRY TRAINING BOARD

The CITB operates the training levy and grant for the construction sector. It also delivers a series of other functions, such as providing support for apprenticeships, improving recruitment and retention in the sector, and helping the industry to meet the low carbon challenge.

Section 1 of the report looks at the functions of the CITB. Section 2 considers current and potential structures for the CITB.

## Section 1: Functions of CITB

### Background

The CITB exists to support the UK construction and the built environment industry, specifically in skills and training. It does this by delivering a number of industry-focused services.

The CITB was one of the 27 industry training boards set up under the Industrial Training Act of 1964. Its creation resulted from a perception that there was a generalised market failure in skills training investment within the construction industry which an industry levy and collective body could address in ways that the free market could not.

Its core activity, sanctioned under the ITA, is to raise funds for construction skills training through a levy, and to assist construction industry firms in investing that money in skills training that grows the collective skills base of the sector through providing grants and other services.

Other powers granted by the Act include providing advice and guidance to employers on their skills needs, conducting skills needs research, setting formal standards for construction skills, creating qualifications, providing skills training, and certificating achievement against those standards. In 2004, the CITB was awarded the licence to operate as the Sector Skills Council for construction, which it does in partnership with the Construction Industry Council and CITB Northern Ireland. Presently, over 75,000 employers are registered with the CITB.

The CITB regularly surveys all registered employers to ask them whether the levy system should still operate in the sector. This communication highlights what activities the levy supports, including grants to companies and help for projects across a range of training areas, e.g. health and safety. Employers therefore have a regular opportunity to make their own views known to the CITB.

## Addressing a Market Failure CITB

The CITB currently has the status of an NDPB. This status is based on the fact that a compulsory levy must be backed by a form of public body, be that a central government department, an executive agency, local government or an NDPB. A private firm of voluntary organisation for example could not have the legal power to collect and administer a compulsory levy.

Section 2 'Continued Delivery by an NDPB' confirms that the levy function passes the second test in the Cabinet Office assessment of whether an NDPB is appropriate relating to whether the function needs to be, and be seen to be, delivered with absolute political impartiality.

It is therefore imperative that the case for a statutory levy is made before considering the other functions of the CITB and what form this body should take in the future. If the requirement for a levy is in doubt, then so to would be the requirement that the CITB be a public body.

Box 2 below outlines the case for a market failure in the construction industry. The full report is available in Annex E.

### **Box 2: Market Failure Analysis of Construction Industry Training**

This is a summary of the market failure analysis in Annex E.

Both the construction and engineering construction industries are typified by project based working. This type of work has meant that there are very low levels of direct employment as firms rely on subcontractors to cover the variable levels of demand.

In general, this type of employment means that construction firms do not have the incentive to invest in the skills of the workforce as construction workers may only be employed for a single project and then may go on to work on a competitor's site after. To illustrate, the UK's top 20 construction groups are the conduit for 47% of industry revenue, yet combined they only employ 14% of the 2.2 million workforce directly. Analysis by EC Harris<sup>9</sup> demonstrates that for a 'typical' large build project, the main contractor may be directly managing around 70 sub-contractors.

There is a significant free rider issue within the construction industry with companies seeking skills for specific activities but making no input into training. When delivering a project, firms are presented with the choice to "poach" already skilled workers or invest in human capital that is highly mobile. In a free market, this means that the level of training within the construction industry will likely be below the optimum level.

<sup>9</sup> EC Harris for BIS (2013) Supply Chain Analysis in the UK Construction Sector

This type of project based working applies to both the construction and engineering construction industries. (For more on engineering construction see Box 4).

However, the problem may be exacerbated within the construction industry due to the relatively high numbers of SMEs in the sector, with over 99.9% of construction contracting businesses falling into the SME category<sup>10</sup>. Relative to our European counterparts, the UK has much fewer larger firms, data from an international study<sup>11</sup> showed that in 2000 only 0.2% of firms employed over 50 people; compared to 1.8% in Germany and 1% on average across the EU.

The high proportion of small firms in the sector could be placing an additional dampener on investment in training and skills, as smaller firms generally have greater constraints in their financial and organisational capacity to invest in skills training.

This is further intensified when considering the level of self-employment in the sector; in 2012 approximately 40% of construction jobs were self-employed compared to around 14% across the whole economy<sup>12</sup>. For the self-employed, raising the funds for training may be more problematic and there is also a perceived greater opportunity cost if individuals see a direct impact on earnings (i.e. 'earn or learn'), which will further discourage investment in training. Individuals may also put off training if the expected future benefit is uncertain.

Ensuring a collective training fund is one way of dealing with this potential lack of investment in skills as firms are not directly paying so will be less concerned with poaching. It ensures that there is no free riding on others investment as firms are required to contribute. The proportion of small firms and self-employed construction workers demonstrates that it is important that even the smallest firms are engaged in the training of the workforce.

## **Conclusion of Market Failure Analysis**

The market failure analysis above shows that there are market failures in training provision within the construction industry; and that in the current sector based system the functions of the CITB are appropriate interventions to help address these market failures. This view was repeated by a majority of construction industry stakeholders to the Review Team. It is also replicated within the independent surveys that the CITB commission in order to demonstrate to Parliament that a majority of firms still support the levy.

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<sup>10</sup> BIS Business Population Estimates for the UK and Regions (2013). SMEs are defined here as businesses with 0-249 employees

<sup>11</sup> CIB Publication No. 293: The Construction Sector System Approach: An International Framework

<sup>12</sup> ONS Labour Force Survey



Going forward, the case for a specific levy in the construction sector will be reassessed in light of the government's decision to introduce a broader levy to support apprenticeships.

## Functions of the CITB

The CITB core function is to operate and distribute the training levy, achieving the overall objective to improve the quality and quantity of training in the sector. The Strategic Priorities<sup>13</sup> of the CITB are:

- Providing leadership to the industry on training
- Improving productivity
- Helping the industry meet the low carbon challenge
- Increasing the engagement of employers with skills and training
- Improving recruitment and retention
- Improving skills and training across the construction sector
- Providing support for smaller companies in the construction sector
- Providing support for apprenticeships
- Improving health and safety
- Increasing qualifications in the industry

Evidence was gathered by the Review Team on the level of support for the levy collection and distribution, and on these ten functions via the online survey, stakeholder workshops and bilateral conversations. The data on the stakeholder views of the value and impact of CITB services from the online survey includes the views from both users and non-users of CITB support services. All the functions assessed are, at least in part, funded by levy.

## Analysis of CITB functions

### Core Function: Levy collection and grant distribution

Background:

The CITB Levy applies to employers wholly or mainly engaged in construction industry activities throughout England, Scotland and Wales. However, only those with a wage bill that is £80,000 or more per annum are required to pay the levy. Employers with total wage bills of between £80,000 and £100,000 receive a 50% reduction on their levy bill. The current Levy rates are 0.5% for PAYE staff and 1.5% on payments to labour-only sub-contractors.

The funds collected through the Levy are invested back in skills in the industry via grants to support a wide range of training and qualifications, from

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<sup>13</sup> This list was taken from the 2012 Annual Report and Accounts and the priorities were updated by the CITB Board in 2013

apprenticeship support to management and supervisory qualifications, and other grants that help develop the whole business. All employers who are registered with the CITB can claim a grant, including those that do not pay the levy.

Evidence:

CITB regularly demonstrates that there is continued employer support for the statutory levy.

In 2013, a survey of registered employers commissioned by the CITB indicated that 69% of all employers support the continuation of the Levy-Grant scheme.

44% of respondents to the CITB triennial review survey thought that the CITB managed and operated the statutory levy well or very well.

Stakeholder feedback, and market failure evidence suggests that without the levy it is likely that the level of skills in the industry would decline as firms would not train to current levels. Government is committed to ensuring adequate skills provision in the sector.

If the CITB and its levy were to be abolished, it would take firms time to adapt to the new landscape. Firms would need to procure their own training and pay up front costs rather than via a levy. The market failure analysis suggests that some firms would not carry out training to the same levels as currently, as they would be investing in mobile human capital that could leave and join a rival firm. Therefore, training levels in the sector may be permanently reduced. Anecdotal evidence provided by stakeholders at one of the workshops suggests that when the mechanical and electrical sector was taken out of scope of the CITB levy there was a long lasting impact on skills within the sector, with only basic levels of training taking place.

Whilst the majority of stakeholders consulted in the survey supported the levy, several concerns were raised both in workshops and one-to-one interviews with business representative bodies on the management and operation of the levy:

- Stakeholders were critical of the grants process, suggesting that it was overly complicated which put some businesses (particularly SMEs) off applying for funds. This is particularly concerning as the market failure arguments presented in Box 2 and Annex E suggest that small firms are those that need the CITB support the greatest.
- Anecdotal evidence within the industry suggests that not all employers who are required to pay according to the scope of the levy are requested by the CITB for payment. This can create competitive advantages for those that do not pay the levy against their competitors who do.
- A number of practical suggestions were provided to improve the levy process, including linking the request of companies for information to details already

provided to HMRC and putting more of the process online to reduce the level of bureaucracy and time taking to make claims. More radical suggestions included linking the levy to the procurement of raw materials, rather than wages.

In terms of efficiency, the CITB currently undertakes the processing for 80,000 registered companies who provide financial information annually. If this were to be provided electronically by the company itself via a digital application, then very significant savings could be made. An expectation that the CITB will be able to achieve this level of maturity via procurement alone is unrealistic and will only be obtained via joint venturing, which the CITB is currently prevented from undertaking due to legislation that could not have foreseen the current operating environment. Change to legislation would be necessary to unlock the significant technology savings that may be possible in the future.

### **Providing leadership to the industry on training**

Background:

The CITB works across the industry and with government to:

- Raise investment in skills
- Influence Government skills policy
- Ensure that employers in the industry, and governments, see the benefit from investing more in the training of the construction industry workforce
- Identify and develop current and future product and service opportunities for the good of the industry.
- Develop industry standards to improve Fairness, Inclusion and Respect

Evidence:

74% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 47% thought that the CITB carried out this function fairly effectively or very effectively.
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The majority of stakeholders considered this function a fundamental part of the CITB's remit. There was a strong feeling that in the current sector based model, without the coordination and oversight that CITB provides to skills and training within the industry less training would be done.

However, concerns were raised that the organisation can at times be overly bureaucratic and slow moving, and that it is sometimes perceived as being out of touch with the modern industry. There were a wide range of views on the role that the CITB should take in engaging with government, ranging from the CITB taking a neutral stance to the CITB engaging with government directly and on behalf of the industry.

The CITB has a role to ensure the provision of industry required training, a service which is highly valued by the industry. The manner in which training is developed, conducted and evaluated is undergoing significant change at the moment and this will increase. For training establishments to provide an

effective service they will require close links with research establishments and the other leading organisations in the industry. Continuous professional development will need to be provided flexibly, to greater numbers and in increasing specialist areas. This all means that CITB will not be able to provide an effective training arm without the ability to be part of joint ventures with these organisations to develop training products and collaborative delivery. The alternative to this is having a huge research and development capability and training estate which the CITB cannot afford and which would not be an effective use of public funds. This will be effectively outsourcing CITB's training development capability to joint venture partners who are better positioned to undertake this activity and will facilitate the joint delivery of training and CPD.

### **Improving productivity**

Background:

The CITB supports employer and industry competitiveness by helping employers' review their business skills needs and improve them cost-effectively, working to qualify experienced workers, improve health, safety and environment awareness and competence on site and establish productivity benchmarks for the industry.

Evidence:

72% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 31% thought the CITB carried out this function fairly effectively or very effectively.
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There was general support for the leading role that the CITB takes in promoting training throughout the industry, but it was suggested that there are not always appropriate training opportunities available, particularly in small and specialist sectors. However, there was not consensus over what the CITB should focus on. Suggestions ranged from high end specific training on modern construction methods to providing for the general and traditional skills base of the sector.

The majority of stakeholders felt that the direct support that the CITB provides is helpful, but that it could be improved in some respects. For example some companies at the workshops described the importance of local CITB Company Development Advisors supporting companies to develop their training plans; but, it appeared that more Advisors were needed in England as some respondents suggested that they have never met their CITB representative, and that some Advisors could be more consistent in their approach. In 2012, the CITB made 17,332 employer visits. Given the large number of firms in the sector, there appears to be some room to significantly increase employer visits and to better target them on those firms that would most benefit. As a highlight, there was strong support for the work of the CITB staff in Wales, in their knowledge and understanding of the Welsh construction industry, and their close and constructive relationship with the

sector. The Review Team encourages the CITB to better engage with its sector, but recognises the resource burdens this would place on the organisation.

### **Helping the industry meet the low carbon challenge**

Background:

The CITB aims to support the industry's future skills needs and in particular the skills required to meet the low carbon challenge by:

- Building knowledge on what the future skills needs are and translating this into practical training solutions
- Working in partnership across the UK, Professional and Built Environment sectors on low carbon issues to maximise influence over policy and funding for relevant skills.

Evidence:

53% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 21% thought that the CITB carried out this function fairly effectively or very effectively.
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There were few views from stakeholders in workshops and one-to-one interviews about this function. However, those comments the team did receive described the importance of the industry having continued skills development for low carbon building in the future.

### **Increasing the engagement of employers with skills and training**

Background:

The CITB aims to promote the benefits of investment in training and development. It works with all types of employer groups to reach more businesses and its Company Development Advisors support employers in diagnosing skills gaps. They give advice to businesses on levy and grant information including training plans which incentivise employers to look at their organisation's skills needs.

It also facilitates and supports construction employers of all sizes in engaging with Employer Led Programmes to maximise their engagement in leading, developing and delivering skills solutions that are fit for purpose for the industry.

Evidence:

78% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 52% thought that the CITB carried out this function fairly effectively or very effectively.

As with the responses to the function of "Improving Productivity (above)", the majority of stakeholders said that there should be more Company Development Advisors in England, and some felt their approach and engagement with companies could be more consistent and proactive.

### **Improving recruitment and retention**

Background:

The CITB aims to help attract talent into the industry by:

- Providing leadership on the 'recruitment and retention' challenge through partnerships and influencing
- Leading on discussions with employers and governments to facilitate recruitment activities
- Providing careers information to enable influencers, advisors and individuals of all ages to make informed decisions on entering or re-entering the construction sector
- Promoting construction careers
- Running skills competitions
- Positioning construction as a 'career for all' and engaging employers in best practice.

Evidence:

71% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 35% thought that the CITB carried out this function fairly effectively or very effectively.

There was broad agreement from stakeholders that there was a need for the CITB to continue to play a positive and clear role in this function; and, that the CITB should be supportive of local initiatives in the community. There was a range of views on how effective the CITB was in this function, as reflected in the survey responses. The support CITB gave in relocating Apprentices during the recession was positively highlighted by a number of stakeholders.

### **Improving skills and training across the construction sector**

Background:

The CITB works with employers and practitioners to identify and recommend the standard for training and qualifications for entry into the industry and also determines the nature and length of training required. It develops and

maintains the construction industry's craft National Occupational Standards (NOS) covering over 80 occupations and also looks after the NVQ and SVQ competence units and qualifications that are developed from the NOS.

Additionally, the CITB provides specialist training through its National Construction College, largely to address market failures or to meet specific customer needs. It offers specialist apprenticeships, undergraduate practical work and training for experienced workers, mainly in specialist disciplines such as plant operations or access.

Evidence:

83% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 57% thought that the CITB carried out this function fairly effectively or very effectively.

Throughout the engagement by the Review Team, there were consistent messages from professional bodies and large companies concerning the importance of the National Construction College in providing specialist training in certain trades where substantial capital investment is needed or there are low levels of annual demand, for example, heavy plant and steeplejacking. Some training providers questioned whether the CITB should be providing training beyond those areas where specialist equipment is necessary as it can crowd out the market and is providing unnecessary competition; it should focus on administering the grant and levy operations.

### **Providing support for smaller companies in the construction sector**

Background:

In 2012 74% of the CITB's grant support went to SMEs. The CITB has a network of Small Firms Enterprise Development Initiative (SFEDI) qualified development advisors providing business support and tailored solutions to in-scope employers.

Evidence:

79% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 42% thought that the CITB carried out this function fairly effectively or very effectively.

Some stakeholders reported positive interactions with the CITB's specialist SME teams. However, a significant number thought that the CITB needed to improve its interactions with SMEs by simplifying its communications and making its systems easier to navigate.

It was suggested that SMEs do not always utilise the services on offer because of a lack of understanding about what is available. Whilst large employers have dedicated staff that understand how the CITB works,

feedback suggested that it can be much more difficult for SMEs to work out how to engage with the CITB, particularly as processes frequently change. Several of the business representative bodies consulted considered it a key part of their own role to help SMEs access the grants on offer.

Stakeholders fed back that some SMEs do not utilise the opportunities and services provided by the CITB due to concerns that the SME will be "in the sights of the CITB" and may have to start paying the levy. The table below shows grant support by size of company in 2012. It indicates 46% of grant support went to small and micro businesses, representing 12,583 firms. By comparison, 1,467 medium and large firms account for 53% of grant support. This is generally attributed to the type of training being taken up by companies of different sizes. The number of trainees from micro and small companies is significantly higher than medium and large firms (approx. 21,000 compared to 10,000 according the 2012 CITB annual report). However, micros account for more general building, carpentry and painting & decorating training which tends to be short duration, low cost training. Larger companies have more civil engineering, plant and professional training which tends to be longer in nature and to a higher NVQ level, attracting more grant support on a per training day basis or for qualification achievement.

### **CITB Grant and support by size of employer 2012**

	<b>Number of employers claiming grant and other support</b>	<b>Value of grant and other support payments £'000</b>	<b>Percentage of total grant and other support</b>
Large	229	26,315	25%
Medium	1,238	29,024	28%
Small	4,462	22,511	21%
Micro	8,121	26,059	25%
Other	217	1,252	1%
<b>Total</b>	<b>14,267</b>	<b>105,161</b>	<b>100%</b>

### **Providing support for apprenticeships**

Background:

Apprenticeships are at the heart of the CITB's business. It acts as a Managing Agent for the delivery of a large proportion of apprenticeships in construction across England, Scotland and Wales. The business model across all nations is to sub contract the classroom learning element of the apprenticeship framework to training providers while the other elements of the course are



undertaken by its own apprenticeship teams. There are currently c.17,000 young people on CITB supported programmes.

The CITB develops specialist apprenticeship programmes and provides specialist delivery through the National Construction College.

Evidence:

81% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 55% thought that the CITB carried out this function fairly effectively or very effectively.

Many stakeholders singled out support for apprenticeships as a relative strength of the CITB. As mentioned above, the CITB's response to the recession was particularly highlighted, when it supported companies in relocating apprentices when training placements were no longer available.

### **Improving health and safety**

Background:

The CITB provides advice and guidance on health and safety issues. It has the remit to set industry-standard benchmarks for testing and assessment, competence and training in the industry and delivers a number of health and safety tests including the *CITB Health and Safety Test* which was taken by 500,000 people last year. It also operates several plant 'card schemes' including the Construction Plant Competency Scheme which is the only plant card recognised on every UK construction site.

Evidence:

76% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 48% thought that the CITB carried out this function fairly effectively or very effectively.

A number of companies at the workshops commented on the need to retain this function within the CITB. Without a national body providing clear leadership and support, some stakeholders believed that some companies would reduce health and safety training to limit costs to the detriment of the industry.

### **Increasing qualifications in the industry**

Background:

CSkills Awards is the awarding organisation of the CITB. It works with approved training and assessment centres to enable candidates to achieve

qualifications. CSkills Awards offers construction qualifications, site safety courses and utilities engineering and training assessments.

Evidence:

71% of survey respondents agreed or strongly agreed that there is a continuing need for this function. 54% thought that the CITB carried out this function fairly effectively or very effectively.

There were few views from stakeholders in workshops and one-to-one interviews about this function.

### Conclusion of Section 1: Functions of the CITB

In conclusion, the evidence received by stakeholders via the open online survey (summarised below) and via workshops and bilateral conversations revealed that in principle the functions of the CITB are still necessary and valid means of addressing the market failure within the sector, but that there are many specific areas where the CITB could perform better. For the majority of functions fewer than 50% of respondents to the online survey thought that the CITB carried it out fairly effectively or very effectively.

<b>Function</b>	<b>% of survey respondents that agreed or strongly agreed that there is a continuing need for this function</b>	<b>% of survey respondents that thought that the CITB carried out this function fairly effectively or very effectively</b>
Levy collections and grant distribution	-	44%
Providing leadership to the industry on training	74%	47%
Improving productivity	72%	31%
Helping the industry meet the low carbon challenge	53%	21%
Increasing the engagement of employers with skills and training	78%	52%
Improving recruitment and retention	71%	35%
Improving skills and training across the sector	83%	57%
Providing support for smaller companies in the construction sector	79%	42%

<b>Function</b>	<b>% of survey respondents that agreed or strongly agreed that there is a continuing need for this function</b>	<b>% of survey respondents that thought that the CITB carried out this function fairly effectively or very effectively</b>
Providing support for Apprenticeships	81%	55%
Improving Health and Safety	76%	48%
Increasing qualifications in the industry	71%	54%

All of the functions described in this report provide training support to the construction sector. They are underpinned by levy income; the functions could not provide the level of support they currently do without a compulsory levy being in place or without alternative sources of funding being identified.

Based on stakeholder views and further analysis the Review Team's recommendations are that the CITB should:

1. Simplify the grant claim process and make online provision available if practical;
2. Reduce bureaucracy across the organisation and make systems easier to navigate;
3. Review the deployment of Company Development Advisors and the consistency of the service they provide;
4. Significantly improve the level of support offered to SMEs;
5. Increase and simplify communications so that more companies, and in particular SMEs are aware of the grants available to them.

The Review Team also considers that the CITB may not have an appropriate and effective Board structure. This will be explored in more detail in Stage 2 of the Triennial Review.

## Section 2: Form of CITB

### Current size and structure

As previously noted, the CITB was one of the 27 ITBs set up under the Industrial Training Act 1964. Secondary legislation made under that Act's successor, the ITA, gives the CITB its mandate to collect a levy from construction employers and to use this to build skills in the industry<sup>14</sup>. It is a NDPB but it is substantially independent of government and its policies are directed by its employer-led Board. BIS, on behalf of the Secretary of State, has a sponsorship relationship with the CITB which is set out in a framework agreement.

The CITB undertakes activities for the industry which are agreed by the industry and funded by the levy. Its other activities are funded by income generated on a not-for-profit or for-profit basis.

The ITA sets certain parameters as to the Board structure of an ITB<sup>15</sup>. Secondary legislation made under the ITA (and its predecessor Act, the Industrial Training Act 1964) provides further requirements as to the membership of and decision-making by CITB.<sup>16</sup> The Board must have a majority of members who are concerned in the management of any of the activities of an employer engaging in the construction industry, and only these members are permitted to vote on matters relating to the imposition of the levy. Appointments are made by the Secretary of State after a public appointments process overseen by the Office of the Commissioner for Public Appointments.

The current Board has 21 members including a Chairman and Deputy Chairman, 14 employers, two employees, two education members and a client. The Board is wholly non-executive; no member of staff is a member of the Board, though a number of senior staff members attend Board meetings. Decisions about the deployment of funds through the Grants Scheme are made by the Board and its employer-led sub committees. The CITB is a registered charity which imposes on the Board members (as trustees) an obligation to put the interests of its beneficiaries before others.

The Board undertook a self-evaluation programme in 2012 which led to a proposal for a restructuring. This proposal involves cutting the Board's size, recruiting members on the basis of skills alone, and breaking the link with industry bodies (and instead giving them a voice via an Advisory Council). The CITB is moving forward with these changes.

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<sup>14</sup> The Industrial Training Levy (Construction Industry Training Board) Order 2015 (SI 2015/701).

<sup>15</sup> See section 1(3) and Schedule 1 to the ITA.

<sup>16</sup> See article 3 and Schedule 2 to the Industrial Training (Construction Board) Order 1964 (SI 1964/1079).

The Board is supported by approximately 1,350 full time equivalent (FTE) staff delivering Employer Services, Business Services, the National Construction College, Skills Strategy, Corporate Services and Communications and Change. It should be noted that the FTE reflects a number of part time workers. See Table 1 below.

Table 1: Number of CITB FTE

	<b>Apprentices</b>	<b>Headcount</b>	<b>Total FTE</b>
Business Services	0	125	122.29
Chief Executive	0	3	3
Communications & Change	3	76	72.44
Corporate Services	2	468	443.45
Employer Services	1	412	405.66
National Construction College	6	271	260.46
Skills Strategy	0	58	57.84
<b>Total</b>	<b>12</b>	<b>1413</b>	<b>1365.14</b>

### Issues to consider regarding the form of the CITB

The CITB in their 2012 accounts declared levy income of £144m, and non levy income of £99m. This non levy income comprises £47m of apprenticeship funding (Skills Funding Agency, Scottish Government, Welsh Government) £8.5m income from public bodies (non apprenticeship projects - Scottish Government, Welsh Government, UKCES), and £41m from sales of competence cards, health and safety tests, and the start-up of the Tunnelling and Underground Construction Academy. Small income levels were derived from investments and other categories. In short, public sources of funding and levy income form a significant majority of CITB revenue. It should be noted that the CITB receives no grant-in-aid funding.

In total the CITB spent £223m across its key functions in 2012, including grants to companies, operational costs, and wider support to the construction sector.

The CITB balance sheet showed net assets of £125m at 31 December 2012.

The CITB's accounts provide detailed annexes setting out its support for large and small companies, including specifying grant amounts for the largest companies. Few stakeholders had read the CITB accounts. Those that had

described difficulties in fully understanding the headline accounting categories determined by the CITB, and the origins of related funding streams.

## CITB Income and expenditure 2012

Activity	Income £'000s	Expenditure £'000s
Total non-levy activities, including skills challenges and non-direct grant support	99,400	133,041
Levy income/Direct grant support	143,758	78,156
Investment income	2273	
Non-charitable activities	174	158
Levy collection and grant processing costs	n/a	4,878
Governance costs	n/a	1,012
Impairment of assets	n/a	5,666
<b>Total</b>	<b>245,605</b>	<b>222,949</b>

### Commercial Effectiveness

The CITB generates commercial revenues to support its grant activities. The majority of stakeholders strongly supported this leveraging of funds to increase training provision and grant giving. However, many also stressed the importance of the CITB focusing on its key functions and remaining accountable to industry for all of its activities.

Few stakeholders understood how the ITA impacts on CITB's operations. It limits the commercial activities that the CITB can undertake and makes accounting processes more complicated than would otherwise be the case. The Review Team observed that the CITB had considered and taken forward a number of measures to improve its accounting procedures.

The Review Team believes that under the current sector based system, a separation of the commercial activities of the CITB from the levy and grant distribution function would be beneficial as it would allow for more efficient and transparent CITB operation. However, under the terms of the ITA such a split is not currently possible. The CITB has made it clear to the Review Team that they would welcome the removal of certain operational restrictions imposed by the Act. In broad terms, and notwithstanding the complications involved in amending legislation, the Review supports this – particularly in terms of allowing the CITB to operate more efficiently. A range of operational improvements and efficiencies will not be possible in the medium to long term without an update to legislation. Further detail on commercial activities is provided later in this document.

At present, to outsource the CITB only has the option of purchasing a service from a provider on a contract basis, but for some time, it has not considered

this option as most the cost effective, flexible or sufficiently fast for the modern environment. For example, the NHS has numerous joint ventures for back and front office services, it is how the BIS Shared Service was developed and the Cabinet Office sees joint ventures as being the core capability in all their commercial models and mutual arrangements. For outsourcing to be most successful, returning best value for Levy money and providing most benefit to the industry, options are needed so that the most appropriate model can be used on a case by case basis.

### **Smoothing Revenues and Expenditure**

There was support amongst stakeholders for the 'smoothing' process that the CITB employs to ensure grants are maintained across economic cycles. This involves the CITB using reserves in times of recession to maintain training grants, when levy income is otherwise reduced; and, increase reserves in times of economic growth when levy income is higher.

### **Pension Scheme**

The CITB is the largest member of a multi-employer Pension Scheme (the ITB Pension Funds). At the last valuation (carried out in March 2013) the Scheme was in overall deficit and CITB's share of this was £19.69m. The ITB Pension Fund Trustees, who administer the Scheme for participating employers, are content with the current arrangements under which CITB is recovering its share of the deficit. The Board has also taken steps to mitigate the risk of deficits arising in future by reducing benefits available to existing members and requiring new joiners to go into a Direct Contribution pension.

The overall buyout debt attributable to CITB in the event of abolition or substantial organisational change is in excess of £200m.

The Review Team noted that the CITB balance sheet showed net assets of £125m at 31 December 2012.

If any changes were made to the structure of the CITB, for instance if it were to be abolished or merged, or brought into government, the Secretary of State does not have a legal duty to make good any deficit in the CITB pension scheme.

However, the Secretary of State does have the option to use legal powers (ITA) to meet any shortfall in funds. These options include using departmental funds, or imposing a one off levy on the construction industry. Policy, political and stakeholder views would contribute to any such decision.

### **Options for the form of the CITB**

The Review Team considered the following range of options for delivering the functions of the CITB:



- Abolish
- Move out of central government
- Bring in-house
- Merge with another body
- Delivery by a new executive agency
- Continued delivery by an NDPB

It concluded that all of these were, to varying degrees, feasible approaches with the main consideration being whether a statutory sector-based levy exists.

In particular, when assessed against the Cabinet Office's three tests, of which at least one is a necessary condition to be an NDPB, it is only the need for the administration of the levy to be carried out with absolute political impartiality that would justify the CITB potentially continuing as an NDPB.

### **The Three Tests:**

1. Is this a technical function (which needs external expertise to deliver)?

No. It may be argued that to deliver and administer the training that is required by industry necessitates having a deep knowledge of the sector that can only be formed with strong relationships. This would be difficult to establish by a central government department, or an executive agency for instance, due to the level of resource requirement and the need for separation of government and industry. However, it may be technically feasible. The collection of levy from 25,000 firms requires a level of technical excellence but again, could be matched by an Executive Agency.

2. Is this a function which needs to be, and be seen to be, delivered with absolute political impartiality?

Yes. It has been established that to operate a statutory training levy requires a form of public body. According to Cabinet Office guidance<sup>17</sup> on the types of public bodies, it may be possible for this function to be carried out by an Executive Agency or similar. However, the essential requirement by industry that this is run at arms-length from government, coupled with the fact that the CITB must demonstrate continued industry support (which it may be less likely to retain if it were closer to Government), mean that an alternative option, such as an Executive Agency, is not appropriate in current circumstances.

3. Is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?

No. Even though the CITB provides job forecasts and modelling, it is not necessary that these are independent of government in order to establish credibility.

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<sup>17</sup>[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/80075/Categories\\_of\\_public\\_bodies\\_Dec12.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf)

Given the changes announced to the skills funding system in the July 2015 budget and the consultation that will take place on the interaction between the apprenticeship levy and the existing sector levies, it would be premature for the Triennial Review to make recommendations on the future of the ITBs. The right time for the government to address this will be when the future levy arrangements for the sectors are clearer.

### **Scope for reforms**

If, in the light of future decisions, the CITB were to continue as an NDPB, there are a number of reforms that could be made to improve its service. These changes might require legislative change.

### **Commercial Effectiveness**

The Review Team recommends that there should be a review of the legislation underpinning the statutory functions of the CITB, in order to consider the scope of their operations and the business entity options available to them to improve operational efficiency. Analysis and feedback from stakeholders supports this view.

Additionally, the Review team heard evidence that there may be opportunities for the CITB to pursue additional commercial revenues by entering new markets. Analysis by the Review Team highlighted a number of state aid, competition and stakeholder issues that should be considered.

#### **(i) Revision of legal powers to improve efficiency**

The CITB does not currently have the statutory power to create subsidiaries or enter into joint ventures. The CITB wish to gain these statutory powers and has made clear to the Review team that without such powers, they are unable to operate in a modern way. Express statutory permission must be provided to undertake certain functions. Analysis by the Review Team and stakeholder feedback supports the view that the CITB would benefit from being able to operate more effectively. In practical terms this would mean reviewing the strictly defined statutory functions of the CITB and updating the existing [primary?] legislation that underpins their activity.

The introduction of new legal powers for ITBs would enable the CITB to use modern trading structures and operate more efficiently and effectively, including by outsourcing a number of back-office and mid-office functions by joint venture. It may also help the CITB to address some of the delivery issues highlighted in section 1: functions of the CITB.

The Review team view the major advantage of joint venture outsourcing to be the ability to gain significant capability possessed by another organisation in a partnership manner, sharing risk and any future benefit. This more sophisticated approach will allow CITB to undertake the step change that the

Board has set as its strategy. The benefits that could be gained from the proposed change to primary legislation fall into 6 categories:

- Improved technology for the organisation;
- Development of new products, services and intellectual property;
- Implementation of back office efficiencies;
- Increased charitable trading income to offset the current operating costs;
- Reduced Corporate size; and
- Clarity of Purpose.

Whilst a compulsory levy must be backed by a form of public body, be that a central government department, an executive agency, local government or an NDPB, it could be possible in current circumstances to outsource some of the administrative functions to another body whilst the ITB retained oversight, management and overall responsibility for the levy. If an organisation were to take on the administration of the industry levy in its entirety, that organisation would be required to become a public body such as an NDPB.

The CITB currently uses charitable trading to supplement and support its levy income.

As well as the normal advantages accruing to charities, this approach enables CITB to separate activities intended for public benefit from those designed to make a return. This reduces the risk of any conflict between potential increased commercial activity and the charitable status of the CITB.

It would also enable CITB to work more efficiently with partners from the private, public and third sectors. In particular, it would permit a faster reaction to developing employer needs; where risks and costs are shared with partners. Outsourcing of a range of functions would also be feasible. Where the CITB is able to achieve greater efficiencies within existing charitable trading and training activities, this will allow further support to be recycled back into the construction sector.

The Review Team however noted feedback from a range of stakeholders that the CITB did not have sufficient commercial expertise within the organisation. Therefore to take advantage of more modern trading structures, the CITB may need to invest in its commercial capability.

## **(ii) Operational restrictions**

Over the last 4 years CITB has consolidated its customer contact and processing functions so that rationalisation and efficiencies could be made and technology shared, leading to a saving of approximately £1.5m between

2009 and 2013. The final step in centralisation is intended to be outsourcing, but as Levy and Grant (L&G) services are key customer contact points, and as there are legislative restrictions on disclosing the sensitive information obtained from employers (which this service supports) CITB has needed to retain a sizable human capability in this area.

This has made CITB appear to be a very large organisation, as similar bodies might not have retained data processing capability 'in house'. Because of the efficiencies that have already been made this capability is moving closer to becoming high performing (Excellence in Customer Service, benchmarked against the levels set for world-class customer service by the Institute of Customer Service (ICS)) and has also been benchmarked as being one of the most cost effective providers of these services (recent analysis conducted by CSCS Ltd.).

The current model is not sustainable with challenges from a cyclical workload coupled with higher customer expectations of customers and possible labour cost increases making this likely to be an expensive way of delivering services. Currently the only way to cover increased workload from improved industry economic conditions, new products or spikes in demand is by employing more people, which due to temporary workers legislation, often requires direct employment. This then needs to be followed by redundancy when the work reduces.

Outsource providers are better able to manage fluctuations in demand. Although few savings are likely from outsourcing this function currently, all these points mean that there could be very large savings in the future.

### **(iii) Increasing commercial revenues from entering new markets**

There may be opportunities for the CITB to increase commercial activities by expanding into new markets beyond their existing charitable trading activities and therefore recycle this revenue back into training support. Commercial freedoms could allow the CITB to 'sweat' existing assets such as the Construction College in Norfolk, offset some of its running costs and provide additional funds to support training activities.

The Review noted that a significant majority of stakeholders believed that increased commercial revenues should not be used to reduce the current size of the levy. Any commercial revenues should be in addition to the levy. However increased commercial revenues could allow flexibility in the medium term to reduce the impact of the levy on the sector.

The CITB engaged with the Cabinet Office two years ago as part of the Retain and Reform Directive to consider ways they could improve the efficiency of their internal governance and operations. As part of this work, the CITB reviewed options to increase their commercial revenue, including modelling of estimated income streams. This strand of work was not taken forward due to a change of CEO at the CITB.

This modelling estimated that over a four year period new commercial freedoms could increase their aggregate revenues by £40m (2015 - £5m, 2016 - £7.5m, 2017 - £12.5m, 2018 - £15m). The Review Team has not tested the modelling. Testing all the options is a complicated and time consuming exercise. However the CITB has said that if they were to redo the modelling in the now improved economic climate then there could be an increase in the current modelling of £40m aggregate increase over four years.

To put this £40m aggregate increase into perspective, the CITB in their 2012 accounts declared levy income of £144m, and non levy income of £99m. This non levy income comprises £47m of apprenticeship funding (SFA, Scottish Government, Welsh Government) £8.5m income from public bodies (non apprenticeship projects - Scottish Government, Welsh Government, UKCES), and £41m from sales of competence cards, health and safety tests, and the start-up of the Tunnelling and Underground Construction Academy. Small income levels were derived from investments and other categories. In short, public sources of funding and levy income form a significant majority of CITB revenue.

The CITB has highlighted a range of markets they could enter. This includes:

- Increasing work in markets they are already present in e.g. careers services, training to construction companies.
- Entering new markets such as tunnelling or low carbon.
- Working in overseas territories, e.g. training, testing and assessment services for companies and institutions overseas.
- Embark on Strategic Partnerships and Joint Ventures with entities such as Sector Skills Councils, training providers, employers, suppliers etc.

### **(iii) Issues to consider in generating additional commercial revenues from new markets**

To ensure EU state aid rules are not contravened, the CITB would need to seek legal advice before setting up any new commercial entities.

As state aid rules make it very difficult to use public funds (e.g. levy funds) to set up new commercial trading entities, the CITB may need to consider further how they could raise funds on the market to invest in setting up new ventures.

The Review Team recognises that there are potential competition issues about the CITB entering specific markets as a statutory organisation given that it might have an unfair advantage compared to other private sector firms.

Some stakeholders raised concerns about the CITB being able to increase commercial income. Views included concern over competition from the CITB in certain markets (e.g. training providers), and the CITB diluting its focus on

core functions. These stakeholders may include key delivery partners of the CITB.

Stakeholders also highlighted a lack of internal commercial management capability in the CITB.

Given the complexity of issues and wide range of strong stakeholder views concerning increased revenue, the Review team recommend that any revision of legislation focus in the short term on how to help the CITB realise operational efficiencies from existing charitable trading and training activities, rather than generate more commercial revenues from entering new commercial markets.

## Conclusions of CITB Stage One

Given the changes announced to the skills funding system in the July 2015 budget and the consultation that will take place on the interaction between the apprenticeship levy and the existing sector levies, the future form of the CITB should be decided addressed when the future levy arrangements for the construction sector are clearer.

Subject to this, the review also recommends that:

1. The CITB improve the way in which it delivers a number of its functions and in particular simplify levy and grant process, reduce bureaucracy and improve the level of support offered to SMEs.
2. The ITA should be reviewed to allow the CITB to operate as a modern organisation, and in particular enable it to realise efficiencies and operational improvements in certain mid-office and back-office functions.
3. The CITB should work more closely with the ECITB where there are common issues. In particular, Stage 2 of the Triennial Review will consider where there may be benefits from common leadership and closer governance arrangements.
4. Following and during the review of the ITA, the CITB should continue to focus on improving effectiveness and realising any efficiencies in existing CITB charitable trading and training activities, that allow further resources to be invested into additional training support for the sector. Following the review of the ITA, the BIS sponsor team may wish to consider whether the CITB should expand into new commercial markets. The Review Team notes that this will both be complex and subject to a range of stakeholder views and possible state aid challenge.

As noted in the Executive Summary, it is also generally acknowledged that skills shortages continue to characterise these sectors.

# ENGINEERING CONSTRUCTION INDUSTRY TRAINING BOARD

The Engineering Construction Industry Training Board (ECITB) operates the training levy and grant system for the engineering construction sector. It also delivers a series of other functions, such as setting and maintaining industry standards for health and safety, improving recruitment and retention in the sector, and identifying employers' skills needs both now and in the future.

Section 1 of the report looks at the functions of the ECITB, Section 2 considers current and potential structures for the ECITB by comparing the merits of alternative options and making a recommendation supported by the evidence received.

## Section 1: Functions of ECITB

### Background:

The ECITB is a statutory ITB created in 1991 by secondary legislation made under the ITA, as a successor to the Engineering Industry Training Board (EITB)<sup>18</sup> (which covered general manufacturing activities as well as engineering construction).

While consultations with most industries showed support for the creation of a voluntary employer-led body to take over the general role and responsibilities of the EITB, representatives of the engineering construction industry made strong arguments that statutory arrangements should continue to apply to their industry on the grounds of the special characteristics of their work where the labour force is highly mobile and work undertaken is predominately of a contractual nature. Hence fewer opportunities existed for individual employers to train and there was clear prevalence of market failure in the provision of training.

These arguments, taken with the recognition of the engineering construction industry's vital role in the UK economy, were explicitly accepted by the Government at that time and ECITB created as a statutory body as a result while the rest of the former EITB was replaced by a voluntary body that would eventually evolve into the Sector Skills Council for Science, Engineering and Manufacturing Technologies (SEMTA).

The activities covered by ECITB are more narrowly focussed than those of the CITB, in general, concentrating on higher level, high value activities but across a very wide range of industrial sectors from Oil & Gas Extraction,

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<sup>18</sup> The Industrial Training (Engineering Construction Board) Order 1991 (SI 1991/1305).

Power Generation, Offshore Construction, Pharmaceuticals and so on. It covers activities throughout the full lifecycle of almost any type of processing and manufacturing units, from initial design and planning, through assembly, construction and installation of “any chemical, electrical or mechanical apparatus, machinery or plant”, to ongoing maintenance and upkeep and eventual decommissioning. Examples of such units include (but are not limited to) power stations, oil refineries, nuclear reprocessing sites, steel mills, chemical works and pharmaceutical plants but the legislation also covers “any other installation involving processing of any product.”

These activities make a direct contribution to the UK economy of up to 2% of GDP per annum but they also crucially underpin the viability of the many individual production sectors referred to above, which between them account for up to 20% of UK GDP in their own right.

### **The Training Levy:**

Over 370 establishments are currently registered with the ECITB. Its core activity is to raise funds for engineering construction skills training through a statutory levy, and to assist the engineering construction industry firms in investing that money in skills training that grows the collective skills base of the sector through providing grants and other services.

The levy is currently applied at a rate of 1.5% of the total annual pay bill for employees and labour-only contractors operating “on-site” activities; unless the total pay bill so defined falls below the exclusion threshold of £275,000 - in which case no charge is liable. Similarly for classified “off-site” contractor activities a levy rate of 0.18% of total pay bill is applied in the same manner but with an exclusion threshold of £1,000,000 in operation.

As at 1 January 2014:-

- There were 372 “leviable establishments” (i.e.” in-scope” of the Statutory Levy) on the ECITB’s Register of Establishments.
- Levy was assessed for 243 of them in relation to the 2012/13 base period.
- The labour payment levels in the 129 remaining establishments were below the exclusion thresholds in the base period, and no levy has been assessed.
- The 372 establishments are operated by 342 employers.

### **Commercial Activity**

In addition to the levy income, ECITB receives income through commercial activities that generate profit that is then reinvested in additional training and to grow the business. The approach has developed into a successful business model that is based around licensing and accreditation of training providers, consultancy on establishing training systems, particularly with international customers, testing and assessment of competence and certification services. ECITB has recently engaged in international activities, having identified a commercial opportunity to export its Safety Passport programme to other countries, leveraging on its reputation as a quality standard. The short term goal is delivery of 13,000 ECITB International safety passports and Technical



Tests in 2014 in UAE, Qatar, Bahrain, KSA, Oman, Kuwait, Indonesia and Azerbaijan.

### Addressing a Market Failure ECITB

The ECITB currently has the status of an NDPB. This status is based on the fact that a compulsory levy must be backed by a form of public body, be that a central government department, an executive agency, local government or an NDPB. A private firm or voluntary organisation cannot operate a statutory levy as it does not have the legal status to enforce compulsory levy payment.

It is, therefore, imperative that the case for a statutory levy is made before considering the other functions of the ECITB and what form this body should take in the future. If the requirement for a levy is in doubt, then so would be the requirement that the ECITB be a public body.

Box 4 outlines the case for a market failure in the engineering construction industry which would justify a statutory levy.

#### **Box 3: Market Failure Analysis of Engineering Construction Industry Training**

To consider the market failure arguments for the engineering construction industry, it is important to first define the typical characteristics of activities:

- For design, planning and project management companies there are highly variable workloads over a number of years as individual projects start and finish;
- For ongoing repair and maintenance work on production facilities, there is a significant seasonal pattern of often intense site work, with temporary workers engaged (usually during the summer months) on repair, overhaul and refit work, sometimes requiring a few thousand people on a single site for six weeks or less. Around 80% of the current work profile in the industry is repair and maintenance work.

In addition to the seasonal pattern of work and project based nature, the construction industry is by and large a highly cyclical sector, with peaks and troughs in line with the country's economic output. These swings in employment and use of temporary labour to cover major works contribute to the same market failure arguments as discussed in Box 2 "Market Failure Analysis of Construction Industry Training"; the suboptimal investment in training as firms often rely on poaching already skilled staff and short-term contracting rather than invest directly in a highly mobile workforce.

To illustrate the use of temporary labour in the engineering construction sector in particular, information provided in confidence by one large employer covering a ten year period showed it was not uncommon for them to recruit contract labour up to 3 times the number of their core workforce over the

course of a year. This is to cover the seasonal flows of the work. Additionally, ECITB survey data taken from 2013 suggested a 47% annual churn rate in people moving jobs which again disincentivises training in long term human capital.

The skills demand varies during a project lifecycle and therefore requires a pool of ad hoc, flexible workers. Whilst these skills may be critical to a project, employers are often deterred from training new entrants from scratch and may look instead to source a readily skilled person. The churn levels cited above are further evidence of people moving between employers.

Despite the high number of multinational firms in the sector, the high proportion of short term employment points still to the conclusion that the market failure argument is prevalent in the sector and would reduce training levels in the absence of a levy. This view is supported by the Gibson Review which says that this fact, accompanied by the high costs of training, e.g., Level 3 apprentices cost an average of £12,600 (differing amounts in Scotland compared to England and Wales) versus £9,820 in general construction, reduces the incentive for firms to invest in a highly mobile labour force.

## **Conclusion of Market Failure Analysis**

The market failure analysis above shows that there are market failures in training provision within the engineering construction industry and that in the current sector based system the functions of the ECITB are appropriate interventions to help address these market failures. This view was endorsed by a majority of engineering construction industry stakeholders to the Review Team and is replicated throughout the independent surveys that the ECITB commission in order to demonstrate to Parliament that the majority of firms still support the levy.

Going forward, the case for a specific levy in the engineering construction sector will be reassessed in the light of the government's decision to introduce a broader levy to support apprenticeships.

## **Functions of the ECITB**

The ECITB's core function is to operate and distribute the training levy. The levy is designed to support the following additional functions, with the overall objective to improve the quality and quantity of training in the sector:

- Delivering and assuring the quality and suitability of the industry's training programmes;
- Setting and maintaining industry standards for competence, health & safety etc.;
- Providing advice, information and support to the industry in developing its workforce;

- Supporting and maintaining apprenticeship programmes and schemes to upskill other new entrants and existing members of the workforce;
- Supporting the industry to attract, develop and qualify its workforce through brokering relationships across the skills supply chain;
- Identifying employers' skills needs both now and in the future;
- Leading and managing the training provider network;
- Representing the views of the industry to other stakeholders such as the Government, academic organisations etc.

Evidence was gathered by the Review Team on the level of support for the levy collection and distribution, and on these eight functions via the online survey, stakeholder workshops and bilateral conversations.

## Analysis of ECITB Functions

Stakeholders were invited to submit comments to the ITB Review Team via a questionnaire hosted on the SurveyMonkey website. There were 47 substantive responses from engineering firms, the large majority of whom were either medium (50+) or large (250+) employers.

Certain employers chose to provide detailed text responses rather than send a survey return. The Review Team also obtained direct views through workshops held across the country at which a range of employers were invited to attend. One-to-one meetings were also held with major stakeholders such as Employer Federations. A list of these bilateral conversations can be found in Annex D.

In general, survey respondents were very positive on whether the function currently performed were still necessary, and also, highly positive on the performance of the ECITB in delivering these. There was one notable difference in this opinion; whilst stakeholders from the sectors with more established relationships were highly positive, the representation from large employers recently brought into scope in the nuclear sector as well as those from the Offshore Wind sector were much more negative in their viewpoint.

### **Core Function: Levy collection and grant distribution**

Background:

Funds collected through the Levy are invested back towards development of relevant skills in the engineering construction industry via grants to support a wide range of training and qualifications, from apprenticeship support to management and supervisory qualifications, as well as developing the whole sector. All employers on ECITB's register can theoretically claim some level of grant irrespective of whether they pay the levy or not.

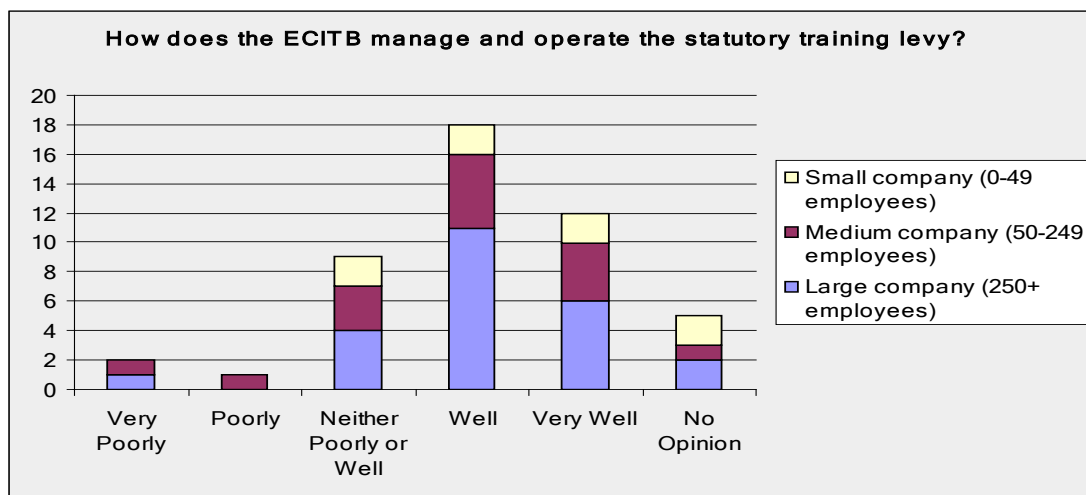
Evidence:

ECITB demonstrates on a regular basis (every 1 to 3 years) that it still retains support for the levy both from a majority of employers in scope and from those that pay a majority of the levy collected.

The latest consensus return for ECITB was completed in late 2013. This showed support from 68% of liable employers who are likely to pay 76% of the total levy. The remaining 32% either did not support the levy or did not express a view (a nil return counts as a no vote for consensus purposes). For employers who are members of Federations it is often the Federation that does the consultation. For ECITB the dominant Federation is ECIA, whom 84% indicated support for the levy due in January 2015.

64% of firms who responded to the ECITB Review Team online survey answered “Well” or “Very Well” to the question “How does the ECITB manage and operate the statutory training levy?”

Figure 1: Stakeholder views on how the ECITB manage and operate the statutory training levy



Source: ECITB Review Team Survey

Stakeholder feedback, and market failure evidence suggests that without the levy it is likely that the level of skills in the industry would decline as firms would not train to currently levels. Government is committed to ensuring adequate skills provision in the sector.

If the ECITB and levy were to be abolished, it would take firms time to adapt to the new landscape. Firms would need to procure their own training and pay up front costs rather than via a levy. The market failure analysis suggests that some firms would not carry out training to the same levels as currently, as they would be investing in mobile human capital that could leave and join a rival firm. Therefore, training levels in the sector may be permanently reduced. Anecdotal evidence provided by stakeholders at one of the workshops suggests that when the mechanical and electrical sector was taken out of scope of the levy there was a devastating and long lasting impact on skills within the sector, with only basic levels of training taking place.

In one of the workshops, there was a view from one industry leader that if the levy was discontinued, then companies would move the money freed up to the “bottom line”. Clients would see this as a chance to cut margins when negotiating new contracts and would ultimately lead to long-term training cuts. This was supported by others within the same workshop.

Those providing separate text responses tended to be much more negative towards ECITB and challenged the rationale for being levied at all as they felt their businesses did not properly fall within the defined scope of engineering construction. Whilst these comments came from a variety of sectors, they were more predominantly heard in the nuclear and offshore wind sector, i.e. in sectors where the ECITB had only started to raise levies in the past few years. They also asserted that the level and range of training that ECITB gave them access to in return did not match their business needs. While these views do not outweigh those of the majority of survey respondents they do raise questions regarding how such disputes over coverage are resolved in practice. Some stakeholders raised concerns over the lack of clarity and certainty in the system in relation to changes to the scope of ITBs.

### **Delivering and assuring the quality and suitability of the industry’s training programmes**

Background:

ECITB is the approved Awarding Organisation for Vocational Qualifications in engineering construction and is responsible for maintaining the vigour and robustness of assessment processes. It designs and develops training programmes to industry standards, and accredits training providers to deliver them.

Levy income, combined with other sources of revenue, is used to deliver training on behalf of the engineering construction industry.

Evidence:

96% of ECITB Review survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 79% of respondents felt ECITB carried out this function either fairly or very effectively.
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Whilst there was general strong support for the ECITB in this function, there were occasional concerns put forward to the Review Team that ECITB were not offering training courses at the appropriate level and/or in the right subject areas, for instance, “Many of the courses that are eligible for funding are at the lowest skill levels and make little difference to the overall development of the industry or newcomers into it... Higher level courses should be better supported and funded preferably at Level 4 and 5”.

### **Setting and maintaining industry standards for competence, health & safety etc.**

## Background:

ECITB develops training products and services, including National Occupational Standards, which contribute to the competence of individuals. As of 2012 there were a total of 41 qualifications for the Qualifications and Credit Framework and 22 for the Scottish Credit and Qualifications Framework. A further 3 qualifications were developed and introduced in 2013 in Welding and Moving Loads, driven by the demand from the nuclear sector which was placed in scope in 2012.

A principal activity of ECITB is the Client Contractor National Safety Group (CCNSG) Safety Passport Scheme. Around 42,000 employees go through the above training each year, and it's a necessary minimum safety requirement in allowing a party to operate on an engineering construction site.

## Evidence:

96% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 77% of respondents felt ECITB carried out this function either fairly or very effectively.

The introduction of the Safety Passport (or card scheme) was regarded as a key success for ECITB, both in giving employers assurance that the workforce had the necessary competence to do their jobs and by setting a common industry-wide safety standard - the latter was described as “vital” by one workshop participant.

The only criticism of this scheme was that it was not compatible with the similar card issued by CITB. So for instance specialist riggers or scaffolders would need to hold multiple cards from both Boards (which each have to be paid for) in order to continue working on the same site once it moved from a construction phase to engineering construction phase. One participant contrasted this with the situation in Ireland where only one card is issued. There was a clear desire from the workshops for the ITBs to work together to rationalise their safety standards where such overlaps existed to remove this unnecessary bureaucracy. ECITB have responded by launching a joint project with CITB to address precisely these issues with the aim of implementing a comprehensive safety card that applies across both industries as soon as practical.

Representatives from the Nuclear Sector were strongly of the opinion that ECITB did not provide added value to their sector as they were already highly regulated and operated under strict licensing conditions overseen by the Office for Nuclear Regulation (ONR) to ensure compliance with Health and Safety requirements and so on. There is already a voluntary body with over 100 members – the National Skills Academy for Nuclear - that existed to set standards and co-ordinate training needs across the sector in response to

industry needs. ECITB was seen by these companies as providing an unnecessary, indeed counter-productive duplication of activity – although it was accepted that some recent initiatives by ECITB in areas such as high-quality welding had been positive developments.

### **Providing advice, information and support to the industry in developing its workforce**

Background:

ECITB provides the bridge between occupational standards, design of suitable training programmes and establishing qualifications that together map to employer needs. Individual employer engagement through the assignment of Account Managers to be responsible for specific employers lies at the core of effective service delivery by ECITB.

Account Managers at the 9 regional offices provide the individual attention and support required by employers to meet their specific workforce needs.

Figure 2: ECITB Engagement – Individual Employer



Evidence:

92% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 83% of respondents felt ECITB carried out this function either fairly or very effectively.

Although the ECITB Review Team survey reported positively, general feedback suggested that the bigger the company the easier it was to obtain advice and support from ECITB. Large companies had well-developed mechanisms to interact either directly or through the main employers organisations.

SMEs were in general much more dependent on the relationship with their assigned regional account manager who acted as the main point of contact with ECITB. Anecdotal evidence suggested there was a wide variation in the quality of this interface which directly affected the extent to which companies

felt they had received a quality service. The ECITB reference booklet on training courses was not felt to be sufficient in itself.

### **Supporting and maintaining apprenticeship programmes and schemes to up-skill other new entrants and existing members of the workforce**

Background:

ECITB grants are used to support a range of training activities including:

- Apprenticeships and careers
- Skills and technical programmes
- Management and Professional Programmes
- Awards and Qualifications (including Safety Passports)

Evidence:

96% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 89% of respondents felt ECITB carried out this function either fairly or very effectively
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The main activity in attracting young and new people revolves around the ECITB's apprenticeship programme that recruits individuals to apprenticeship programmes with industry employers and accredited training providers. Almost half of the training grants (c. £10m each year) are in relation to apprentices, with over 800 apprentices supported by ECITB in 2012. The ECITB also supports an annual programme of careers events and marketing to schools and colleges to attract young people to the sector and increase awareness of opportunities.



## **Supporting the industry to attract, develop and qualify its workforce through brokering relationships across the skills supply chain**

Background:

The ECITB provides a range of flexible training programmes, designed to develop or “up-skill” existing workers from a wide spectrum, but normally with some existing technical competence. It continues to work closely with employers and providers to ensure the quality of programmes are available, recruitment of apprentices is managed and the provision of services is quality assured to secure the supply of the skilled personnel of the future.

Evidence:

87% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 70% of respondents felt ECITB carried out this function either fairly or very effectively.

Workshop attendees in general expressed a need for more long-term planning for the industry to create more investment and raise skills through strategic investments. There needed to be greater interaction across initiatives and much greater spirit of co-operation between training providers and organisations.

## **Identifying employers’ skills needs both now and in the future**

Background:

The ECITB follows an employer led regional model, through which policies and allocation of resources are led by employers at national (through the ECITB Board) and regional (through the ECITB regional forums and national forums) levels, to support the development of standards and programmes that are fit for purpose for the industry and ensure consistency and quality of delivery. The regions either represent geographical areas or specific and significant industry sectors which have particular requirements.

Evidence:

89% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 68% of respondents felt ECITB carried out this function either fairly or very effectively.

Since the last Quinquennial Review in 2003, ECITB has moved to a system of managing their customers via geographic regions with head office location, as a general rule, defining which region a company fell into. The table below shows the distribution of grants by ECITB for the most recent full year available.

**Table 2: Grant analysis by levy and non levy payers (2012)**

	Total Grants Distributed		
	Levy Payer	Non Levy Payer	Total
Apprenticeship Grants	£5,361,603	£409,315	£5,770,918
Management & Professional Grants	£4,820,049	£27,865	£4,847,914
Qualification Grants	£1,083,200	£15,720	£1,098,920
Regional Discretionary Grants	£1,573,921	£187,883	£1,761,804
Skills & Technical Grants	£5,970,432	£13,184	£5,983,616
VQ Registration Grants	£171,425	£2,400	£173,825
<b>TOTAL</b>	<b>£18,980,630</b>	<b>£656,367</b>	<b>£19,636,997</b>

Table 2 above shows the distribution of grants to firms by ECITB for 2012, the most recent full year available. Almost all grants (97%) are distributed to levy payers although breakdowns by region show a significant cluster of non-levy paying engineering construction industry firms that fall below the payment threshold in the South East & East Region.

Feedback was generally favourable on the organisational change to managing customers via geographic regions, which arose as a result of the previous Quinquennial Review in 2003 acknowledging the need for greater “localism” and autonomy to allow rules to be tailored to fit regional industry demands. However, based on survey responses and feedback at stakeholder meetings much did depend on the relationship between the members and the regional chairs, and the interaction with regional forums (which are designed to give opportunities to business to provide feedback on their needs). This may potentially bias against smaller firms less able to devote staff resources to attendance.

It was claimed by some workshop attendees that the distribution of funds on a regional basis led to unfairness with annual pots of grant money being fully allocated right at the start of the year to those who are quickest or cleverest at working the system. A representative of an Engineering Design and Procurement firm (which sector has its own non-geographic region) stated that they were no longer allowed to claim for a training course more than one month in advance of it taking place and this helped to ensure a fairer distribution to all. The Review Team considered that sharing best practice examples such as this across all regions may help improve the perceived equity of grant allocation.

Parties acknowledged that improvements have been made over the last few years over the manner that grants are applied for and allocated, with some automation in the process. However, stakeholders on a number of occasions noted that the process of applying for grants still felt “confusing and difficult”, leaving the impression that successful allocation could be a haphazard process which sometimes took several months. It was suggested on multiple occasions that potentially greater consistency of approach in this area could be beneficial, along with better online facilities for applications.

## **Leading and managing the training provider network**

Background:

ECITB provides an assurance of training quality and competence, through their accreditation process for the various training providers.

Evidence:

72% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 70% of respondents felt ECITB carried out this function either fairly or very effectively.

In addition to survey responses from companies, the Review Team received twenty-three substantive returns from training providers such as universities, colleges and private sector suppliers. Although many of the survey questions were not directly relevant to this group, as legitimate stakeholders in ECITB their views were clearly of interest, particularly as 61% of them answered “Yes” to the question on whether changes needed to be made to improve ECITB’s efficiency and effectiveness (although a clear majority also felt ECITB was fairly or very effective at carrying out their functions).

Several criticised the lack of an on-line system for registration and certification and the time taken to deliver accreditation due to the bureaucracy involved. Others felt ECITB did not provide sufficient flexibility to amendment or changes. However despite these clear criticisms from training providers there were virtually no suggestions of alternative bodies that could perform these functions better.

## **Representing the views of the industry to other stakeholders such as the Government, academic organisations etc.**

Background

The ECITB Board engages nationally with government politicians, funding agencies, departments and other national stakeholders such as Sector Skills Councils and academies, representing the views of the industry through the feedback received both as part of individual employer engagement as well as through the Regional and National Forums as outlined above.

Evidence:

87% of survey respondents either agreed or strongly agreed that there was a continuing need for this function to be carried out within the industry. 66% of respondents felt ECITB carried out this function either fairly or very effectively.

The majority of respondents agreed that this was an important function and there was some strong support for how the ECITB carried this out. However,

the Review Team heard the views of several stakeholders and government officials suggesting that this is an area where the ECITB can improve their service to their sector. There is also some evidence that ECITB’s approach to defining whether new or emerging industries are covered by the levy scope order is interfering with effective co-operation across sectors on developing appropriate standards and qualifications.

## Conclusion of Section 1: Functions of ECITB

In conclusion, the evidence received by stakeholders via the open online survey (summarised below), workshops and bilateral conversations found that in principle the functions of the ECITB were still a necessary and valid means of addressing the market failure within the sector, but that there are many specific areas where the ECITB could perform better.

<b>Function</b>	<b>% of survey respondents that agreed or strongly agreed that there is a continuing need for this function</b>	<b>% of survey respondents that thought that the ECITB carried out this function fairly effectively or very effectively</b>
Levy Collection and grant distribution	-	64%
Delivering and assuring the quality and suitability of the industry’s training programmes	96%	79%
Setting and maintaining industry standards for competence, health and safety etc.	96%	77%
Providing advice, information and support to the industry in developing its workforce	92%	83%
Supporting and maintaining Apprenticeship schemes	96%	89%

Supporting the industry to attract, develop and qualify its workforce through brokering relationships across the skills supply chain	87%	70%
Identifying employers' skills needs both now and in the future	89%	68%
Leading and maintaining the training provider network	72%	70%
Representing the views of industry to other stakeholders	87%	66%

All of the functions described in this Review provide training support to the engineering construction sector. They are underpinned by levy income; the functions could not provide the level of support they currently do without a compulsory levy being in place without alternative sources of funding being identified.

There are a number of specific areas where the ECITB could improve its performance; in particular, the Review Team heard strong petitions from firms within the Offshore Wind sector as to the applicability and value added of the ECITB to their industry.

The Review Team recommends that the ECITB should:

1. Simplify the process for firms submitting an application for training grants - with online provision made available if practical;
2. Monitor the distribution of funds by region to ensure a fair allocation is maintained across all eligible companies, not just those quickest to lodge applications;
3. Improve the consistency of the performance of regional account managers;
4. Prioritise support for SMEs to ensure their needs are not neglected in comparison to those of large companies;
5. Better tailor training courses to customer needs to ensure qualifications are available to firms at the right level to meet demand;
6. Strengthen links with the training provider network to improve the system for registration and certification of trainees - with online provision of these services made a priority;
7. Be more proactive in liaising with CITB and other relevant skills organisations in areas of common interest and concern - both to minimise unnecessary bureaucracy for the workforce (e.g. in safety certification) and to play a fuller role in contributing to wider skills policy for the UK economy.

The Review Team also considers that the ECITB may not have an appropriate and effective Board structure. This will be explored in more detail in Stage 2 of

the Triennial Review.

## Section 2: Form of ECITB

### Current governance and structure

ECITB is an NDPB. It is independent of government with its employer-led Board directing its policies. It is a registered charity in England and Wales and members of the Board are charitable trustees and must therefore put the interests of beneficiaries before others. The ECITB undertakes activities for the engineering construction industry that are agreed by the industry and funded by the levy in order to support skills development in the sector. It carries out some commercial activities which generate an additional source of revenue that is deployed in additional grants.

The ITA sets certain parameters as to the Board structure of an ITB<sup>19</sup>. The Board must have a majority of members who are concerned in the management of any of the activities of an employer engaging in the construction industry, and only these members are permitted to vote on matters relating to the imposition of the levy.

Appointments are made by the Secretary of State after a public appointments process overseen by the Office of the Commissioner for Public Appointments.

**Figure 2: ECITB Board and Committees**



The ECITB Main Board has 28 members including the Chairman. 9 regional chairs, 7 employer representatives, 4 employer association representatives (OCA, ECIA and BCECA), a nuclear industry representative, 2 client representatives, 2 trade union representatives and 2 non-executive directors. The Board is wholly non-executive; no member of staff is a member of the Board, though a number of senior staff members attend Board meetings.

<sup>19</sup> See section 1(3) and Schedule 1 to the ITA.

Decisions about the deployment of funds through the Grants Scheme are made by the Board and its employer-led sub committees.

The Board is supported by approximately 83 staff delivering (i) Apprenticeships & Careers, Skills & Technical Programmes, Managements & Professional Programmes (ii) Awards & Qualifications (iii) Levy Collections and (iv) Senior Management and Corporate Services.

Table 3: ECITB Full Time Employees

Function	Number of Employees <sup>20</sup>	Salary & NI costs (£'000)
Apprenticeships & Careers, Skills & Technical Programmes, Management & Professional Programmes	44	2,190
Awards & Qualifications	13	443
Levy Collection	2	81
Senior Management and Corporate Support Services	24	1,066
<b>Total</b>	<b>83</b>	<b>£3,780</b>
Trustees	22 <sup>21</sup>	£40

Approximately half of ECITB's employees are involved in the delivery of the core ECITB programmes (apprenticeships, skills and technical, management and professional programmes) through the regional offices.

## Financial performance

The ECITB in their 2012 accounts declared levy income of £24.9m, and non levy income of £2.6m. This non levy income comprised:

- £28K of income from the UK Commission for Employment & Skills in relation to contracted work undertaken in connection with the National Occupational Standards Qualifications project
- £1.9m received from sales (primarily training providers), of which c.£385K received from overseas training providers (a 5 fold increase from the year before reflecting the increased focus on international commercial activities)
- £650K of investment income from c. £20m of quoted investments and cash deposits (investment portfolio managed by Schroder & Company; primarily comprising of liquid fixed income investments that can be converted in cash within a short period, typically 2 weeks).

In short, levy income forms the significant majority of ECITB revenue, with only modest sources of public income. It should be noted that the ECITB receives no grant-in-aid funding.

Of the above income, £19.6m was granted to employers as follows:

<sup>20</sup> Figures as per 31 December 2012, ECITB Annual Report

<sup>21</sup> Includes Chairman and two independent trustee non-executive directors and 19 industry representatives. Industry representatives do not receive remuneration, but can claim expenses.

- Apprenticeships and Careers: £5.8m
- Skills & Technical programmes: £7.3m
- Management & Professional programmes: £5.2m
- Awards & Qualifications: £1.3m

Operating costs amounted to £9.5m of which £7.0m were direct costs across the four charitable activities as outlined above and £2.4m were support costs, in relation to central executive team, finance and legal, HR, IT, research & marketing, head office premises and other support activities.

The ECITB balance sheet showed net assets of £17.5m as at 31 December 2012.

As ECITB is a registered charity, they have to report information under each of the charitable activities; this information does not reflect the actual operating model fully and what you would normally see under their management accounts.

The ECITB's accounts only provide details on the grant amounts attributable to the 50 largest employers. There is therefore room for increased transparency in terms of the levy received and grants allocated across each of the classes of levy and non-levy payers and the various sectors represented.

### **Issues to consider regarding the form of the ECITB**

Representatives of those industries which had a long-standing relationship with ECITB such as the Engineering Construction Industry Association, Offshore Constructors Association, and British Chemical Engineering Contractors Association, all saw the value in ECITB continuing to function in their sectors in order to maintain the skills base and protect training budgets from cost-cutting pressures.

In contrast, representatives of employers recently brought into scope in the nuclear sector held a much more negative view of ECITB and did not believe it added real value to their activities. They explained this was because their industry was already highly regulated under strict licensing conditions enforced by the Office for Nuclear Regulation which requires very specific industry training with frequent audits to ensure compliance. One of these stakeholders commented it was “part and parcel of what we do” to both train and maintain a highly skilled workforce anyway. While these views cannot be said to represent the entire nuclear sector, they do represent the opinion of ECITB's biggest individual levy payers who between them pay millions of pounds per year into the organisation.

A further factor is the number of overlapping bodies now concerned with the issue in this industry such as the Office for Nuclear Development, the Nuclear Energy Skills Alliance (or NESAs, of which ECITB is a member), the National Skills Academy for Nuclear, COGENT and others including CITB as well as ECITB.



Although it is outside the scope of this exercise, it seems from the evidence submitted to the Review that there is a clear need to review and simplify the various roles and responsibilities assigned to these groups to provide a much more coherent approach to skills development across the entire sector.

The Review Team acknowledges that there are currently discussions ongoing regarding the applicability of the scope of the ECITB to the Offshore Wind Sector.

The Review considers these issues within the option analysis below.

## Options for the Form of the ECITB

The Review Team considered the following range of options for delivering the functions of the ECITB:

- Abolish
- Move out of central government
- Bring in-house
- Merge with another body
- Delivery by a new executive agency
- Continued delivery by an NDPB

It concluded that all of these were, to varying degrees, feasible approaches with the main consideration being whether a statutory sector-based levy exists.

In particular, when assessed against the Cabinet Office's three tests, of which at least one is a necessary condition to be an NDPB, it is only the need for the administration of the levy to be carried out with absolute political impartiality that would justify the ECITB potentially continuing as an NDPB.

The Three Tests:

1. Is this a technical function (which needs external expertise to deliver)?

No. It may be argued that to deliver and administer the training that is required by industry necessitates having a deep knowledge of the sector that can only be formed with strong relationships. However, it may be technically feasible. The collection of levy from approximately 370 firms requires a level of technical excellence but again, could be matched by an Executive Agency.

2. Is this a function which needs to be, and be seen to be, delivered with absolute political impartiality?

Yes. It has been established that to operate a statutory training levy requires a form of public body. According to Cabinet Office guidance<sup>22</sup> on the types of public bodies, it may be possible for this function to be carried out by an

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<sup>22</sup>[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/80075/Categories\\_of\\_public\\_bodies\\_Dec12.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf)

Executive Agency or similar. However, the essential requirement by industry that this is run at arm's length from government, coupled with the fact that the ECITB must demonstrate continued industry support (which it may be less likely to retain if it were closer to Government), mean that an alternative option, such as an Executive Agency, is not feasible in the current sector based levy system.

3. Is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?

No. Even though the ECITB provides job forecasts and modelling, it is not necessary that these are independent of government in order to establish credibility.

Given the changes announced to the skills funding system in the July 2015 budget and the consultation that will take place on the interaction between the apprenticeship levy and the existing sector levies, it would be premature for the Triennial Review to make recommendations on the future of the ITBs. The right time for the government to address this will be when the future levy arrangements for the sectors are clearer.

### **Scope for reforms**

There are a number of reforms that could be made to improve the service delivered by the ECITB, as an NDPB. Some of these changes will require legislative change.

### **Review the Scope of the 1991 Board Order**

The scope of the ECITB<sup>23</sup> has come under recent scrutiny regarding whether certain firms / sectors are or should be included within scope and therefore be liable to pay the levy. While the scope of ECITB (and its levy) does not fall amongst the terms of reference for the Triennial Review, how the ECITB manages and operates the Statutory Levy does. The Review Team has heard strong evidence from stakeholders regarding the approach ECITB has adopted in recent years to firms it deems should be in scope to pay the Levy.

Consultation with stakeholders by the Review Team highlighted two distinct "camps" with regards to the ECITB. In the majority were those firms that had been within the scope of ECITB since its inception in the early Nineties. This group was generally very supportive of the levy and the that the operations of the ECITB should continue in sectors relevant to them, due in no small measure to the long track record of consensus and co-operation they had enjoyed.

In contrast, those firms that were either recently brought into scope (such as Sellafield and Magnox) or which are currently in dispute with ECITB about whether they fall within scope (such as certain employers within the offshore

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<sup>23</sup> As set out at Schedule 1 to the Industrial Training (Engineering Construction Board) Order 1991 (SI 1991/1305).

wind sector) were strongly against the rationale of a training levy being imposed on them by ECITB.

In the case of the stakeholders from the nuclear sector there was an acknowledgement that “the clock can’t be turned back now” and a constructive way forward must now be found for them to work together with ECITB.

When taken together with the number of overlapping bodies already involved with skills issues in the Nuclear industry, the Review Team strongly suggests that the opportunity be taken by BIS to coordinate stakeholders to clarify the various roles and responsibilities assigned to each of these entities to provide a much more coherent approach to skills development across the entire nuclear sector and maximise the benefits that can be achieved both for it and the wider engineering construction industry.

The Review Team also acknowledges that representatives of the Offshore Wind and Renewables sector are currently involved in a process to resolve their dispute with ECITB via deliberations with BIS and the Employment Tribunal and the outcome is not a matter for the Review to comment on.

However these concerns, raised by members of strategically important sectors to the UK economy, highlight the necessity for certainty around the scope of the ECITB levy. The levy is operated with the majority of support from firms within an industry and that they address specific market failures in skills training within those industries caused by structural issues as previously discussed. Whilst ECITB maintain this level of support for the engineering construction industry as a whole, this cannot always be claimed for these specific sectors of the industry where any market failures are less immediately obvious and the need for a statutory levy less clear.

The current approach of ECITB in enforcing the levy through a strict legal interpretation of the existing scope order may be one it feels duty-bound to carry out in terms of its existing responsibilities. However because the scope order is laid out entirely in terms of identifying industries that carry out specified activities rather than in terms of identifying industries that have specific market failures in training, this strategy can lead to outcomes that are counter-productive for all parties in the long run. Firms have to pay levies when they already carry out training while ECITB has to devote resources to developing new products and services to justify the relationship. All the while, the next scheduled consensus exercise looms large – and eventually ECITB may find that sufficient reluctant members have been drawn in that it no longer has majority support. For the reasons already outlined, this outcome would be particularly damaging for the majority of the engineering construction industry where market failures clearly exist.

Hence the Review Team recommend that BIS undertakes a review of the Industrial Training (Engineering Construction Board) Order 1991 to ensure its continued appropriateness for the industry and that it does address a genuine market failure across all its members. This review would take account of all stakeholders and consider the impact of any changes on the industry as a

whole as well as on individual sectors. It should issue any conclusions in time for implementation well ahead of the next Triennial Review to minimise uncertainty for industry and ECITB.

### **Revision of Legal Powers**

In a similar way to the CITB, there may be benefits from a revision of legal powers that would enable the ECITB to use modern trading structures and operate more efficiently and effectively, including by outsourcing a number of back-office and mid-office functions. Whilst the scope for efficiency gains is much smaller than for the CITB due to the size of the organisation, this potential should be explored. This could include: customer contact; processing; HR services; financial services; ICT and data services; marketing capability; technology; and, part of the process of the levy collection and grant distribution functions.

If it is determined that in the case of levy collection that much of the process could be outsourced, it would be necessary to maintain the framework, contract management and terms of reference within the ECITB. This would be vital to maintain the support of the industry. Existing policy states that new NDPBs should not be unnecessarily created.

It would not be possible to outsource the whole levy collection function and also reduce the number of NDPBs. Any private sector or voluntary organisation that held sole responsibility for levy collection would be required to become a public body, most likely an NDPB due to the requirement to be at length from central government.

The ECITB have indicated to the Review Team that they would welcome a revision of the current legal powers to allow similar gains to that explored under the CITB section. For instance, to work more efficiently with partners from the private, public and third sectors through entering into Joint Ventures. The Review recognises that there are not the same scale of efficiency gains to be made, due to the relative size compared to the CITB, but a revision of the ITA would allow certain functions to be outsourced if economically viable to do so.

### **Governance**

A common criticism in feedback to the Review Team was that ECITB often appeared reactive rather than proactive with an unwieldy main board. When comparing ECITB to similar (albeit voluntary) industry bodies such as SEMTA it seems the size of the Main Board at 28 is about twice the number one would expect. This is an issue that will be revisited in Stage 2 of the Triennial Review.

## Conclusions of ECITB Stage One

Given the changes announced to the skills funding system in the July 2015 budget and the consultation that will take place on the interaction between the apprenticeship levy and the existing sector levies, the future form of the CITB should be decided addressed when the future levy arrangements for the engineering construction sector are clearer.

Subject to this, the review also recommends that:

1. Despite the general level of support for the continuation of the ECITB, employers from certain sectors raised questions about the wording of Schedule 1 to the 1991 Board Order (which sets out which 'activities' fall within scope of the engineering construction industry) and its current relevance. To prevent ad-hoc challenges about the scope in the future, it is recommended that BIS review the ECITB Scope provided for by the 1991 Board Order.
2. This Review of Scope would ensure that the ECITB is addressing a specific market failure in each sector. The Review of Scope should take account of the views of all stakeholders and consider the impact of any changes on the industry as a whole as well as on individual sectors.
3. The Review of Scope should also clarify the process by which ECITB engages with new or emerging industries which may fall within scope.
4. BIS should assess the evidence base to determine whether a separate NDPB is still the appropriate model to carry out the functions necessary.
5. BIS should also consider amending the ITA to allow the ECITB to establish and operate subsidiaries and take advantage of modern trading and commercial practice. This would allow greater flexibility and improve efficiencies so that more funds are available to invest in training.
6. Although this is not directly part of the terms of reference of the Review, stakeholder feedback suggests that the UK Nuclear Sector now has a number of overlapping bodies all concerned with skills issues in various ways. Therefore BIS should review the roles and responsibilities assigned to these bodies in order to ensure a coherent approach to skills development is maintained across the entire sector.
7. There is a continued need for effort by the ECITB to further improve the way in which it delivers a number of its functions and in particular it should simplify the grant process, improve the consistency of the performance of regional account managers, increase its support for SMEs and better tailor training courses to ensure customer needs continue to be met.
8. The ECITB and CITB should work more closely together to identify common issues. In particular, Stage 2 of the Triennial Review will consider where there may be benefits from alignment of approach, sharing of

services and improved governance arrangements to avoid duplication of effort.

As noted in the Executive Summary, it is also generally acknowledged that skills shortages continue to characterise these sectors.

# FILM INDUSTRY TRAINING BOARD

## Section One: Functions of FITB

### Background

The FITB is composed of leading film producers and representative organisations, the Producers Alliance for Cinema and Television (PACT) and the Motion Picture Association (MPA) and was established in 2007 in anticipation of a change to the ITA to permit the collection of a statutory levy on film production budgets.

There was a long-standing understanding with the film production industry that government would introduce a statutory levy. This has not occurred to date, which we understand is due to continuing difficulties identifying a suitable legislative vehicle to make the necessary changes to the ITA. An effective voluntary levy (the Skills Investment Fund) has been operated by FITB, hosted by Creative Skillset the sector skills council (SSC), which raised £700k in 2012.

According to the Creative Media Workforce Survey 2010, over a third (37%) of film employers reported a skills gap within their current workforce. This compared to an average for the creative industries of 27%. The film production sector is characterised by very high levels of freelance working (89%) suggesting a highly mobile workforce. This characteristic is similar to the other ITB sectors which also have mobile and short term working, with low numbers of directly employed staff in the workforce.

### The Skills Investment Fund (SIF) – A Voluntary Levy

The Skills Investment Fund (SIF) is a training levy on film production in the UK which was established in 1999 and is being operated by the Sector Skills Council in anticipation of a statutory levy. The voluntary levy has a compliance rate of 70% for productions within scope to contribute. The levy is overseen by the FITB that meets quarterly to oversee the voluntary levy and to shape investment strategies.

Since 2004 levy contributions have been matched with Lottery funds to create an industry wide skills strategy supporting new entrants and developing professionals. The levy is based on contributions of 0.5% of production costs with a maximum contribution of £39,500 per film.

In April 2013 a report by Creative Skillset to the FITB showed that in 2012/13 45 out of 60 productions paid the voluntary levy. Of the other 15 there were 6

who refused to pay the levy, 6 who had been invoiced but not responded, and 3 productions facing financial issues.

## **Analysis of FITB functions**

In the absence of legislation the FITB has no substantive role as an NDPB and it is in effect a dormant NDPB in relation to the levy powers and functions detailed in the ITA as it operates a voluntary levy at present.

The FITB currently oversees a voluntary levy run by Creative Skillset, and provides an advisory function on its use. Neither of these functions require NDPB status.

## **Analysis of FITB forms**

Because the FITB has no substantive role as an NDPB the Review Team did not consider it relevant to consider alternative forms in any detail. It currently incurs no expense either to the public purse or the industry it represents.

However, without a clear policy commitment from Government to introduce a statutory levy, we can see no ongoing need for FITB to have NDPB status in order for it to continue with its current functions. It is outside of the scope of this Review to form a recommendation on whether a statutory levy is necessary for this industry.

Conclusion – In the absence of a clear policy commitment from Government to introduce a statutory levy, FITB should no longer have NDPB status.

## **Summary and Recommendations of FITB**

The FITB currently oversees a voluntary levy run by Creative Skillset, and provides an advisory function on its use. In order to carry out these tasks, it is not necessary to be an NDPB. If the levy were to become statutory, as is the wish of the FITB, then the body would need to have NDPB status as it delivers a statutory function and would need legal powers to ensure compliance.

The Review Team's recommendations are therefore that:

1. Unless there is a clear policy commitment and timetable from government to implement a statutory levy by the time of the next Triennial Review, the FITB should not remain as a NDPB.
2. The BIS sponsor team should work with colleagues in the Cabinet Office and the Department for Culture, Media and Sport to examine the case for a statutory levy. They should also work with the FITB to support the continued success of FITB's contribution to the sector if the NDPB status cannot be justified. The valuable advisory function and the voluntary training levy can continue without NDPB status.



# Stage Two: Assessment against principles of good governance

We have not conducted Stage 2 for the FITB because Stage 1 recommended that the BIS sponsor team should work with colleagues in the Cabinet Office and the Department for Culture, Media and Sport to examine the case for a statutory levy and unless there is a clear policy commitment and timetable from government to implement a statutory levy by the time of the next Triennial Review, the FITB should not remain as a NDPB.

Having concluded in Stage 1 of this report that decisions on the future form of the CITB and the ECITB should be taken in their light of future levy arrangements for the sectors but recognising their current position as executive NDPBs in the current sector based levy system, this section sets out the Review team's conclusions on the CITB's and ECITB's compliance with the recognised principles of good corporate governance such as openness, transparency and accountability; as well as its relationship with the parent Department. The assessment covers the following areas:

- Statutory accountability, such as compliance with relevant legal requirements and best practice;
- Accountability for public money, including appropriate arrangements to ensure that public funds are properly safeguarded and deliver value for money;
- Ministerial accountability, including ensuring that Ministers and the Department exercise appropriate scrutiny;
- Role of the sponsoring group, establishing clear roles for the Sponsoring Department that ensure robust governance arrangements are in place;
- Role of the Board, Chair and CEO of CITB & ECITB, ensuring that effective systems of financial management and internal control are in place;
- Communication and engagement, ensuring that the body is open, transparent, accountable and responsive, with clear and effective channels existing with all relevant stakeholders; and
- Conduct and propriety, ensuring that the Board and staff work to the highest personal and professional standards.

For each principle of good governance outlined above, both CITB & ECITB in consultation with the sponsor team were asked to assess their own compliance against a list of detailed criteria in a standard pro-forma, indicating if they complied with each criterion (giving appropriate justification) or explaining why if not. The pro-forma also provided an opportunity for the ITBs and the sponsor team to identify perceived strengths and areas for improvement and set out any actions that were planned to address areas of concern. The full returns provided by CITB & ECITB can be found at Annexes F and G respectively.

The review team has assessed CITB's & ECITB's level of compliance with each principle and assigned a RAG rating as per the agreed scale. This assessment is based on the review team's judgement when considering all available evidence, including that provided during Stage 1 of the review via stakeholder meetings, survey returns etc. and not just on the contents of the returned pro-forma. The review team's findings for each of the ITBs are set out below.

### **Construction Industry Training Board**

Statutory Accountability, Accountability for Public Money & Ministerial Accountability:

The review team found that the quality of evidence provided by CITB and the sponsor team under the category of Statutory Accountability was sufficiently detailed to make an adequate assessment for Stage Two of this Review.

The CITB provided the last 2 years' worth of requests made under the Freedom of Information Act, with no outstanding complaints or cases with the ICO's office. They regularly publish accounts, Board minutes and construction research data on their website. CITB could look at updating their publication scheme in line with the Information Commissioner's Office, Model Publication Scheme.

The CITB have indicated that they could benefit from a review of their framework agreement with Central Government, to ensure that their accountability to Government appropriately reflects their remit, and responsibilities. They have charitable status registered with regulators in England and Wales and in Scotland, are industry led, but with a statutory underpinning, and receive no grant-in-aid. This framework agreement was not within the scope of Stage One of the Review, though we do recommend CITB take this forward with the BIS sponsorship team to ensure the framework agreement is fit for purpose.

The CITB has an assigned Data Protection Officer, the CITB in-house legal department is experienced in Data Protection issues and a formal Data

Protection Audit has been carried out in the recent past. Data Protection is a matter that is reviewed regularly and appropriate risks are registered via the departmental risk management process. Escalated risks with mitigating actions are managed corporately with the Audit and Risk committee of the Board, along with other corporate risks. As there has been no escalated data protection risk there is currently no reference in the Corporate Risk Register. Personnel records are stored digitally and are reviewed annually by both the Internal Audit function and externally by Moore Stephenson LLP. Accordingly these are assigned a low risk.

In respect of the Public Records Acts (PRA) 1958 and 1967 it is not necessary for CITB to comply with these requirements. The review team concluded that records are not considered public if they are generated by an NDPB which is a body corporate that has not been brought within scope of the PRA by its own enabling legislation. The ITA (and relevant legislation made under it) makes no reference to the PRA and the list of such bodies as are included within scope of the PRA makes no reference to CITB either.

**Rating for Statutory Accountability: Amber/Green.**

It should be noted here that, as an ITB, CITB does not receive any direct public funding from BIS budgets to carry out its activities. Instead virtually all its funds are raised via collection of the levy from relevant businesses and from ancillary activities associated with its training functions. However this does not negate CITB's statutory obligations to demonstrate accountability in this area.

The current IT structure used by the CITB is sub-optimal; the CITB has acknowledged that it will need to improve this situation in the short to medium term. This has been exacerbated by an unsuccessful attempt to recruit a contractor to improve certain aspects of IT infrastructure in 2012. CITB believes that adopting a collaborative approach to IT improvements and contracting (in a similar way to how BIS and other Government bodies have improved their IT services), would be most beneficial and low risk.

The CITB has been put at a disadvantage when seeking to improve its infrastructure and enter into modern collaborative ventures. This is because of restrictions put in place by existing legislation. In line with, and as set out in detail in Stage One of the Review, we recommend that there be a swift review of the legislation that underpins the CITB, to allow all relevant operational improvements to be considered.

Clear evidence has been provided that CITB complies with all the stated requirements under the heading of Accountability for Public Money. Their CEO is the appointed Accounting Officer, and there seems to be adequate scrutiny in place through the Board and the Audit and Risk Committee.

A counter-fraud group has just been started by CITB and this is tasked with developing an improved counter-fraud strategy, taking account of good practice shared by the BIS counter-fraud team.

The CITB's 2013 accounts indicate their administration and support costs (including governance costs), equated to 6.2% of total revenues (see p52 of the CITB's 2013 annual report). They will see an improved performance in terms of efficiency by increasing its financial capability. This is discussed from paragraphs 31- 36. In short, the CITB needs improved IT infrastructure, increased financial capability on the Board, and a review of legislation to allow it to operate in a more modern way. The review team has seen evidence that the recent centralisation of the finance team has brought about increased organisational financial capability, and an improved rigour to financial processes.

### **Rating for Accountability for Public Money: Amber/Green.**

The CITB have provided sufficient evidence to the review team that they comply with their obligations to consult the Secretary of State for Business, and provide the opportunity for the Minister to scrutinise the activities of the CITB. This is generally achieved through a good working relationship with the BIS sponsorship team (see Role of the Sponsoring Group below).

Once the Review has been completed, CITB intends to seek renewal of its authority to carry out activities overseas, which is done by writing periodically to the Minister. At the time of the last renewal (2004) the authority was granted 'until the next Review'. The CITB Heads of Corporate Governance and Legal are drafting a letter for this purpose.

One crucially important activity of CITB (as with ECITB) is to regularly poll employers under its remit to confirm it still retains majority support from them to continue its activities. CITB can take a range of steps to ascertain the views of employers, under the Industrial Training Levy (Reasonable Steps) Regulations 2008. They can consult in one of the ways set out in this secondary legislation by:

- consulting organisations which represent employers (prescribed organisations);
- consulting these employer organisations and also consulting all other employers who are likely to be liable to pay the levy but are not represented by organisations;
- consulting these employer organisations and obtaining a sample of the views of other employers who are not represented by organisations;
- sampling the views of all employers.

## **Rating for Ministerial Accountability: Green.**

### **Role of the Sponsoring Group**

The Review Team found the BIS sponsoring team and CITB compliant in most aspects of governance and oversight. There is good communication with the BIS Sponsor team to ensure they clearly understand what they are doing and plan to do, why and how they do it and what legislative and administrative changes would assist in improving engagement. This includes weekly working level meetings and senior BIS official presence (as observers) at all CITB Board meetings, as well as regular meetings with the CEO. The National Audit Office also provide scrutiny which is taken into account by the Sponsorship team.

CITB will be seeking to renew their Framework document with BIS (2010) once the outcome of the Triennial Review is approved and known. They have also stated that they will be working to increase their exposure more widely across Government.

## **Rating for Role of the Sponsoring Department: Amber/Green.**

### **Roles of the Chair and Board Members**

The Review Team found that CITB was fully compliant with all aspects of the roles and responsibilities carried out by the Chair and CEO. Terms of office, duties and requirements were clearly laid out in relevant documents and understood by all parties.

#### *Role of the Board*

The CITB Board is currently too large to be effective. It lacks diversity. It is necessary to deliver improvements to both governance and leadership, structural reforms of the Board, changes to membership, and the processes that underpin all of this. Board reform was highlighted as an important priority for the CITB in Stage One of this Review.

The Review Team recognises the CITB has committed to, and is currently undertaking a fundamental review and restructuring of its Board, which is currently too large to be effective. Based on the evidence that the Review team has seen, we believe that the reforms, if delivered, will result in improvements to the performance of the Board and the overall leadership of the CITB.

The Review Team concluded that the Board was too large and inflexible, with only the Chair and Deputy Chair are appointed through competition. We are aware that a smaller Board based on the capability of the individual according to a set of required specific skills, recruited via open competition, has already

been nominated by CITB and is awaiting appointment by BIS. Within the future Governance arrangements it is proposed to have committees representing Wales, England and Scotland to provide flexibility on devolved skills policy, whilst allowing CITB to have a GB wide remit.

CITB has stated that part of the Board restructure will include improved induction and a more consistent training and development offer for trustees, the recruitment of a more diverse Board, and strengthened evaluation processes, including launching individual performance evaluations for Board members and considering how to evaluate the Chair appropriately. Individual performance reviews will be implemented when new Board members are in place. The CITB are currently waiting for BIS to agree to the recommended Board recruits.

The CITB believe this needs to be approached sensitively, as all Board members (except the Chair, who currently waives entitlement to remuneration) are volunteers who give of their time and knowledge freely for the good of the industry. To impose undue time demands upon them, may deter potential recruits and make it more difficult to retain skilled and capable trustees; a careful balance needs to be struck. The Review Team recognise this but are of the view that the measures being taken are necessary to improve the functioning of the Board and improve governance.

#### *Role of the Chair*

The Review Team are satisfied that the appointment and role of the CITB Chair meets Government guidelines and conditions. CITB have stated that assessment of individual Board Members by the Chair is being improved and will be implemented with the new Board.

There is no process for individual performance review of the Chair. We recommend that a formal assessment process be considered, with final accountability for that assessment with the Minister of State for Skills.

The Minister does have an annual evaluation meeting and monitors the performance of the organisation informally via the Sponsorship team, CITB events attended and through feedback from Civil Servants and the industry. The Review team recommend that this become a formal assessment.

#### *Role of the CEO*

Evidence of the role and responsibilities of the CEO was provided. However, CITB have recently recruited a new CEO, and evidence of performance of the current and previous occupant was lacking. Evidence was provided to

demonstrate that the recruitment process was rigorous and open to scrutiny by Ministers.

### *Role of Non-Executive Board Members*

All Board members are also Trustees of the charity and the Board is wholly non-executive; no Executives are full members of the Board. The current make-up of the Board is insufficiently diverse; something the Review Team understands has been a priority in the recent recruitment programme for new Trustees.

Existing Board and Committee members do however demonstrate a high level of attendance, attending approximately 80% of meetings. In line with the restructuring process outlined earlier, the CITB is looking to recruit a more diverse membership in 2014/15. As stated previously, the review team believes that if these recommended reforms are implemented, then this will result in improved Board performance and a commensurate increase in the rating indicated within this review.

### **Rating for Role of the Chair and Board Members: Amber.**

#### **Effective Financial Management**

The effective financial management of the CITB is partially held back by the mixed nature of the CITB's activity. By having 3 types of role within CITB; statutory duties under the ITA (e.g. Levy and Grant services), Charitable activities (e.g. Apprentice training or Standards setting) and Charitable Trading activities (e.g. Adult Training or card services) it makes it difficult for staff to always act appropriately for the different roles.

If the CITB were given the power to have a Subsidiary and to enter Joint Ventures then it would allow the CITB to constitutionally separate these roles, making it clearer to staff which role they are undertaking at any time. This would significantly improve the financial capability of the individuals within the organisation.

As described in paragraph 7, the IT infrastructure of the CITB is sub-optimal. Improvements here are necessary to deliver incrementally more effective financial management. The Review team notes that this is primarily brought about by restrictions in legislation to the operational model of the CITB, rather than an internal CITB deficiency.

The financial effectiveness of CITB is being increased throughout the organisation. There are plans to improve the financial capability of the Board through the on-going recruitment exercise for new Board members. The CITB

is increasing the capability of the leadership team through training and development. CITB has also initiated a review into how it funds and invests in skills and training interventions within the industry. This review is assessing how effectively and efficiently CITB is meeting the need for construction skills, education and training through its current approach to the investment of the training levy and current delivery models, with a view to recommending any changes to CITB's approach and delivery models that would enable it to better meet this need.

The recent centralisation of the Finance team has brought about greater financial control, more emphasis on detail and a more rigorous, robust and standardised manner of financial management. This has been done whilst putting in processes to prevent the removal of responsibility away from the business units. This will help deliver the more detailed recommendations highlighted in Stage 1 of this Review.

A counter fraud group has just been started by CITB and this is tasked with developing an improved counter fraud strategy, taking account of good practice shared by the BIS counter fraud team.

### **Rating for Effective Financial Management: Amber/Green.**

#### **Communications and Engagement**

Consultations undertaken by the Review Team resulted in mixed feedback about CITB communication and engagement with its members and stakeholders. Engagement with large companies and trade associations is perceived as a strength. Some SMEs find the CITB website hard to navigate. SMEs also fed back that communication through the helpline, or face-face with advisers was of variable quality.

Stage One of the Review highlighted a need to improve efforts in communicating with SMEs, across a range of communication channels, and through face to face advisers. The CITB has highlighted plans to reconsider the way in which it communicates with SMEs.

The CITB does engage regularly with a range of stakeholders via consensus activities. Surveys and dip surveys are conducted annually to ensure that CITB is communicating appropriately to the industry and providing the services required. It has not been referred to the Parliamentary Ombudsman over correspondence or complaints management in the last 5 years.

CITB publish agendas minutes and supporting paper for Board meetings and other supporting committees on the 2013 Board Papers - <http://www.citb.co.uk/about-us/how-were-run/our-boards-committees/papers/2013-board-papers/>, and the Board Minutes - <http://www.citb.co.uk/en-GB/About-us/How-were-run/Our-Boards->



[committees/papers/2012-Board-papers/](#). As well as the Board, the CITB also organises Devolved committees and the future advisory council, as well as external events and marketing activity.

The CITB acknowledge that there are further promotional and marketing activities to exploit, and that there is more work to do to improve communication in certain areas, including within the Devolved nations. This appears to be slightly contradictory to the Review Team's stage one analysis, which indicated stakeholders in Scotland and Wales are more satisfied with the performance of the CITB than English based members. As part of their Board restructuring, they intend to create a Council in order to give greater voice and involvement to members across the UK.

### **Rating for Communications and Engagement: Amber/Green**

#### **Conduct and Propriety**

The Review Team found CITB to be compliant with all relevant aspects of the guidance. A code of conduct is maintained and issued to all Board members. Declarations of interest are routinely declared and recorded in meetings minutes with members leaving discussions as necessary. CITB acknowledge that this could be further improved by collating their current standards and policies in a single document

### **Rating for Conduct and Propriety: Green**

### **Overall Rating for CITB Governance: Amber/Green**

## **Engineering Construction Industrial Training Board**

### **Statutory Accountability, Accountability for Public Money & Ministerial Accountability**

The review team found that the quality of evidence provided by ECITB and the sponsor team under the category of Statutory Accountability was mixed.

The unqualified annual report and accounts for 2013 were formally signed off by the National Audit Office and laid before Parliament in June 2014. These can be viewed on the ECITB website and appear to be comprehensive and up to date. However the copy of the ECITB Financial Memorandum supplied as evidence of the delegated authorities “agreed with BIS” (to quote the pro-forma guidance) is actually a document over ten years old which refers to the sponsor as the “Department for Education and Skills”, an entity which has not existed since June 2007. A review with BIS was instigated in 2010 but interrupted by the General Election and subsequent reviews undertaken of public bodies, including implementation of the new Triennial Review process itself. We expect on completion of this Triennial Review that the memorandum will be swiftly refreshed and note it is a joint responsibility of ECITB and the BIS sponsor team to keep all these documents timely and relevant.

Compliance with Freedom of Information Act 2000 (FOI) requests was asserted by ECITB with reference to a “log of requests” that demonstrated responses were achieved with deadlines “in most cases”. However no evidence was supplied of such a log in the pro-forma return although ECITB asserts that it has complied with its obligations for timely response in all but one case.

A publication scheme was referenced as being “in need of review” but again no further details were provided as to what the impetus for this was or the planned timescale for carrying it out. Brief details of the existing scheme can be found on the ECITB website but the documents listed under the associated link (at <http://www.ecitb.org.uk/publications/publicationScheme/>) are scant and poorly organised while the industry reports and research data that are described appear dated and are unavailable on-line. By contrast the higher level link (<http://www.ecitb.org.uk/publications/>) has downloads for various current ECITB reports and brochures but without any coherent organisation by theme or description. Comprehensive board minutes from the last several years are available to download but on a different section of the website again.

Given that one of ECITB’s key functions is to provide “advice, information and support to the industry” the review team recommend that ECITB conduct a formal review of its publication scheme, both to ensure its statutory

requirements are met and that it continues to fulfil the need to remain as fully engaged and open with the industry as it can.

ECITB has an assigned Data Protection Officer whose role is designated to the IT Manager. No information has been provided to the review team regarding whether a formal Data Protection Audit has been carried out in the recent past. There is however reference in the current Risk Register to implementation of a new software package in 2013 into which paper personnel records have been electronically transferred. These records have been reviewed to “check compliance with Data Protection” and the Risk Register assigned this a green rating. However see paragraph below for further discussion on this matter.

In respect of the Public Records Acts (PRA) 1958 and 1967 it is not necessary for ECITB to comply with these requirements. The review team concluded that records are not considered public if they are generated by an NDPB which is a body corporate that has not been brought within scope of the PRA by its own enabling legislation. The Industrial Training Act (ITA) 1982 (or subsequent orders) makes no reference to the PRA and the list of such bodies as are included within scope of the PRA makes no reference to ECITB either.

The ITA does assign to ECITB powers to obtain information from employers as necessary to carry out functions such as levy assessment and collection for instance. The Act also outlines strict rules about how such information can be disclosed without employers’ consent which highlights the importance of ECITB maintaining data protection standards. The review team has not seen evidence to assess the extent to which ECITB complies with these statutory requirements. However we note that this duty of care is explicitly outlined in ECITB Personnel Policy and that each employee is required to make a declaration of confidentiality under the ITA as part of their appointment.

One crucially important activity of ECITB (as with CITB) is to regularly poll employers under its remit to confirm it still retains majority support from them to continue its activities. ECITB can take a range of steps to ascertain the views of employers, under the Industrial Training Levy (Reasonable Steps) Regulations 2008. They can consult in one of four ways, by:

- consulting the organisations which represent employers;
- consulting the employer organisations and also consulting all other employers who are likely to be liable to pay the levy but are not represented by organisations;
- consulting the employer organisations and obtaining a sample of the views of other employers who are not represented by organisations;

- sampling the views of all employers.

ECITB chose to consult three employer organisations (who in total represent 90 levy-paying employers) and all other employers who are likely to be liable to pay the levy but are not represented by organisations. This is the same method as they used to consult employers in both the 2011 and 2012 consultations for the 2012, 2013, 2014 and 2015 Levy Orders respectively.

The following three employer organisations were consulted:

- Engineering Construction Industry Association (ECIA)
- British Chemical Engineering Contractors Association (BCECA)
- Offshore Contractors Association (OCA).

All three associations confirmed their support for the levy proposals. In addition levy paying employers which are not members of the employer associations were given the opportunity to vote on the levy proposals. The combined results showed a total of 141 employers that support the levy (from a total of 207 polled). Together they represent 68% of levy payers and are likely to pay 76% of the aggregate levy. In 2012 the total figures were 62% and 73% respectively and in 2011, 59% of levy payers who were likely to pay 69% of the levy supported the proposals. The results were verified within BIS by its Analytical Services team.

### **Rating for Statutory Accountability: Amber/Green**

It should be noted here that, as an ITB, ECITB does not receive any direct public funding from BIS budgets to carry out its activities. Instead virtually all its funds are raised via collection of the levy from relevant businesses and ancillary activities associated with its training functions. However this does not negate ECITB's statutory obligations to demonstrate accountability in this area.

Clear evidence has been provided that ECITB complies with all the stated requirements under the heading of Accountability for Public Money. The named Accounting Officer is the CEO, the latest Annual Accounts have been certified by the National Audit Office and a clear framework of financial controls exists that is continuously monitored by the Board and other personnel. The only readily apparent weakness is the out-of-date financial memorandum that we commented on previously and which should be straightforward to refresh. However the question of whether or not ECITB could run its operations more efficiently when compared to other organisations with a comparable remit is a separate issue. From the published accounts for 2013 (which can be found [here](#)) support costs for the period - as shown on page 48 - were approximately 9.2% of total income.

## **Rating for Accountability for Public Money: Green**

Although the formal processes for Ministerial Accountability all appear to be in place, there were several areas for improvement that ECITB itself acknowledged in its pro-forma. These included the frequency of dialogue with Ministers and/or the Secretary of State, more regular briefings to officials and a proactive approach to engage with wider policy developments within BIS.

The review team endorses all these proposals and agrees that since ECITB has a close and longstanding relationship with many companies of strategic importance to the UK economy it makes sense to exploit this position as a conduit for dialogue between Government and Industry. Conversely it would seem just as beneficial to ECITB for it to take advantage of the Department's wide-ranging network of contacts (both at national and regional level) to better deliver its own services to industry – such as helping to maximise the level of engagement with regional SMEs for example. However the onus will be as much on the sponsor team to assist in exploiting these synergies as it will be for ECITB itself.

The Secretary of State is accountable to Parliament for the activities of the ECITB. The extent to which the Secretary of State operates “controls and safeguards” over ECITB's activities is set out in the framework document, viz: his or her responsibilities include:

- Ensuring that ECITB complies with its responsibilities to enforce the statutory levy arrangements approved by Parliament;
- approving the ECITB's strategic objectives and the policy and performance framework within which the ECITB will operate as set out in (the) framework document and associated documents;
- approving the rates of Levy and securing Parliamentary approval;
- carrying out responsibilities specified in the IITA including:
  - appointments to the Board,
  - approving the terms and conditions of Board members,
  - laying of the annual report and accounts before Parliament and before the Devolved Administrations where required.

Similarly (as per the same document) ECITB is obliged to consult with SoS:

- when establishing its corporate and business plans in the light of the Department's wider strategic aims and current PSA(s);
- to inform the Department of progress in achieving its policy objectives and in demonstrating how resources are being used to achieve those objectives;

- to provide timely forecasts and monitoring information on performance and finance to the Department;
- if over or under spends are likely and specify what corrective measures are being taken; and that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the department in a timely fashion.

However, the Review Team has observed a problematic relationship between the two sides when assessments are made of emerging industries for liability to pay the Statutory Levy under terms of the covering legislation. BIS is currently acting as “honest broker” in a dispute between ECITB and representatives of the Wind & Maritime Renewables industry in an attempt to reach a consensus on the way forward without resort to formal legal action. While ECITB’s position is that it will be obliged under the responsibilities assigned by its covering legislation to impose levies on these firms at some point even if BIS did not wish it to.

The Review Team recommends that the terms of the ITA and associated orders be fully reviewed to understand exactly what legal obligations sit with the board and the SoS in regard of such disputes, and to establish some formal or informal understanding as to how they can be better resolved in future.

### **Rating for Ministerial Accountability: Amber**

#### **Role of the Sponsoring Department**

The Review Team found the BIS sponsoring team and ECITB compliant in most aspects of governance and oversight. Apart from the Governance Statement included in the Annual Report and reviewed by the external auditor, monthly financial returns and workforce information are submitted to BIS, risk registers are supplied to the sponsor team and an Annual Business Plan is submitted to the Department for approval.

However as previously acknowledged, the Management Statement and Financial Memoranda are overdue for review and in the case of the latter, many years out of date. Revised documents have been drafted to be assessed and issued following completion of the Triennial Review. This is a clear priority for action. The Review Team recommends that in future ECITB and the sponsor team comply with the pro-forma guidance and ensure that these documents are reviewed at three-yearly intervals in line with the Triennial Review process.

Dialogue between ECITB and the sponsor team occurs on a regular and frequent basis with routine attendance of board and audit committee meetings and monthly discussions with the CEO and Board Secretary. If greater

engagement is sought with ECITB on issues of mutual benefit to it and BIS (as mentioned earlier) then consideration should be given to establishing higher level meetings between the CEO and BIS officials (as well as representatives from other relevant partner organisations) as appropriate. The Review Team also notes there is a current project running as part of the Future Shape of BIS programme which has the objective “to deliver a clear strategy for collaborating with Partner Organisations, including clarifying associated governance and accountability arrangements”. We recommend ECITB proactively engage with this exercise and consider what changes are required to its framework documents as a result.

ECITB should also be aware of the Evaluation Strategy recently published by BIS which sets out a clear framework for how current and future policies implemented by core BIS and Partner Organisations (such as ECITB) are to be monitored and evaluated. We recommend that as far as possible ECITB takes on board the recommendations included in this report so it can clearly demonstrate how positive outcomes arise from its activities.

### **Rating for Role of the Sponsoring Department: Amber/Green**

#### **Roles of the Chair and Board Members**

The Review Team found that ECITB was fully compliant with all aspects of the roles and responsibilities carried out by the Chair and CEO. Terms of office, duties and requirements were clearly laid out in relevant documents and understood by all parties.

In general the Review Team found that ECITB was also compliant with guidance for the role and responsibilities of the Board. However ECITB itself acknowledged that the Board’s performance could be improved in various ways and the Chair and CEO are working together to review the scale and balance of Board membership as well as investigating options for increasing the efficiency and effectiveness of Board meetings through online document sharing and video-conferencing, amongst other innovations.

The Review Team fully endorses this work and notes ECITB’s own comments that due to the Board’s “relatively large size” reconciling differing perspectives in meetings can be a challenge and the need to reach consensus “does give rise to slow decisions from time to time”. Whilst the Review Team accepts that the Board must remain fully representative of the industries and regions that use its services, we recommend that ECITB investigate any practical options that can improve the decision making process at this level, including reductions in the number routinely attending the Full Board. We note that various operational responsibilities and “day to day” details are already delegated to Management Board level and furthermore that the nine Regional Chairs already hold 3 to 4 separate meetings per year (sometimes jointly with

the Management Board) to discuss issues arising from regional forums and other employer feedback.

These circumstances would suggest there are opportunities open for ECITB to introduce a degree of flexibility in Main Board attendance without compromising representation - for instance, if a rota were to be agreed for Regional Chairs' attendance at each Main Board rather than have all nine at every meeting. Any pertinent issues for discussion could be flagged and agreed at the preceding Regional Chairs' meeting (at which the Chairman and CEO are normally present) and assigned to the scheduled attendees to communicate to the Main Board. While schedules could be arranged so each Regional Chair is guaranteed at minimum attendance at (say) one Main Board per year.

The Review Team also recommends that ECITB takes this opportunity to revise the terms of Main Board tenure – currently a maximum of two terms of five years duration each – to bring them into line with those it operates for Regional Chairs and NEDs, namely two terms of three years duration each with no return.

The Review Team has not received any evidence as to how the performance of Board members is evaluated annually (as per the pro-forma guidance). We recommend that ECITB put such procedures in place if they do not already exist and include them both in the induction pack for new Board members and the Framework document.

The CITB is currently undertaking a fundamental review of its Board structures. It has stated that part of the Board restructure will include training, the recruitment of a more diverse Board, and strengthened evaluation processes, including launching individual performance evaluations for Board members and considering how to evaluate the Chair appropriately. Individual performance reviews will be put in place for Board members. The Review Team recommends that the ECITB considers whether any of the lessons being learnt by the CITB could be applied to its own Board structures and processes.

### **Rating for Role of the Chair and Board Members: Amber**

#### **Effective Financial Management**

The Review Team has been provided with clear evidence from internal and external audit reports, Trustees' reports, Governance statements etc. that the necessary steps are in place to ensure effective financial management controls operate within ECITB. Aside from our earlier recommendation that the Financial Memorandum be brought up to date we would only add that for transparency the Board should consider publishing high level details of



expense claims by Board members and senior staff, in line with the pro-forma guidance.

**Rating for Effective Financial Management: Green**

**Communications and Engagement**

The Review Team was provided with evidence to show that ECITB complies with most of the communications requirements specified in the pro-forma guidance. The importance of engagement with stakeholders is recognized and increased efforts are being made to reach out to regional employers and SMEs. Our previous recommendation regarding interface with the Department and Sponsor Team is also relevant here. A communications plan exists and we have received a copy of it.

**Rating for Communications and Engagement: Amber/Green**

## **Conduct and Propriety**

The Review Team found ECITB to be compliant with all relevant aspects of the guidance. A code of conduct is maintained and issued to all Board members and employees. Declarations of interest are routinely declared and recorded in meetings minutes with members leaving discussions as necessary.

**Rating for Conduct and Propriety: Green**

**Overall Rating for ECITB Governance: Amber/Green**

## **Conclusion and recommendations**

The review team concluded that the ITBs demonstrate a good level of overall compliance with the recognised principles of good corporate governance and that, within the scope of the assessment questions themselves, individually each ITB is rated as Amber/Green. The review team has identified improvements which need to be made in some key areas of the ITB Boards' structures and performance management. For these reasons, we have awarded an overall rating of Amber/Green.

### **Construction Industry Training Board**

#### **Statutory Accountability, Accountability for Public Money & Ministerial Accountability**

We recommend CITB take forward a review of their framework agreement with central Government, to ensure it is fit for purpose and takes account of their remit, as a NDPB receiving no grant in aid. Any review should be undertaken with the support of the BIS sponsorship team.

In line with, and as set out in detail in Stage One of the Review, we recommend that there be a swift review of the legislation that underpins the CITB, to allow all relevant operational improvements to be considered. This should aid the CITB in, amongst other things, resolving its current, sub-optimal IT infrastructure.

#### **Roles of the Chair and Board Members**

The Review Team recognises that the CITB has already undertaken measures to address the size, inflexibility, and diversity of its Board. We recommend they take forward their plans to introduce strengthened evaluation processes for Board Members, including launching individual performance evaluations for Board members and considering how to evaluate the Chair appropriately.

There is no process for individual performance review of the Chair. We recommend that a formal assessment process be considered, with final accountability for that assessment with the Minister for Skills.

#### **Effective Financial Management**

The Review Team recommends that the CITB and the BIS sponsorship team consider a power for the CITB to create a Subsidiary and enter Joint Ventures, which would allow the CITB to constitutionally separate its three distinctive roles (statutory duties, charitable activities, and charitable trading activities), making it clearer to staff which role they are undertaking at any

time. This would significantly improve the financial capability of the individuals within the organisation.

### **Communications and Engagement**

Consultations undertaken by the Review Team resulted in mixed feedback about CITB communication and engagement with its members and stakeholders. The Review Team recommends the CITB consider ways of improving communication with their members, particularly SMEs, through improvements to their online presence (e.g. the main website), and face-to-face.

### **Conduct and Propriety**

CITB acknowledge their guidance on conduct could be further improved by collating their current standards and policies in a single document.

## **Engineering Construction Industry Training Board**

### **Recommendations for action to improve compliance**

#### **Statutory Accountability**

R1: A complete refresh of the ECITB Financial Memorandum and Management Statement should be completed as a priority (as a joint responsibility with the BIS sponsor team). The Review Team recommends that in future ECITB and the sponsor team comply with the pro-forma guidance and ensure that all these documents are reviewed at three-yearly intervals in line with the Triennial Review process.

R2: The Review Team recommends that ECITB conduct a formal review of its publication scheme, both to ensure its statutory requirements are met and that it continues to fulfil the need to remain as fully engaged and open with the industry as it can.

R3: We recommend that a formal Data Protection Audit be carried out by ECITB in early 2015 once the new Data Protection Officer is in place.

#### **Accountability for Public Money**

R4: The Review Team recommends that ECITB investigate the scope for efficiency savings from its administrative and support functions, in particular whether it can match the performance of CITB in this area (in terms of costs as a proportion of total income).

#### **Ministerial Accountability**

R5: The Review Team endorses ECITB's proposals to improve dialogue with Ministers and/or the Secretary of State, provide more regular briefings to

officials and undertake a proactive approach to engage with wider policy developments within BIS. We further recommend that ECITB investigate with the sponsor team how it can best exploit the Department's wide-ranging network of contacts (both at national and regional level) to help it better deliver its services to industry.

R6: The Review Team recommends that the terms of the ITA and associated secondary legislation be fully reviewed so that both the Department and ECITB fully understand exactly what legal obligations sit with the board and the SoS in regard of disputes with firms over coverage of the levy and how these can be resolved.

### **Role of the Sponsoring Department**

R7: We recommend ECITB proactively engage with the Future Shape of BIS programme and consider what changes are required to its framework documents as a result. Similarly ECITB should also be aware of the published Evaluation Strategy document which sets out a clear framework for how current and future policies can best be monitored and evaluated.

### **Roles of the Chair and Board Members**

R8: The Review Team endorses the work of the CEO and Chair of ECITB to review both the scale and balance of Board membership and investigate options for increasing the efficiency and effectiveness of Board meetings. We also note the work currently being undertaken by CITB to fundamentally review its own Board structures including training, diversity and strengthened evaluation processes. The Review Team recommends that ECITB actively considers whether any of the lessons being learnt here by the CITB could be applied to its own Board structures and processes.

R9: The Review Team recommends that ECITB revise the terms of Main Board tenure in line with those it operates for Regional Chairs and NEDs, namely two terms of three years duration each with no return.

### **Effective Financial Management**

R10: The Review Team recommends that for transparency the Board should consider publishing high level details of expense claims by Board members and senior staff.

## **List of Annexes**

Annex A: Analysis of CITB Triennial Review Online Survey

Annex B: Analysis of ECITB Triennial Review Survey

Annex C: Interviewees in relation to CITB

Annex D: Interviewees in relation to ECITB

Annex E: Economic rationale for Construction Industry Training Board (CITB) and the Engineering Construction Industry Training Board (ECITB)  
Supplementary Annex in relation to: Economic rationale for Construction Industry Training Board (CITB) and the Engineering Construction Industry Training Board (ECITB)  
Annex F: CITB self-assessment  
Annex G: ECITB self-assessment

## Annex A: Analysis of CITB Triennial Review Online Survey

The following sections provide a summary of evidence submitted to the Review in response to the questions asked and the themes considered. The questions are listed in three categories, strategic direction of the construction industry; operations and functions of the CITB; and changes to the CITB and value for money.

The evidence has informed the overall conclusions and recommendations of the Review, as detailed in the body of the report.

In September 2013, the Department for Business, Innovation and Skills (BIS) launched a survey to gauge opinion from stakeholders on the effectiveness of the CITB. The online survey hosted on the Survey Monkey website received 1,081 responses. Some questions received lower levels of response because some stakeholders chose not to answer all the questions. Responses were received from a variety of stakeholders including construction firms, training providers, government bodies and trade associations.

### Number of responses received by type of organisation

Type of organisation	Responses received
Small construction employer (0-49 employees)	739
Medium construction employer (50-249 employees)	121
Large construction employer (250+ employees)	74
Training provider	37
Business representative organisation/trade body	21
Government body	18
Trade union or staff association	6
Charity or social enterprise	5
Other (please specify) <sup>24</sup>	60
<b>Total</b>	<b>1081</b>

Over 80 per cent of responses were from construction firms. These firms were asked whether they had received a training grant, or other forms of support from the CITB in the last 12 months. 552 construction firms stated they had received a training grant or other support while 330 stated they had not.

Almost all respondents from large and medium construction firms had received a training grant in the last 12 months in stark contrast to small construction firms where around half had received a grant.

<sup>24</sup> These include contractors, sole traders and suppliers to the construction industry.

A quarter of small construction firms stated that they did not pay the statutory levy.

### **Strategic Direction of Construction industry**

#### **Questions asked:**

How far do you agree or disagree that there is a continuing need for the following functions to take place in the industry?

Providing leadership to the industry on training

Improving productivity

Helping the industry meet the low carbon challenge

Increasing the engagement of employers with skills and training

Improving recruitment and retention

Improving skills and training across the construction sector

Providing support for smaller companies in the construction sector

Providing support for apprentices

Improving health and safety

Increasing the qualifications within the industry.

In your view, how effective or ineffective is the CITB at delivering these functions?

Almost without exception, the majority of the respondents from construction firms agreed that there was a continuing need for the functions listed above to continue to take place within the industry. With greater support from those firms that had received training grants. However, less than half of respondents from small construction firms who had paid the levy, but had not received a training grant, agreed that there was a continuing need to help the industry meet the low carbon challenge or increase qualifications within the industry.

In most cases the majority of respondents from large and medium size construction firms agreed that the CITB were effective in delivering the functions listed above. Small construction firms that had received a training grant shared this opinion. In contrast, small construction firm's that had not a received training grant but had paid the levy believed the CITB was ineffective at delivering these functions.



## Operations and functions of the CITB

### Questions asked:

How effective or ineffective is the CITB at delivering the following services?

Encouraging people to enter the industry

Encouraging people from a diverse range of backgrounds to enter the industry

Ensuring the workforce has the skills necessary to increase competitiveness of the businesses in the industry

Ensuring the take-up of relevant qualifications for those working in the industry and encouraging raised standards in the industry.

How effective or ineffective is the CITB at operating at a national, regional, and local level?

### Delivery of services

With one exception, the majority of large businesses believed the CITB was effective at delivering the services listed above. Only in encouraging people from a diverse range of backgrounds to enter the industry did less than half (43 per cent) of the large businesses that responded believe the CITB had been effective.

A majority of respondents from medium sized construction firms believed the CITB was effective at ensuring the workforce had the skills necessary to increase competitiveness of businesses in the industry, also at ensuring the take-up of relevant qualifications for those working in the industry and encouraging raised standards in the industry. Opinion from medium size firms was more divided on encouraging people to enter the industry with 31 per cent of respondents believing they were effective at providing this service and 30 per cent believing they were ineffective. A majority of medium sized businesses had no clear opinion on how well the CITB encouraged people from a diverse range of backgrounds to enter the industry.

More than half of small businesses that did not pay the statutory levy and received a training grant believed the CITB was effective at delivering the services listed. Opinion was more mixed from small firms that paid the levy and received a training grant with around half believing the CITB was effective at ensuring the workforce had the skills necessary to increase competitiveness, and ensuring the take-up of relevant qualifications for those working in the industry. Fewer than 40 per cent believed the CITB were effective at encouraging people in to the industry and encouraging people from a diverse range of background to enter the industry.

Around a half of all small construction firms who did not receive a training grant held no clear opinion on the effectiveness of the CITB in delivering their services.

### **Operation of the CITB at National level**

Over 40 per cent of medium sized construction firms and the majority of large construction firms believed the CITB operated effectively at the national level. A similar proportion of small construction firms that received a training grant shared this view. Small construction firms that did not receive a training grant were much more neutral either believing the CITB were neither effective nor ineffective or having no stated opinion.

### **Operation of the CITB at Regional level**

Respondent's opinions on the operation of the CITB at regional level were broadly equivalent to their view on the CITB operations at a national level. With medium and large construction firms believing the CITB operated effectively at regional level. The majority of small construction firms that received a training grant believed the CITB operated effectively while those that did not receive training believed the CITB were neither effective nor ineffective or having no stated opinion.

### **Operation of the CITB at Local level**

Half of all small construction firms that paid the levy but did not receive a training grant in the last 12 months believed CITB operations at a local level were ineffective. A third of small firms that did not pay the levy and hadn't received a training grant also believed this. The majority of respondents that stated they had received a training grant from the CITB believed they operated effectively at the local level.

### **Changes to CITB and value for money**

#### **Questions asked:**

Are there any changes that could be made to improve the efficiency and effectiveness of the CITB?

How does the CITB manage and operate the statutory levy?

Do you feel that the CITB offers value for money as a training body?

**Are there any changes that could be made to improve the efficiency and effectiveness of the CITB?**

### Percentage of businesses

Business type	Have you received a training grant?	Yes, changes could be made (Number of responses)	No, changes could be made (Number of responses)	No opinion (Number of responses)
Small construction employers that <b>paid the levy</b>	Yes	48% (118)	14% (34)	38% (94)
Small construction employers that <b>paid the levy</b>	No	57% (96)	4% (6)	39% (66)
Small construction employers that <b>don't pay</b> the levy	Yes	22% (13)	29% (17)	49% (29)
Small construction employers that <b>don't pay</b> the levy	No	46% (38)	2% (2)	52% (43)
Medium construction employers	Yes	45% (41)	11% (10)	44% (40)
Large construction employers	Yes	60% (32)	8% (4)	32% (17)

A significant number of respondents believed changes could be made to improve the efficiency and effectiveness of the CITB. The majority of large construction employers and small construction employers that paid the levy and received training believed changes could be made. This opinion was shared by just under half of medium sized construction employers. However, a substantial number of respondents had no opinion on whether changes could be made to the efficiency and effectiveness of the CITB.

## Do you feel that the CITB offer value for money as a training body?

### Percentage of businesses

Business type	Have you received a training grant?	Yes, it does provide value for money (Number of responses)	No, it does not provide value for money (Number of responses)	No opinion (Number of responses)
Small construction employers that <b>paid the levy</b>	Yes	47% (113)	37% (89)	16% (37)
Small construction employers that <b>paid the levy</b>	No	4% (7)	85% (135)	11% (18)
Small construction employers that <b>does not pay the levy</b>	Yes	77% (43)	11% (6)	12% (7)
Small construction employers that <b>does not pay the levy</b>	No	18% (14)	43% (33)	39% (30)
Medium construction employers	Yes	51% (44)	43% (37)	7% (6)
Large construction employers	Yes	52% (26)	24% (12)	24% (12)

Around half of the respondents from medium and large businesses believed the CITB offered value for money as a training body. Small construction firms that didn't pay the levy and received a training grant were even more positive with 77 per cent believing it was value for money. Small construction firms that did not receive any training grant were the least likely to say the CITB offered value for money with support among firms that didn't pay the levy as low as 4 per cent.

### Management and operation of the levy

The majority of respondents who received a training grant from the CITB believed the levy was managed and operated well with support strongest among small construction firms who did not pay the levy where 75 per cent believed it was well managed and operated. In contrast 44 per cent of small

construction firms that paid the levy but did not receive any training believed the levy poorly operated.

## **Annex B: Analysis of ECITB Triennial Review Survey**

### **Levy collection and grant distribution**

A mix of views was expressed at the workshops and via one-to-one conversations on this issue. In general this feedback represented a broadly similar split both to the Review Team's survey and ECITB's own consensus return - a majority in favour of the levy with a small but significant lobby against. One industry leader considered that if the levy was discontinued, companies would move the money freed up to the "bottom line". Clients would see this as a chance to cut margins when negotiating new contracts so leading to long-term training cuts. Another said that becoming in-scope for the levy had made no difference to his company - apart from "introducing an enormous amount of paperwork and bureaucracy" that they needed to go through in order to claw some of the money back.

### **Are there any changes that need to be made to improve the efficiency and effectiveness of the ECITB?**

When firms were asked if there were any changes that need to be made to improve the efficiency and effectiveness of the ECITB three-quarters of those who expressed an opinion answered "Yes".

A variety of issues were raised in response to this question. Several medium and large firms felt that ECITB needed to do more direct consultation with industry to understand their actual day-to-day needs. Related to this were concerns that ECITB were not offering training courses at the appropriate level and/or in the right subject areas. Some companies felt there were too many bodies involved in the skills landscape and these should be rationalised or work in closer co-operation.

### **How effectively or ineffectively does the ECITB operate at a national, regional, and/or local level?**

- 59% of survey respondents felt ECITB operated at a National level either fairly or very effectively.
- 78% of survey respondents felt ECITB operated at a Regional level either fairly or very effectively.
- 72% of survey respondents felt ECITB operated at a Local level either fairly or very effectively.

### **How effective or ineffective is the ECITB at:**

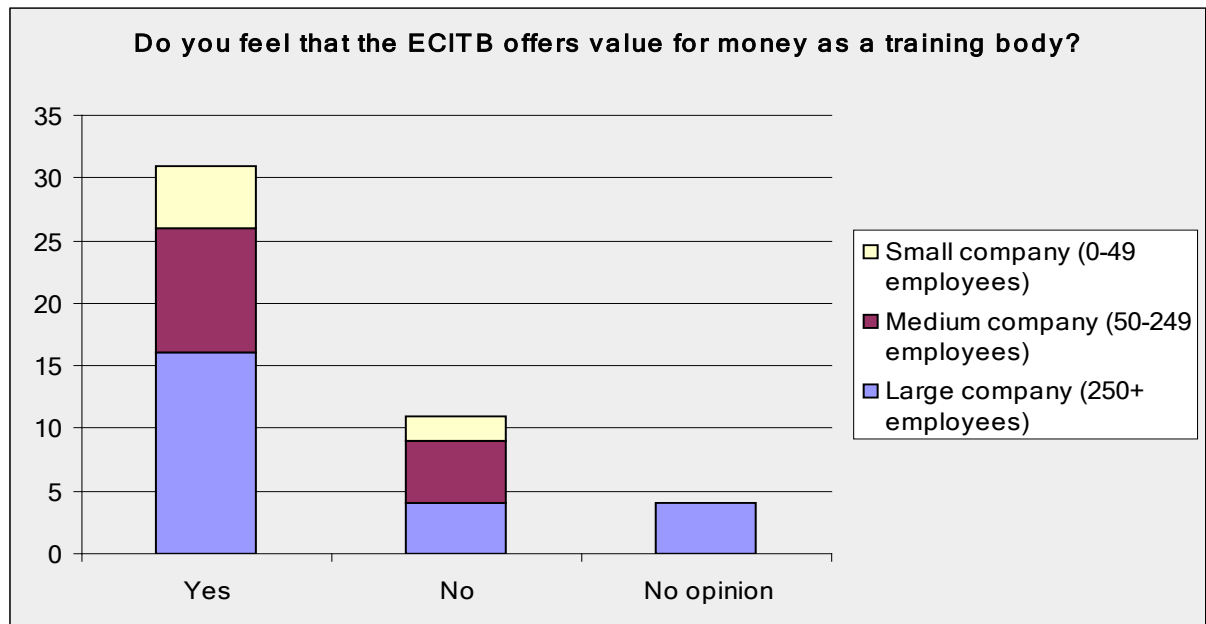
- Encouraging people to enter the industry
- Encouraging people from a diverse range of backgrounds to enter the industry
- Ensuring the workforce has the skills necessary to increase the competitiveness of the businesses in the industry
- Ensuring the take-up of relevant qualifications for those working in the industry and encouraging raised standards in the industry?

- 52% of survey respondents felt ECITB was either fairly or very effective at encouraging people to enter the industry.
- 43.5% of survey respondents felt ECITB was either fairly or very effective at encouraging people from a diverse range of background to enter the industry
- 76% of survey respondents felt ECITB was either fairly or very effective at ensuring the workforce has the skills necessary to increase the competitiveness of the business in the industry
- 76% of survey respondents felt ECITB was either fairly or very effective at ensuring the take-up of relevant qualifications for those working in the industry and encouraging raised standards

Although a clear majority agreed ECITB was fairly or very effective at encouraging people to enter the industry there was much more uncertainty regarding people from a diverse range of backgrounds. Nearly 24% of respondents selected Don't Know/No opinion here, with almost the same answering neutrally i.e. neither effective nor ineffective in response to this aspect of the question. Firms were much more positive in response to the questions on ECITB's effect on skills and qualifications in the workforce, results which were similar to those for the earlier questions on ECITB's functions.

**Do you feel that the ECITB offers value for money as a training body?**

67% of survey respondents answered "Yes" to this question while 24% said "No". Results were similar irrespective of firm size.



**ECITB Survey respondents included.**

**Small company (0-49 employees)**

AHL PIPEWORK LTD

C&P Engineering Services Ltd  
Industrial Technology Systems Ltd.  
OSL Consulting  
Process Pipework Services  
Proeon Systems Ltd  
Straight Line Services Ltd  
W.M. Codd limited

**Medium company (50-249 employees)**

Alpha Plus Ltd  
Atlas knowledge  
Hi-Force Limited  
Lorien Engineering Solutions  
Offshore Design Engineering Ltd  
Ovivo UK Limited  
Redhall group  
SSE Contracting  
Studsvik UK Ltd  
Technica Limited  
Tentec  
WSP CEL Limited

**Large company (250+ employees)**

AMEC  
Air Products  
Aker Solutions  
Alfa Laval  
Alstom Ltd



AMEC (Clean Energy)  
Bechtel Limited  
CB&I UK Ltd  
Cofely Fabricom GDF Suez UK  
Costain  
Doosan Babcock Ltd  
Dounreay Site Restoration Ltd  
Foster Wheeler Energy Ltd  
Imtech Process  
Interserve Industrial Services Ltd  
Jacobs LES Limited  
Kellogg Brown & Root Ltd  
Motherwell Bridge Limited  
Oceaneering  
Sembcorp Utilities (UK) Limited  
Wood Group PSN

**Government body**

Nuclear Decommissioning Authority

**Trade union or staff association**

Unite the Union

**Training provider**

C & G Assessments & Training Ltd  
Envirotec  
Federation for Industry Sector Skills and Standards  
Forth Valley College

Independent Scaffold Limited  
Leeds College of building  
Logistics Employment Training Services Ltd  
Lowton Training Services Ltd  
Maritime and Engineering College North West  
MetTECH  
Middlesbrough College  
Northumberland College  
Provek limited  
QTS  
The Assessment Service Centre  
The TTE Technical Training Group  
University of Wales, Newport

**Business representative organisation/trade body**

BCECA  
Semta

## **Annex C: Interviewees in relation to CITB**

- James Wates, Chair, CITB
- Steve Murphy, General Secretary, UCATT
- Simon Nathan and Jon Spencer, The UK Contractors Group
- Alasdair Reisner, Chief Executive, Civil Engineering Contractors Association
- Brian Berry, Chief Executive, The Federation of Master Builders
- John Slaughter, Director of External Affairs, The Home Builders Federation
- Graham Watts, Chief Executive, Construction Industry Council
- Suzannah Nichol, Chief Executive, National Specialist Contractors Council
- Raza Raheem, Director of Financial Control South of England, Skills Funding Agency
- Richard Gartside, Director of Talent and Leadership Development, Balfour Beatty
- Richard Jenkins, Welsh Federation of Master Builders.
- Officials from the Scottish and Welsh Governments.

## **Annex D: Interviewees in relation to ECITB**

- Bill Murray, Chief Executive, Offshore Constructors Association
- Neil Robertson, Chief Executive, Energy & Utilities Skills Board
- Mike Hockey, Managing Director, Engineering Construction Industry Association
- Peter Hill, Director of Finance/Board Secretary, ECITB
- David Edwards, Chief Executive, ECITB
- Nigel Spencer, Director Development & Quality, ECITB
- Tony Featherstone, Director of International Operations & Commercial, ECITB
- Sophie Macfarlane-Smith, Tom Martyn, Office for Nuclear Development
- Gill Clipson and Teresa Firth, Association of Colleges
- Tracey Shelley, Director, British Chemical Engineering Contractors Association (BCECA)
- David McNerney, AMEC (& ECITB Board Nuclear Representative)
- Neil Baldwin, Managing Director, Magnox Ltd
- Jock Simpson, past Executive Chairman of the National Joint Council for Engineering Construction

# **Annex E: Economic rationale for the CITB and the ECITB**

## **1. Introduction**

This analysis investigates the economic rationale for government intervention in the provision of training in relation to construction contracting and engineering contracting through the Construction Industry Training Board (CITB) and the Engineering Construction Industry Training Board (ECITB).

The CITB and ECITB operate grant-levy schemes, meaning that employees in scope pay a levy on payroll which contributes to a training fund. All firms within the sectors, regardless of size, can then draw on these funds to pay for training. Grant allocation constitutes the majority of spend for CITB and ECITB. However, other services are also offered, such as support for apprenticeships, undertaking research into industry trends and skills requirements, and promoting careers in the sector.

The rationale for these schemes are best considered where without such intervention, market failures could create skill shortages and gaps. Possible market failures include the free-rider problem, meaning employers seek to hire already skilled workers, disincentivising provision in the first place, credit constraints, meaning that training is infeasible, or information constraints, meaning that (socially) desirable training is not taken up by firms or individuals.

Assessing structural features of the construction and engineering contracting subsectors, this analysis finds that there are aspects which are likely to have a significant impact on the incentives or ability to provide training, which the CITB and ECITB in theory help to address.

Section 2 details the market failures that may lead to under-provision of training within a sector. Section 3 addresses the specific characteristics of the construction contracting and engineering contracting subsectors that are likely to impact the incentives for training. Section 4 discusses the role of the CITB and ECITB in addressing these issues.

## **2. Market failure rationale for under-provision of training**

From an economic perspective, there is a sub-optimal level of training in an industry if there is a social benefit of additional training that outweighs the cost to deliver it. This would create a skills gap, as valuable training in an economic sense would not be carried out. Possible market failures are explained below. These are often not mutually exclusive, and in practice may all occur with varying degrees of severity.

### **2.1. Free-rider problem**

Skills usually have general, occupational, and firm-specific elements. As such, training in general skills is often transferable and of use to several firms. When this is the case, some firms may seek to avoid the costs of training and try to secure trained workers from other firms. This threat to the firm providing training will dissuade such firms from future training provision. This is essentially the poaching externality or free-rider problem<sup>25</sup>.

The more likely workers are to move between firms, and the greater the degree of transferable skills, the more significant this problem may be, as it decreases the expected benefit accruing to the firm from providing training. Firms would be reluctant to provide training unless it pays off very quickly, allowing them to recoup their initial investment<sup>26</sup>. The free-rider problem is therefore more likely to be an issue in industries where there is a high degree of turnover and short-term employment.

The assumption underlying the free-rider problem is that individuals are not funding all their general training, but rather accumulate additional general skills through training provided by their employer.

### **2.2. Imperfect information**

Firms and individuals may have insufficient information about the likely returns to training, which discourages them from engaging in training. For example, firms may underestimate the benefits or overestimate the costs of training. In particular, the fact that training leads to lost work time may lead to a bias against its provision when firms are uncertain about the expected future benefit. This could especially be the case for self-employed workers, affected by an 'earn or learn' dilemma, where they must choose between forgoing short term income in order to boost future earning potential.

From an employee's perspective, similar issues may arise. For example, it may be that employees are unaware of any wage increases that can be expected following the training. This could reduce their willingness to accept lower wages during the training period or to receive any training at all<sup>27</sup>. There

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<sup>25</sup> UKCES, Understanding training levies Evidence report 47, July 2012

<sup>26</sup> THE GREEN BOOK, Chapter 3: Justifying Action

<sup>27</sup> Ibid

could be also concerns that firms will not wish to maintain their employment beyond the training period, which could also lower the return to the training<sup>28</sup>.

These issues may not only arise for existing employees, but also for potential employees entering an industry. For example, school leavers may not have a full understanding of the returns of working in a particular sector, and therefore may be unwilling to use their time or own funds to invest in the relevant training. This could present a particular issue for industries where image is a problem, helping to explain why certain industries fail to attract young talent or workers from other industries.

### **2.3. Credit constraints**

Training is costly, but individuals and firms would expect to obtain better outcomes (in wages or output) from training. They might benefit from borrowing funds for training in the expectation that they will be able to pay back these loans through these improved outcomes. However, low-paid employees or small firms may be credit constrained, and unable to obtain the funds to pay for training. This could particularly be the case if the returns to training are uncertain, meaning their borrowing presents a risk. This issue may be exacerbated for those who are self-employed, as these individuals have a higher opportunity cost through lost earnings when training. This implies that credit constraints can create a level of training in the market that is inefficiently low from society's point of view<sup>29</sup>.

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<sup>28</sup> UKCES, Understanding training levies Evidence report 47, July 2012

<sup>29</sup> The Green Book, Chapter 3: Justifying Action

### 3. Industry structure

Features of the construction contracting and engineering contracting subsectors may have an impact on incentives to provide training. This is the focus of this section. The analysis primarily refers to the construction contracting sector because under the Standard Industrial Classification (SIC) codes, civil engineering is a subset of construction contracting<sup>30</sup>.

The analysis finds two main issues affecting incentives for training provision. These relate to: i) demand for work and ii) the fragmented nature of the industry. These features both have implications for the employment structure and consequently the propensity to invest in skills training. They also affect the financial capability to do so.

#### 3.1. Demand for work

The industry is highly pro-cyclical, varying with the economic cycle. For example, construction contracting output shrank by 12% between 2008 and 2012<sup>31</sup> and in early 2012, the sector returned to recession for the third time in 5 years. Whilst the outlook for the sector is improving, the events of the last few years have had a significant impact on firm margins and their ability to make investments, including in training. In addition, future uncertainty may mean that construction firms are cautious in making investment decisions.

The construction industry is also characterised by project-based work, with projects varying in size and scope, and requiring differing labour forces and skills<sup>32</sup>. This creates an environment where the focus is relatively short-term, with firms ensuring that they can respond flexibly to project demands given uncertain market conditions.

The cyclical nature of work is common to both the CITB and ECITB sectors. The Gibson review<sup>33</sup> points to both the cyclical and seasonal nature of the engineering contracting subsector and provides several examples of work peaks and troughs. The implication of this lack of continuity of work is that it is common for firms to fail to take into account long-term view on skills training. Instead, an environment is created where firms tend to recruit the relevant skills to a particular project and often make use of labour-only subcontracting.

#### 3.2. Fragmentation

The construction contracting industry is highly fragmented, both horizontally, in terms of a large numbers of small firms, and vertically, as there are several tiers to the supply chain.

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<sup>30</sup> Construction contracting as a whole consists of SIC codes 41-43 excluding 41.1 (development of building projects). Code 42 relates to civil engineering.

<sup>31</sup> Output in the Construction Industry, February 2014

<sup>32</sup> For example, the National Infrastructure Pipeline provides an indication of the range of infrastructure projects.

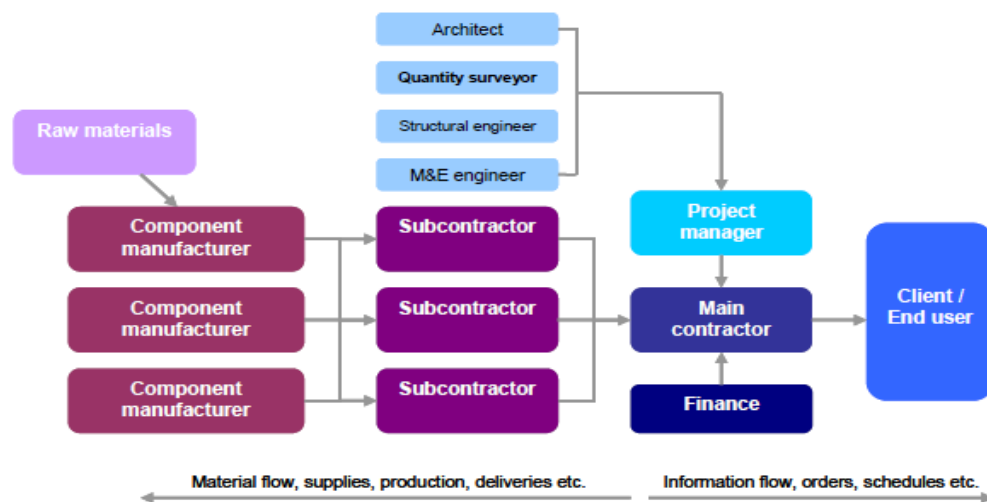
<sup>33</sup> Changing to compete: Review of Productivity and Skills in UK Engineering Construction, Gibson, Dec 2009

## Vertical fragmentation

Analysis by EC Harris<sup>34</sup> demonstrates that for a 'typical' large building project (in the £20 - £25 million range) the main contractor may be directly managing around 70 sub-contracts of which a large proportion are small – £50,000 or less. For a regional project, the subcontract size may be even smaller.

This high degree of sub-contracting creates an environment where the main contractors have a relatively small workforce, and little direct employment. Whilst this makes the industry flexible and adaptable, and is efficient for the sector, it also creates an environment where the main contractors have a lesser incentive to invest in the workforce, as they are purchasing the relevant skills as required rather than investing in the long term. Additionally, where sub-contractors may work for a different employer in the future, this reduces the incentive for the principal contractor to upskill a workforce that may work for a competitor in the future. Project teams change on a regular basis, and there is also a high degree of self-employment, explained in more detail below.

## Illustrative construction supply chain<sup>35</sup>



Note: This is a very simplified representation of construction supply chain. In practice a construction project may rely on tens of subcontractors and component manufacturers.

## Horizontal fragmentation

As we move down the supply chain, there are increasing numbers of small firms. Construction contracting is primarily made up of SMEs, with 99.9% of construction contracting businesses falling within this category (defined as businesses with less than 250 employees)<sup>36</sup>. This predominance of SMEs is

<sup>34</sup> EC Harris for BIS (2013) Supply Chain Analysis into the UK Construction Sector

<sup>35</sup> BIS Analytical Paper, UK Construction: An Economic Analysis (July 2013)

<sup>36</sup> BIS Business Population Estimates for the UK and Regions (2013). SMEs are defined here as businesses with 0-249 employees.



seen across different subsectors of construction contracting. There is also a high number of business start-ups, compared with other sectors.

The UK has a larger number of small firms, and fewer large firms than many of our European counterparts, highlighted in the table below. Overall, the high incidence of small firms has strong implications for firms' abilities to invest in skills training, affecting both their financial and organisational capacities.

### Size of firms in the EU <sup>37</sup>

*Table 5 Number and size of construction firms in European Union in 2000 (Total per country = 100 %)*

	Number Of firms (thousands)	Less than 10 employees	From 10 to 49 employees	50 employees and more
Germany	279	82,0 %	16,2 %	1,8 %
Italy	282	87,0 %	11,8 %	1,2 %
France	320	92,3 %	7,0 %	0,7 %
United Kingdom	511	95,5 %	4,3 %	0,2 %
Spain	191	90,3 %	8,5 %	1,2 %
Other EU countries	324	89,6 %	9,2 %	1,2 %
EU Total	1907	90,0 %	9,0 %	1,0 %

Sources: Eurostat, Ministère de l'Équipement, des Transports et du Logement, Direction des Affaires Economiques et Internationales, «Données : La construction en Europe », 2003

## 3.3. Employment structure and trends

### Self-employment

One of the implications of high fragmentation in the construction contracting sector is a high degree of self-employment compared with other sectors. Around 40% of total construction contracting jobs are self-employed compared with around 15% across the whole economy<sup>38</sup>.

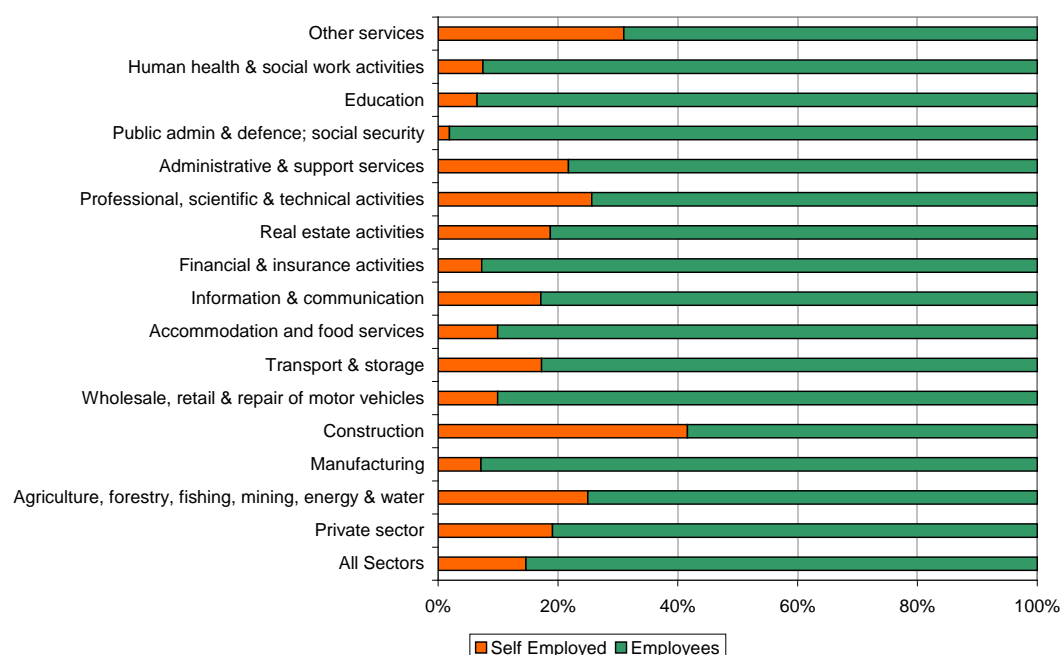
Self-employed individuals are often less aware of their own skills deficit and evidence suggests that they are “less conscious of external changes requiring them to update their skills and knowledge techniques”<sup>39</sup>.

<sup>37</sup> CIB Publication No. 293: The Construction Sector System Approach: An International Framework

<sup>38</sup> ONS Labour Force Survey

<sup>39</sup> <http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-31-skills-for-self-employment.pdf>

## Self-Employment across industry sectors (Dec 2013)



## Length of employment and labour mobility

The project based nature of work and mobile workforce means that employment in the CITB and ECITB sectors is often short-term. The Construction Skills 2012 mobility survey<sup>40</sup> found that in the UK, almost a quarter of respondents did not expect to work on the same site for more than a month. 30% were confident that their next job would take them away from home over night, but did not know the region. The analysis also highlighted that in some regions, a very high percentage of people work in a different region to where they live, at around 40% in the South East and Greater London in 2012.

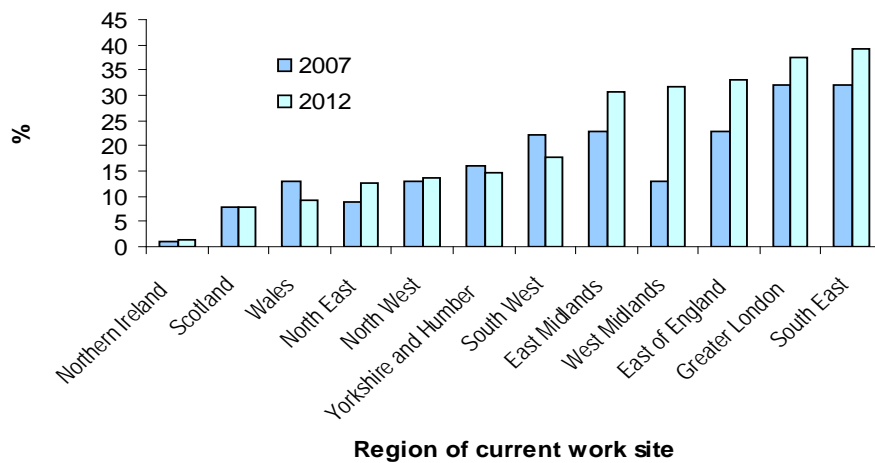
In the engineering contracting industry there are similarly very high levels of movement as workers migrate from site to site and over a third are self-employed or labour only sub-contractors. Many of these are so-called 'travellers' working away from home<sup>41</sup>.

Again, this demonstrates the high degree of mobility within the construction and engineering contracting workforces, which as explained above impacts upon firm incentives to fund training for their employees.

<sup>40</sup> [http://www.citb.co.uk/documents/research/workforce\\_mobility\\_2012\\_uk\\_.pdf](http://www.citb.co.uk/documents/research/workforce_mobility_2012_uk_.pdf)

<sup>41</sup> UKCES, Understanding training levies Evidence report 47, July 2012

**Percentage of people working in a different region to where they live (have a permanent residence)**



**3.4. Access to finance**

There is evidence that construction firms face more issues than the rest of the economy in accessing bank finance. The SME Finance Monitor<sup>42</sup> finds that SMEs in construction contracting tend to have a lower success rate in obtaining overdrafts and loans than an average SME. For example, in the 18 months to December 2013, 54% of construction contracting applicants surveyed ended the process with a loan facility compared to 56% across SMEs as a whole. This was a significant improvement on earlier periods, where the success rate was only 41% during the equivalent period a year earlier. Until recently, construction contracting firms also had a higher than average proportion of SMEs classified as ‘worse than average risk’.

As well as having low success rates in obtaining financing, SMEs in the construction sector are also less likely to apply for bank finance<sup>43</sup>. This low application rate and low success rate can often lead to firms being financially constrained and unable to make business investments even if desirable.

A related issue is cash flow and liquidity concerns. Fragmentation in the construction supply chain means that margins can be low for individual parties, and there is a high reliance on cash flow. Late payment is often an issue within construction contracting, and therefore SMEs often have to rely on trade credit i.e. delaying payment to a particular supplier. This is not a liquid asset, meaning firms offering trade credit further constrain their cash flow. The overall implication is that firms may be constrained in their ability to fund desirable training for their employees.

**3.5 Implications of industry structure for training provision**

The high degree of industry fragmentation and commonality of project-based working has significant implications for the employment structure in the

<sup>42</sup> SME Finance Monitor Q4 2013: The Year in Review, <http://www.sme-finance-monitor.co.uk/>

<sup>43</sup> SME Finance Monitor Q4 2012, BDRC Continental March 2013

construction and engineering contracting subsectors, and in turn the incentives or ability to provide and organise training.

The free-rider problem may be exacerbated as the lack of direct employment, high degree of labour mobility and a high degree of vertical fragmentation would have the impact of reducing incentives for firms in the supply chain to invest in skills.

The high degree of self-employment and proportion of SMEs is also an important factor in the provision of training. For these firms, raising the funds for training may be more problematic, especially given the issues around poor access to finance and cash flow dependence. There is also a perceived greater opportunity cost if firms see a direct impact on earnings (i.e. 'earn or learn'), which will also potentially discourage investment in training. This is more likely if the expected future benefit is uncertain and firms have a high discount rate i.e. value today more highly than tomorrow, which is likely to be the case due to the short-term, project focussed nature of work.

Small firms may also lack the organisational capacity to take on and develop less skilled workers. For example, UKCES Skills for Employment 2011 found that "acquiring employees is a big step for the minority of self-employed people who employ others. Self-employed business owners often struggle with managing others for the first time and may face other deficits in their human resource management skills"<sup>44</sup>. The UK has a larger proportion of small firms than our European counterparts.

To summarise, the analysis suggests that there are structural features of the construction and engineering contracting subsectors which mean that the industries may be subject to worse incentive problems than other sectors in the economy, and information and credit constraints could also be more severe. The implication is that intervention to help mitigate these market failures would be desirable. The role of the CITB and ECITB in addressing these issues is the focus of the next section.

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<sup>44</sup> <http://www.ukces.org.uk/publications/er31-skills-for-self-employment>

#### 4. Theoretical role of CITB and ECITB

The CITB and ECITB should in principle help to address the issues identified in Section 3 which are likely to affect training supply in the construction and engineering contracting subsectors.

In relation to the free-rider issue, grant-levy schemes should help to improve incentives for firms to provide training. The argument is that once funds have been paid to the CITB or ECITB, there is then an additional incentive to provide training in order to recoup a return on this spend. Such a system should hence encourage firms to put greater emphasis on upgrading the skills of their workforce and making them more competitive<sup>45</sup> (although recognising that training still has an opportunity cost in terms of working time lost). Supporting this hypothesis, employers report on balance doing more training under these arrangements than would otherwise be the case<sup>46</sup>. However, without levies companies would provide fewer resources for training because the benefits would be lost if the employee concerned leaves<sup>47</sup>.

Grant levy systems should also help to ease credit constraints as they are often redistributive in nature i.e. smaller firms make a zero or limited contribution. This is important in the construction and engineering contracting subsectors given the high predominance of SMEs firms and access to finance issues noted in Section 3.

Finally, grant levy systems can have informational benefits, both at the firm and industry levels. As mentioned above, the requirement to pay into a levy system should help to increase company awareness of the importance of training and improving capability. These issues are particularly prominent in the construction contracting sector due to the high labour mobility and project based nature of work. However, there can also be wider benefits such as helping to improve organisational capability within smaller firms by identifying the best approach to delivering training or what could be most valuable. The systems can also help to draw new entrants into an industry. This is relevant in the construction contracting sector, which is considered to suffer from image issues<sup>48</sup>.

The effectiveness of any grant-levy scheme in increasing the supply of training will in practice depend upon how it is set up and administered and its operational functions. The efficiency will depend upon the extent of any possible deadweight loss, for example large employees may be subsidised for schemes that would have funded anyway and suffer a cost through the administration of the scheme. This analysis does not look at these issues, rather it considers theoretical features of the construction contracting and engineering contracting subsectors that lend themselves to ITBs. However, there is some qualitative evidence to support the theoretical arguments.

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<sup>45</sup> Training Levies: Rationales and Evidence from Evaluations, (2004) World Bank

<sup>46</sup> UKCES, Understanding training levies Evidence report 47, July 2012

<sup>47</sup> Gibson review (2009)

<sup>48</sup> For example, survey data indicates that parts of the construction sector have an image problem that may deter people from entering the industry. See CITB-ConstructionSkills (March 2013) and Pye Tait consulting (2012)

## Qualitative evidence

Looking briefly at the qualitative evidence, BIS-commissioned research, 'Understanding Training Levies', found evidence that companies in the construction and engineering contracting sectors overall take a positive view of the levy, and believe that it leads to better training outcomes. This was endorsed by the responses to the survey carried out by the BIS Triennial Review Team. It also found that whilst only larger firms pay the levy, the benefits are spread across firms and neither large firms or smalls firms benefit most or are particularly disadvantaged. However, this does not mean that the schemes do not receive criticism.

Some complain that levy is costly and there would be no intermediate costs if employers were free to train their workforce. However, UKCES research found that the administrative costs of collecting the levy and paying out the grant is real, but not substantial, in particular in the case of collection<sup>49</sup>. Advocates of levy system see these costs offset by increased productivity.

Second of all, there is some deadweight effect for large employers. Indeed, these schemes could subsidise programmes that employers may have provided anyway. This would lead to a windfall to firms with well-established training programmes, while other firms, which should be increasing their training, may not do so<sup>50</sup>. Again supporters of the current system see this drawback as limited compared to the benefits for SMEs and self-employed.

Finally, there may be negative effects on the type of training; levies may bias towards more formal and externally-provided courses and away from on-the-job training which is less assessable, but which may be as, or more, valuable<sup>51</sup>. Levies may also advantage bigger firms because with their greater administrative capability, they could be able to claim back grants. There could also be redistributive impacts depending on whether the levy is passed onto employees through lower pay, or clients through higher prices. However, both impacts could be offset through productivity rises. Indeed, low productivity has been a consistent theme in the construction contracting sector.

## Final conclusions

The evidence suggests that there is a theoretical rationale for the CITB and ECITB and there is also supporting qualitative evidence. It is not possible to establish what levels of training provision would be in their absence, and this is beyond the scope of the analysis, however, Box 1 briefly considers the current skills picture. This is important for any possible review of ITB operations in the future.

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<sup>49</sup> UKCES, Understanding training levies Evidence report 47, July 2012

<sup>50</sup> Training Levies: Rationales and Evidence from Evaluations, (2004), World Bank

<sup>51</sup> UKCES, Understanding training levies Evidence report 47, July 2012

### Box 1: Current skills issues

UKCES (2012)<sup>52</sup> is a comprehensive source for skills issues affecting the construction sector<sup>53</sup>. It summarises the key skills challenges as:

1. The cyclical nature of the sector. This presents a difficulty through hiring employees during upturns as well as a wider image issue for new entrants, who look to more stable sectors.
2. Technological advances including modern methods of construction and the low carbon agenda.
3. Globalisation and increased international competition that widen the required skillset, such as language and managerial skills.

The report also draws on skills mismatches within the sector, and in particular skills shortages which have a detrimental impact on performance. The cyclical shifts in demand are seen as a key driver of this. However, it also finds that “the relatively large share of micro-employers and the number of self-employed people in the sector means that some people can fall outside of existing skills supply-mechanisms unless they are encompassed within industry supply chains which require people to be trained and qualified”.

The report therefore suggests that there are still skills gaps and future challenges which need to be addressed. On the other hand, it also draws upon evidence which demonstrates that the sector has a well-developed training infrastructure, supported by the grant-levy scheme (which applies to most of the sector), and which has seen improvements in the level of skills in the sector over the recent past.

This brief analysis of skills within the construction sector reinforces the conclusion that structural features of the construction and engineering contracting industries are likely to impact upon training supply. As discussed above, CITB and ECITB should go some way in addressing these issues. In practice, the effectiveness of the schemes and their ability to address both current and future skills challenges depend to a large extent on how they are administered and operated.

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<sup>52</sup> UKCES Sector Skills Insights: Construction (July 2012)

<sup>53</sup> This report defines the construction sector as construction contracting (including engineering contracting) and architectural and surveying services.

**Annex F:**

**Stage Two of the Triennial Reviews for  
Executive Non Departmental Public Bodies**

**Governance and Control Assessment  
documentation**

**BIS Version 0.9**

**Construction Industry Training Board  
CITB**

**Completed by Bruce Barclay on behalf of BIS  
Robert Dale and Mark Buckton on behalf of CITB**

**Reviewed by Duncan Adams  
Christopher Phillips**



### 3. STATUTORY ACCOUNTABILITY

*Does the public body comply with all applicable statutes and regulations and other relevant good practice?*

Detail of Requirement	Assessment
<p>The PO:</p> <ol style="list-style-type: none"> <li>1. complies with all statutory and administrative requirements on the use of public funds (including HMT Managing Public Money, and CO/HMT spending controls);</li> <li>2. operates within the limits of its statutory authority and in accordance with delegated authorities agreed with BIS;</li> <li>3. operates in line with statutory requirements for the Freedom of Information Act;</li> <li>4. has a comprehensive publication scheme;</li> <li>5. proactively releases information that is of legitimate public interest;</li> <li>6. Produces annual reports and accounts which are laid before Parliament</li> <li>7. complies with data protection legislation;</li> <li>8. complies with Public Records Acts 1958 and 1967.</li> </ol>	<p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p>

Overall assessment of statutory accountability	G
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## Evidence of compliance or explanation for non-compliance

1.

Terms of appointment letter from BIS (Appendix A), supported by guidance from CITB Corporate Governance Unit.

CITB's use of assets is covered in the Framework document with BIS (Appendix B) and CITB have unqualified accounts.

The CEO is appointed as Accounting Officer by BIS (Appendix F)

CITB refers to the Treasury reporting manual in the preparation of its Annual Report and Accounts

CITB also complies with the Charity Act.

2.

The Industrial Training Act (ITA) gives clear definition of our statutory powers, supported by an in house legal team who are experienced at interpreting it. Delegated authorities are set out in the Framework document which is agreed with BIS every 3 years and defines our responsibilities to BIS (Appendix B). For example, there are delegated powers from the Secretary of State for CITB to conduct activity overseas, see Section 10 of the ITA (Appendix C).

3.

We record FOI cases and deal with them in line with our obligations. There are no judgements by the ICO that criticise CITBs performance. For a list of FOI requests from the last 2 years see Appendix D & E, examples are at Appendix R & S.

4.

CITB proactively publishes 7 types of information regularly. These are:

- Annual Report and Accounts
- Corporate Business Plan
- Levy Order
- Grants Scheme
- Board Minutes
- The results of any surveys conducted by CITB on Levy, Grant or other matters
- Research data, e.g. the Construction Skills Network research

CITB has a publication scheme and has a commitment to openness and transparency in line with the Information Commissioner's Office Model Publication Scheme. Nearly all the information suggested can be found on our website, [www.citb.co.uk](http://www.citb.co.uk), which includes a transparency area similar to that on the BIS Government website - <http://www.citb.co.uk/about-us/how-were-run/transparency/>. The model scheme includes a reference to 'Lists and registers - Information held in registers required by law and other lists and registers relating to the functions of the authority.' CITB holds lists, like the Levy Register, which it is not permitted to publicise as stated in the ITA legislation (Appendix O, Section 5, Subsection 6 (2)). There is an ICO decision (date: 26/02/2013, ref: FS50468317) that supports the Statutory bar on the provision of this information.

<p>Grant claims are not published as these are commercially sensitive and are supported by the same statutory bar. The Annual Report &amp; Accounts does list the 100 highest grant claimers.</p> <p>Annual Report and Accounts can be found at - <a href="http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/">http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/</a> . This also includes a list of Board members' interests.</p>
<p>5.</p> <p>We proactively publish the Construction Skills Network data and have the external website (<a href="http://www.citb.co.uk">www.citb.co.uk</a>) and bConstructive (<a href="http://www.bconstructive.co.uk/">www.bconstructive.co.uk/</a>) to provide information externally and any research data that is of use to the industry.</p>
<p>6.</p> <p>Annual Report and Accounts - <a href="http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/">http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/</a> and in the House of Commons library on the Stationery Office website</p>
<p>7.</p> <p>Fair processing notices, cooperation with section 29 requests, information security and protecting information training for all staff. We have a data protection policy.</p> <p>See List of FOI requests Appendix D &amp; E, Examples see Appendix R &amp; S</p>
<p>8.</p> <p>CITB is not listed as being an included body on the Public Records Act 1958 and is therefore not subject to this legislation.</p>

Sources of evidence include:

- delegation letter – Appendix F
- annual report - website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>
- audited accounts – website above
- List of FOI requests – Appendix D & E
- responses to FOI requests – Appendix R & S

### **Strengths identified**

Clear understanding of statutory powers, reinforced by charitable status. We are well equipped to deal with requests made under the freedom of information act and this has been well managed. We hold a lot of personal data and so are well informed about our obligations under data protection legislation and this is competently adhered to.

CITB accounts are unqualified.

No recent challenges have been brought via the Ombudsmen and there have been no significant\* legal judgements against CITB. \*There have been very few minor industrial tribunal cases that have been judged against CITB's favour.

### **Areas for improvement and action planned**

Information requests from Government go beyond statutory Governance and are more about Partnership Organisation controls. The current framework document does not sufficiently articulate accountability for CITBs operations, and this requires greater clarity. CITB is employer led and funded. This means the Board believes that it is and should be accountable for the operations of the organisation and how its money is spent. As a registered charity, Board members have personal obligations to ensure that resources are deployed in the interests of Charitable beneficiaries first and foremost. They are also drawn from those who pay the Levy and so have a very direct interest in the efficiency and effectiveness of the organisation.

However, in the past Government have sought to control all partnership organisations in the same way. It would be beneficial to clarify which Government controls should be applied to CITB, an organisation that receives no Grant in Aid and depends for its ongoing existence on the continuing expression of support from the industry for its existence. A Framework Agreement that reflects this situation should be drawn up on completion of the Triennial Review.

CITB could look at updating their publication scheme in line with the Information Commissioner's Office, Model Publication Scheme.

## 4. ACCOUNTABILITY FOR PUBLIC MONEY

*The Accounting Officer of the PO is personally responsible and accountable to Parliament for the use of public money by the body and the stewardship of assets*

Detail of Requirement	Assessment
1. there is a formally designated Accounting Officer (AO) who in particular has a responsibility to provide evidence-based assurances required by the Principal Accounting Officer (PAO);	Comply/ <del>Explain</del>
2. the role, responsibilities and accountability of the AO should be clearly defined and understood and the AO should have received appropriate training;	Comply/ <del>Explain</del>
3. the PO should be compliant with requirements set out in Managing Public Money, relevant Dear Accounting Officer letters and other directions;	Comply/ <del>Explain</del>
4. the PO should establish appropriate arrangements to ensure that public funds: <ul style="list-style-type: none"> <li>• are properly safeguarded;</li> <li>• are used economically, efficiently and effectively;</li> <li>• are used in accordance with the statutory or other authorities that govern their use;</li> <li>• deliver value for money for the Exchequer as a whole;</li> <li>• are subject to Treasury approval, either directly or through established delegated authority;</li> </ul>	<del>Comply/Explain</del>
5. the annual accounts are laid before Parliament after certification by the Comptroller and Auditor General	Comply/ <del>Explain</del>

Overall assessment of accountability for public money

A/G

## Evidence of compliance or explanation for non-compliance

1.

The CEO is designated as the Accounting Officer and this is evidenced by the AO letter (Appendix F)

2.

The CEOs Role Description defines the role of Accounting officer (Appendix G)

CEO (Adrian Belton) is Appointed as the Accounting Officer by Government. Formal training was gained by Adrian on the 1<sup>st</sup> May when he attended the Introduction to Accounting Officer Responsibilities course. The CEO was also AO at FERA and so has past experienced in this role and is a member of ACE, being committed to continuous professional development and refresher training.

3.

NAO annual audits demonstrate compliance – see annual report and accounts

4.

Controls are set out in the Management statement.

Scrutiny from levy payers

Control via the Board and oversight from Audit and Risk committee (Appendix T)

Controls for mitigating fraud, but currently the fraud risk assessment is being updated.

An expenses policy for non – Executives

An expenses policy for staff that reflects that used by BIS

Statutory powers

CITBs status as a charity requires the efficient use of assets for the benefit of CITBs beneficiaries. However as CITB does not receive Grant in Aid it does not require specific Treasury approval.

CITB have an internal Audit capability that operates in accordance with the Public Sector Internal Audit standards

Finance team is responsible for ensuring limits are adhered to on a day to day basis and Internal Audit monitor compliance.

Finance system issues

IT Procurement issues

5.

Annual Report and Accounts - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>

Sources of evidence include:

- AO delegation letter – Appendix F
- minutes from quarterly meetings – audit committee minutes – Appendix T
- Annual report and accounts website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>

- details of training attended – given in text
- NAO/PAC reports – in the Annual report and accounts

### **Strengths identified**

CITBs charitable status and the control this infers, including an obligation for efficiency, personal liability on behalf of the trustees and the requirement for close collaboration with our beneficiaries means that CITB is run in line with the industry's requirements and its assets and used exclusively for their benefit and in the manner the Board prescribes.

### **Areas for improvement and action planned**

CITB currently pursues 3 types of activity; statutory duties under the ITA (e.g. Levy and Grant services), Charitable activities (e.g. Apprentice training or Standards setting) and Charitable Trading activities (e.g. Adult Training or card services). The assets that these require and produce are all treated correctly as Public money; however, this is not appropriate to all activities. If CITB were to be given the power to have a subsidiary or joint venture then it may be possible to have a more appropriate accountability policy which would simplify the burden on the Public Body and give the required greater freedoms to the more commercial type areas of CITB.

A counter fraud group has just been started by CITB and this is tasked with developing an improved counter fraud strategy, taking account of good practice shared by the BIS counter fraud team

CITB has recently had a reportable loss due to a failed IT procurement (Annual Report and Accounts 2012, section 26) and the current Finance system is not working optimally. CITB knows that its IT infrastructure is sub optimal and that it will need to improve this situation efficiently in the short to medium term. CITB believes that, similar to how BIS and other Government bodies have improved their IT, a collaborative approach to this IT improvement would be most beneficial and low risk. CITB is however prevented by its legislation into legally entering modern collaborative ventures and thus this puts CITB at a disadvantage when trying to modernise.

## 5. MINISTERIAL ACCOUNTABILITY

*The Secretary of State is ultimately accountable to Parliament and the public for the overall performance of the public body*

Detail of Requirement	Assessment
1. the Secretary of State and Sponsor should exercise appropriate scrutiny and oversight of the PO;	Comply/ <del>Explain</del>
2. appointments to the board should be made in line with any statutory requirements and, where appropriate, with the <i>Code of Practice</i> issued by OCPA;	Comply/ <del>Explain</del>
3. the Secretary of State will normally appoint the Chair and all non-executive board members of the PO and be able to remove individuals whose performance or conduct is unsatisfactory;	Comply/ <del>Explain</del>
4. the Secretary of State should be consulted on the appointment of the Chief Executive and will normally approve the terms and conditions of employment;	Comply/ <del>Explain</del>
5. the Secretary of State should meet the Chair and/or Chief Executive on a regular basis;	Comply/ <del>Explain</del>
6. Parliament should be informed of the activities of the PO through publication of an annual report;	Comply/ <del>Explain</del>
7. a range of appropriate controls and safeguards should be in place to ensure that the Secretary of State is consulted on key issues and can be properly held to account (e.g. Business Plan, power to require information, a general or specific power of Ministerial direction over the PO, a power for the Secretary of State to be consulted on key financial decisions.)	Comply/ <del>Explain</del>

Overall assessment of Ministerial  
Accountability

G



## Evidence of compliance or explanation for non-compliance

1.

The performance management of the Organisation is carried out via an annual meeting between the Chairman and CEO with the Skills Minister. The Management Statement outline specific items for which we need to gain approval and we have frequent contact with officials, making sure they are aware of plans and progress.

2.

This is under the control of BIS and is currently being applied as part of the work to refresh the CITB Board. All Board Members are appointed by Ministers under Section 3 of Schedule 1 of the Industrial Training Act 1982. The majority of members must by law be senior, active employers from the industry. While most appointments and appointment processes are fully compliant with the OCPA Code of Practice, there are a few appointments which are classed as 'ex-officio' (individuals are given a seat on the Board by virtue of the position they hold) and therefore do not have to fully comply with the principles set by the Commissioner for Public Appointments (OCPA).

3.

See 2 above, all Board members are non-Executive so there is only one process. The Chair is appointed by the Secretary of State (Appendix A) and Board Members (Appendix J). The Chair participates in all appointment interviews for Board members and has done so for CEO appointments. The Chair would remove individuals if necessary with approval from the Skills Minister.

4.

CEO is appointed by the Board as per the powers in the Industrial Training Act 1982 (Appendix O). This gives the Board power to set the employment conditions for all officers including the CEO, however, in the recent appointment process full communication was maintained with BIS, resulting in some changes to the terms of employment. This has therefore been shown as comply as CITB have statutory powers exceeding this statement and we voluntarily consult Government on the appointment. CEO is appointed as the Accounting Officer by Government

5.

There is an annual meeting between the Chairman and CEO with the Skills Minister. The Skills Minister also attends other CITB events and is therefore able to assess CITB throughout the year informally assessing and picking up the industry's view of CITB.

6.

Annual Report - website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>

7.

BIS influences the strategic direction of CITB via the Annual Business Plan, Annual Report and Accounts and approving the Levy rates via the Levy Order which are all approved by the department.

The Management Statement outlines specific items for which CITB needs to gain approval and we have frequent contact with officials, making sure they are aware of plans and progress.

The ITA gives clear powers for CITB which are well understood by CITB, especially as the in house legal team are experts on the legislation.

Sources of evidence include:

- framework document – Appendix B
- risk analysis – Appendix H
- appointment letters – Appendix A and J
- Annual Report - website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>
- Business Plan – website - <http://www.citb.co.uk/documents/businessplan/citb-business-plan-2014-2016.pdf>

### **Strengths identified**

The ITA gives clear powers and these are adhered to by CITB. CITB is well aware of its powers as the internal Legal team are experts on the legislation. There is a regular interaction between CITB and BIS, usually via the Sponsorship team.

### **Areas for improvement and action planned**

Action Planned - There is a need to seek renewal of our authority to carry out activities overseas, which is done by writing periodically to the Minister. At the time of the last renewal (2004) the authority was granted 'until the next Review'. The CITB Heads of Corporate Governance and Legal are drafting a letter for this purpose.

During the Triennial Review process CITB has realised that its activities and roles are not as well understood across the whole of Government as it would like. CITB intends to improve engagement with a range of officials in related departments to address this.

## 6. ROLE OF THE SPONSORING GROUP

*BIS ensures that there are robust governance arrangements with the board of each PO setting out the terms of their relationship, and how they will be put in place to promote high performance and safeguard propriety and regularity*

Detail of Requirement	Assessment
<p>1. the Group should scrutinise the performance of the PO. There should be appropriate systems and processes to ensure effective governance, risk management and internal control in the PO;</p>	Comply/ <del>Explain</del>
<p>2. there should be a Framework Document in place which sets out clearly the aims, objectives and functions of the PO and the respective roles and responsibilities of the Secretary of State, the Sponsoring Group and the PO. It should be regularly reviewed and updated and follow relevant CO and HMT guidance. The Framework document should include a Financial Memorandum as an appendix. A review of the Framework document should be carried out every three years and in line with the Triennial Review.</p>	Comply/ <del>Explain</del>
<p>3. a Sponsor should be identified and there should be regular and ongoing dialogue between the Sponsoring Group and the PO. Senior officials from the Sponsoring Group may as appropriate attend board and/or committee meetings.</p>	Comply/ <del>Explain</del>

Overall assessment of the role of the Sponsoring Group

G

## Evidence of compliance or explanation for non-compliance

1.  
There are appropriate controls and these are reported on in the Governance Statement of the Annual Report and Accounts.

2.  
The Framework document was set in 2010 and was fully compliant at the time (Appendix B).  
The Sponsorship team have been told to wait for the TR to finish before updating the Framework document which will take it over the 3 year renewal point.

3.  
Regular KIT meetings (weekly) are conducted.  
The Sponsorship team look at all appropriate documents produced by CITB. Senior officials attend all Board meetings as observers and give advice when required  
The Welsh, Scottish (and where appropriate Northern Irish) Governments can also send representative observers, although only Wales currently takes up this offer.

Sources of evidence include:

- Annual Governance Statement or equivalent, in the Annual Report - website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>
- Framework Document – Appendix B

## Strengths identified

There is good communication with the BIS Sponsor team to ensure they clearly understand what we are doing and plan to do, why and how we do it and what legislative and administrative changes would assist.

This is supplemented by an open door policy on telephone and email contact with a commitment on CITB's part to provide all information promptly.

They have observer status on the Board and also attend all Audit Committee meetings

NAO also provide scrutiny which is taken into account by the Sponsorship team.

**Areas for improvement and action planned**

CITB recognise that it has not engaged as fully with Policy leads across BIS as it could have done. Recent appointments, e.g. Stephen Radley, are a deliberate policy on behalf of CITB to increase engagement across Government.

Action Planned – to renew the Framework document once the outcome of the Triennial Review is approved and known.

## 7. ROLE OF THE BOARD

*The PO is led by an effective board which has collective responsibility for its overall performance and success, and provides strategic leadership, direction, support and guidance. The board has an appropriate balance of skills, experience, independence and knowledge, with a clear division of roles and responsibilities between Executives and Non-Executives*

Detail of Requirement	Assessment
<p>The Board of the PO should:</p> <ol style="list-style-type: none"> <li>1. meet regularly, retain effective control over the PO, and monitor the SMT, holding the CEO accountable for the performance and management of the PO;</li> <li>2. be appropriate in size with membership from a diverse background;</li> <li>3. establish a framework of strategic control specifying what matters are reserved for the board and establish arrangements to ensure it has access to relevant information, advice and recourses to carry out its role effectively;</li> <li>4. establish formal procedural and financial regulations to govern the conduct of its business;</li> <li>5. make a senior executive responsible for ensuring appropriate advice is given on financial matters, procedures are followed, and that all applicable statutes and regulations and other relevant statements of best practice are complied with;</li> <li>6. establish a remuneration committee to make recommendations on the remuneration of top executives. Information on senior salaries should be published and rules for recruitment and management of staff provide for appointment and advancement on merit;</li> <li>7. evaluated annually, including an evaluation of the chair and board members.</li> </ol>	<p>Comply/<del>Explain</del></p> <p><del>Comply</del>/Explain</p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p>

Overall assessment of role of the Executive Board

A/G

## Evidence of compliance or explanation for non-compliance

1.

The Board meets regularly, 5 times per year and, if necessary, can meet at other times as well. It monitors the SMT and holds the CEO accountable of the performance of the organisation.

2.

The Board has recognised itself that it is too large to be effective and has put forward proposals for a more streamlined arrangement with fewer members, chosen on the basis of their skills and experience.

The new Board would continue to be largely drawn from the industry with some independent members to help avoid the risk of 'group think'. The new Board will include employers from England, Scotland and Wales.

The new Board will be supported by a proposed Council whose make up will be broadly representational of the sector.

3.

There is a clear framework of items brought to the Board, which includes the provision of management and performance information, including capital expenditure, property acquisition or disposals, changes in overall strategic direction and that of part of the organisation, e.g. The Board has decided on the future change of NCC in to the IAC

4.

Board members are made aware of their responsibilities as Charitable Trustees and non- Executives. The Board is made aware if there are changes to their responsibilities, e.g. they receive a regular update from the Charity Commission.

CITB has a code of conduct for Board members (Appendix N).

There are terms of reference that are agreed for the Boards Committees, which define what the Committees can and can't do, who belongs to each group and how their business should be conducted, e.g. debt write-off authorisation levels are governed in this manner via the Finance Committee.

5.

The Role Description of the Chief Financial Officer (Appendix L). The Head of Finance is the Deputy CFO.

We have a Head of Corporate Governance who is responsible for relations with the Sponsorship team and the achievement of our other reporting requirements to the Charity Commission, OSCR and Parliament.

6.

CITB have a Remuneration committee drawn from Board Members.

The annual report and accounts have a separate remuneration report on senior salaries and this is also published on the website in the Transparency area. <http://www.citb.co.uk/Documents/about-us/how%20we%20are%20run/transag-senior-salaries.csv>

Remuneration committee decide on the annual pay settlement for all staff.

There is a Total reward framework for managers and staff. The salary range for each grade is benchmarked externally using an independent company. Numbers and grades for all individuals are published on the website at <http://www.citb.co.uk/Documents/about-us/how%20we%20are%20run/transag-junior-staff-fte-and-payscale.csv> All Managers and Staff roles are set by an internal panel using a good practice formula that sets the grade for the role. CITB has a range of policies to ensure fair and open recruitment. This is ensured as all appointments have to be managed by the Recruitment Manager. There is also a Headcount Control Panel to ensure that all recruitment is necessary.

7.  
CITB comply except the Chair's performance is not evaluated outside of the annual performance meeting with the Skills Minister. In 2012 an external evaluation of the whole Board was conducted (Appendix Q)

Sources of evidence include:

- minutes of Board meetings – 2013 Board Papers - <http://www.citb.co.uk/about-us/how-were-run/our-boards-committees/papers/2013-board-papers/>
- terms of Reference for the Board meetings – Appendix O
- job descriptions – letter outlining Board rules and responsibilities – Appendix M
- Code of Practice for Board Members – Appendix N
- Annual Report and Account
- Attendance records of board members – shown in the annual report and accounts
- Audit and Risk Committee Terms of Reference – Appendix P
- Board Evaluation Report – Appendix Q
- Reviews of Board Members' performance on reappointment – Appendix X
- CFO Role Description – Appendix L

### **Strengths identified**

CITB has a Board made up of Industry employers, client companies and some educational members, as well as observers from Government. It is entirely voluntary except for the Chair and Deputy Chair. This makes it independent and reflective of the organisation's beneficiaries.

In 2013 the CITB Board decided to reform its structure and governance. Full details have been provided to the BIS Sponsorship Team.

The CITB Corporate Governance team is a centre of excellence for the support and management of the higher level control and decision making levels within the organisation as well as bringing together the Board, Sponsor team and Executive.

Board workshops between the Board, Executive, Managers and internal experts have been use in the past to generate strategy or plan for any significant initiative.



## **Areas for improvement and action planned**

CITB is strengthening evaluation processes including launching individual performance evaluations for Board members and considering how to evaluate the Chair appropriately.

Individual performance reviews are being implemented from November 2014 or on completion of the appointment of a new Board, whichever is earlier. This is a delicate subject as all Board members are volunteers who give of their time and knowledge freely for the good of the industry. To then add further time for management on them, and the inference this implies, may promote some valuable leaders to resign their positions.

The new Board would be expected to be clearer about the requirements for reporting and the decision making they would expect to be involved in, so a clear determination of accountability within the next Framework document is necessary.

There needs to be more clarity on how the Board wishes to monitor the progress made by CITB, its performance and its achievements.

To keep in line with good practice CITB need to encourage the recruitment of a more diverse Board.

The CITB Board has 3 Nation influence. The Board is responsible for policies in other nations and this can cause some friction. The issue of Devolution will make this more difficult and CITB do not know if it will be supported if it runs behind or runs ahead of increasing Devolution. This requires guidance from government. There is also need for the Board to have greater accountability to Ministers in Scotland and Wales.

Training for Board members, linked to the obligations of the Board members, charitable implications and the public body aspect of CITB, would be beneficial.

## 8. ROLE OF THE CHAIR

*The Chair is responsible for leadership of the board and for ensuring its overall effectiveness*

Detail of Requirement	Assessment
1. the Board should be led by a non-executive Chair, whose duties, roles and responsibilities, terms of office and remuneration should be set out clearly and formally defined in writing. Terms and conditions must be in line with CO guidance and any statutory requirement	Comply/ <del>Explain</del>
2. there should be a formal, rigorous and transparent process for the appointment of the Chair, which is compliant with the Code of Practice issued by OCPA. The Chair should have a role in the appointment of non executives.	Comply/ <del>Explain</del>
3. the responsibilities of the Chair can include: <ul style="list-style-type: none"> <li>• representing the PO in discussions with the Secretary of State</li> <li>• advising the Sponsor Group/the Secretary of State about board appointments and performance of non-executive members</li> <li>• ensuring non-executives understand their responsibilities; are trained appropriately and undergo annual assessments.</li> <li>• ensuring the board takes account of guidance provided by the Secretary of State; carries out its business efficiently and effectively, has its views represented to the public.</li> <li>• developing effective working relationships with the CEO (role of Chair and CEO must be held by different individuals.)</li> <li>• being subject to an annual appraisal by the Permanent Secretary or relevant Director General</li> <li>• appraising other Board members ensuring they are performing to standard, following disciplinary procedures if necessary and ensuring they are committing the appropriate time to the work.</li> </ul>	Comply/ <del>Explain</del>

Overall assessment of the role of the Chair

G

## **Evidence of compliance or explanation for non-compliance**

1.

The Chair meets all the criteria.

Terms and conditions are issued by BIS on appointment (Appendix A)

2.

This has been fully complied with. It is a competitive process and is independently managed by BIS following the OCPA guidelines.

3.

The Chair does not formally monitor or assess the capability and performance of non-Executives, but does informally. A more formal process is being implemented.

Annual appraisal of the organisation is carried out by the Skills Minister and not by a DG or Permanent Secretary level.

The Board was independently evaluated in 2012 (Appendix Q)

Sources of evidence include:

- job description – Appointment letter – Appendix A
- terms and conditions of employment – see above
- minutes of meetings - 2013 Board Papers - <http://www.citb.co.uk/about-us/how-were-run/our-boards-committees/papers/2013-board-papers/>
- annual effectiveness review outcomes - Board Evaluation Report – Appendix Q

## **Strengths identified**

Chair has been drawn from a very senior leadership position within one of the leading employers in the industry.

## **Areas for improvement and action planned**

The assessment of individual Board Members by the Chair is being improved. There is no process for individual performance review of the Chair, however, the Skills Minister has an annual evaluation meeting and monitors the performance of the organisation in formally via the Sponsorship team, CITB events attended and through feedback from Civil Servants and the industry.

## 9. ROLE OF THE CHIEF EXECUTIVE OFFICER (CEO)

*The CEO is responsible for leadership of the PO and for ensuring its overall effectiveness*

Detail of Requirement	Assessment
<p>1. The PO should be led by a CEO, whose duties, roles and responsibilities, terms of office and remuneration should be set out clearly and formally defined in writing. Terms and conditions must be in line with CO guidance and any statutory requirement</p> <p>2. There should be a formal, rigorous and transparent process for the appointment of the CEO.</p> <p>3. The responsibilities of the CEO can include the responsibilities of the Accounting Officer, the Consolidation Officer and Principal Officer for Ombudsman which involve:</p> <ul style="list-style-type: none"> <li>• overall responsibility for the PO's performance, accounting for any disbursements of grant to the PO.</li> <li>• establishing the PO's corporate and business plans and departmental targets</li> <li>• informing the Ministry of Justice of any complaints about the PO accepted by the Ombudsman for investigation if applicable.</li> <li>• management of senior staff within the PO ensuring they are meeting objectives and following disciplinary procedures if necessary</li> <li>• maintaining accounting records that provide the necessary information for the consolidation if applicable.</li> </ul> <p>(Details of Accounting Officer are covered under 11: Effective Financial Management.)</p>	<p>Comply/Explain</p> <p>Comply/Explain</p> <p>Comply/Explain</p>

Overall assessment of the role of the CEO

G

### **Evidence of compliance or explanation for non-compliance**

1.  
The PO is led by a CEO whose duties, roles and responsibilities are set out in writing (Appendix G)

2.  
A Nominations Committee was set up for the purpose of recruiting the permanent Chief Executive consisting of the Chairman and four Board members. The CITB BIS Lead Andrew Duncan was kept informed at each stage of the process. After a procurement process Hays Executive were appointed to work with the Nominations Committee on the attraction and selection of the CEO. The position was advertised in a number of leading publications. There was a detailed and rigours selection process consisting of first stage interviews and assessment process and a final panel interview. The remuneration package of the CEO was submitted to SROC and was the subject of detailed discussions at Ministerial level before an offer was made. The salary does not exceed the amount of £142,500.

3.  
The contract of employment contains all terms and conditions of employment including full reference to Accounting Officer responsibilities. Responsibilities of the CEO as AO are set out in the Framework Document.

Sources of evidence include:

- CEO job description – Appendix G
- terms and conditions of employment outlined in the recruitment pack - Appendix G (if actual T&Cs are required, these can be requested specifically)
- objectives
- accounting records for consolidation (if applicable)

### **Strengths identified**

The recent recruitment of the CEO showed a collaborative approach between individuals in BIS, the Sponsorship team, the Chairman, members of the Board and external organisations.

### **Areas for improvement and action planned**

None

## 10. ROLE OF THE NON-EXECUTIVE BOARD MEMBERS

*As part of their role, non-executive board members provide independent and constructive challenge*

Detail of Requirement	Assessment
<p>Non-executive members should:</p> <ol style="list-style-type: none"> <li>1. form the majority of the Board.</li> <li>2. be appointed under a formal, rigorous and transparent process compliant with the code of practice issued by OCPA.</li> <li>3. have their duties, roles and responsibilities, terms of office and remuneration set out clearly and formally defined in writing. Their terms and conditions must be in line with CO guidance and any statutory requirement.</li> <li>4. be independent of management</li> <li>5. allocate sufficient time to the board with details of their attendance published.</li> <li>6. undergo proper induction, and appraisals.</li> <li>7. include in their responsibilities: <ul style="list-style-type: none"> <li>• establishing strategic direction of the PO and oversee development and implementation of strategies, plans, priorities and performance/financial targets.</li> <li>• ensuring the PO complies with statutory and administrative requirements on the use of public funds and operates within its statutory and delegated authority.</li> <li>• ensuring that high standards of corporate governance are observed.</li> </ul> </li> </ol>	<p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del> Comply/<del>Explain</del></p>

Overall assessment of the role of non-executive directors

G

## Evidence of compliance or explanation for non-compliance

1.

All Board members are non-executive

2.

All Board Members are appointed by Ministers under Section 3 of Schedule 1 of the Industrial Training Act 1982. The majority of members must by law be senior, active employers from the industry. While most appointments and appointment processes are fully compliant with the OCPA Code of Practice, there are a few appointments which are classed as 'ex-officio' (individuals are given a seat on the Board by virtue of the position they hold) and therefore do not have to fully comply with the principles set by the Commissioner for Public Appointments (OCPA). The CfPS have been asked to conduct an independent review of the future Board arrangements (Appendix K).

3.

The responsibilities and terms of office are set out in the ITA (Appendix O) Board member terms and conditions are in line with CO guidance. Duties, roles and responsibilities are set out in the BIS Board Appointment letter (Appendix J) and the Board Welcome letter from CITB (Appendix M) and follow good practice (Appendix N)

4.

They are not management and hold management to account

5.

Board members attendance record is published in the Annual Report & Accounts

6.

Board members undergo inductions  
The Board follows the Nolan principals for public office  
Appraisal is currently informal and conducted by the Chair. This will be formalised during 2014

7.

The Board approve the Business Plan, the annual report and accounts and any changes in strategic direction.  
Board members are on the remuneration committee, Audit committee and other CITB committees to ensure the governance, policies and procedures meet the standard expected of the construction industry that funds them.

Sources of evidence include:

- OCPA/Independent Public Appointments Assessor certificate – CfPS Report - Appendix K
- job description – Board Member Appointment Letter – Appendix M & J

- Industrial Training Act - Board Terms of Reference – Appendix O
- Annual Report and Account
- Code of Best Practice for Board Members – Appendix N

### **Strengths identified**

Executive advise the Board but are not full members.

The Board is not remunerated, except for the Chair and Deputy Chair, and give their time freely.

The Board comprises of employers from industry, clients and some from the educational sector.

Given the individuals proximity to the construction sector the Board is well informed of industry needs and priorities.

The Board and Committee members demonstrate a high level of attendance, c.80%.

### **Areas for improvement and action planned**

There is a lack of diversity within the Board. This mirrors the lack of diversity within the industry, however, the Board is looking to recruit a more diverse Board in 2014/15

Currently performance reviews are informal, except on reappointment. Formal individual performance reviews are being implemented from November 2014 or on completion of the appointment of a new Board, whichever is earlier. This is a delicate subject as all Board members are volunteers who give of their time and knowledge freely for the good of the industry. To then add further time for management on them, and the inference this implies, may promote some valuable leaders to resign their positions.



## 11. EFFECTIVE FINANCIAL MANAGEMENT

*The PO has taken appropriate steps to ensure that effective systems of financial management and internal controls are in place*

Detail of Requirement	Assessment
1. publish on time an objective, balanced and understandable annual report which complies with Treasury guidance, and includes an Annual Governance Statement;	Comply/Explain
2. comply with NAO requirements relating to the production and certification of their annual accounts;	Comply/Explain
3. have effective systems of risk management as part of their systems of internal control;	Comply/Explain
4. ensure an effective internal audit function is established which operates to Government Internal Audit Standards in accordance with CO guidance;	Comply/Explain
5. have appropriate financial delegations in place understood by all relevant staff and stakeholders. effective systems must be in place to ensure compliance with these delegations and the systems are regularly reviewed;	Comply/Explain
6. have anti-fraud and anti-corruption measures in place, and clear published rules governing claiming of expenses, with systems in place to ensure compliance. Information on expenses claimed by board members and senior staff should be published;	Comply/Explain
7. establish an audit (or audit and risk) committee with responsibility for independent review of the systems of internal control and external audit process;	Comply/Explain
8. take steps to ensure objective and professional relationship is maintained with external auditors.	Comply/Explain
9. comply with BIS guidance with regard to any department restrictions on spending.	Comply/Explain
10. report to Corporate Finance with management accounts and Grant In Aid authorities	Comply/Explain

Overall assessment of effective financial management	G
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## Evidence of compliance or explanation for non-compliance

1.  
Annual report is produced and there is a rigorous checking process via the Board and its committees. The importance of the accuracy of this document is well understood as it is set before Parliament.  
CITB also reports to the Charity Commission. From 2014 onwards CITB will also report to OSCR.

2.  
NAO are the appointed Auditors for CITB.  
External Auditors attend Audit Committees  
There is a certificate from the Comptroller in the Annual Report.

3.  
Risk management is integral to business planning and performance monitoring, and risks are considered not just corporately and at directorate level, but also by departments. A risk management strategy, framework and policy are in place to address identification of new risks and management of those previously identified (Appendix H).  
Risk management is subject to an annual review by the internal auditors.

4.  
CITB have an internal Audit capability that conforms to Public Sector internal audit standards. This is evidenced by the internal audit charter (Appendix V).

5.  
Financial Authorities are set out for individual grades of staff and for the Executive and Board.  
Finance team is responsible for ensuring financial limits are adhered to. The Finance system also ensures that financial limits are not exceeded.  
  
CITB is endeavouring to become a more commercial organisation by increasing the commercial capability of its individuals, from Board level downwards. This is covered in greater depth in the areas for improvement.

6.  
CITB has controls for mitigating fraud, but currently the fraud risk assessment is being updated.  
  
CITB publishes the overall spend for Board members. We do not publish expenses claimed by Board members and senior staff. Our Board members are volunteers and are not remunerated.

7.  
We have an audit and risk committee with Terms of Reference (Appendix P) and minutes of which are recorded (Appendix T)

<p>8. External Auditors are invited to attend all Audit Committee meetings and periodically committee members met them in private The External auditors are collaboratively engaged at all parts of the audit cycle There is cooperation with internal audit</p>
<p>9. CITB provides regular reports to BIS on all aspects of spending and all other Management Information requests, the Calendar of Management Information requests demonstrates this (Appendix U) CITB does not receive Grant in Aid and so does not report this. CITB has exemption from BIS for some of the spending controls e.g. Marketing spend. CITB conforms to the Alexander review, and the controls on the use of consultants, providing a report to BIS and undertaking the tax status of its eligible consultants. Changes have been brought in so that the CITB Travel and Expense policy for staff mirrors the BIS policy. CITB follow the guidelines on Investments (Appendix W &amp; X)</p>
<p>10. All management information returns are provided when requested. The schedule for this is attached at Appendix U The Sponsorship team regularly report to Corporate Finance on behalf of CITB.</p>

Sources of evidence could include:

- Annual Report and Accounts - website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/corporate-publications/>
- Management statement and financial memorandum
- risk register – Appendix H
- Annual governance statement (formally statement on internal control) – In Annual Report and Accounts
- delegation letters
- terms of reference for audit committee – Appendix P
- minutes from quarterly meetings – audit committee minutes – Appendix T
- Monthly/quarterly management accounts
- Calendar of Management Information requests – Appendix U
- Internal Audit Charter – Appendix V
- Investment Strategy Parameters and Rules – Appendix W, Finance Committee Paper
- Investment Guidelines – Appendix X, Finance Committee minutes, page 6

### **Strengths identified**

The recent centralisation of the Finance team has brought about greater financial control, more emphasis on detail and a more rigorous, robust and standardised manner of financial management. This has been done whilst putting in processes to prevent the removal of responsibility away from the business units.

### **Areas for improvement and action planned**

A counter fraud group has just been started by CITB and this is tasked with developing an improved counter fraud strategy, taking account of good practice shared by the BIS counter fraud team.

The financial effectiveness of CITB is being increased throughout the organisation. This extends from the Board, where financial capability is one of the capabilities being recruited for and by increasing the commercial capability of the leadership team. Greater financial responsibility is also being promoted in the Business units via a centralised and more closely controlled finance department. The significant improvement in financial capability is partially held back by the mixed nature of CITB's activity. By having 3 types of role within CITB; statutory duties under the ITA (e.g. Levy and Grant services), Charitable activities (e.g. Apprentice training or Standards setting) and Charitable Trading activities (e.g. Adult Training or card services) it makes it difficult for staff to always act appropriately for the different roles. If CITB were given the power to have a Subsidiary and Joint Ventures then it would allow CITB to constitutionally separate these roles, making it clearer to staff which role they are undertaking at any time. This would significantly improve the financial capability of the individuals within the organisation.

CITB has recently had a reportable loss due to a failed IT procurement (Annual Report and Accounts 2012, section 26) and the current Finance system is not working optimally. CITB knows that its IT infrastructure is sub optimal and that it will need to improve this situation efficiently in the short to medium term. CITB believes that, similar to how BIS and other Government bodies have improved their IT, a collaborative approach to this IT improvement would be most beneficial and low risk. CITB is however prevented by its legislation into legally entering modern collaborative ventures and thus this puts CITB at a disadvantage when trying to modernise.

## 12. COMMUNICATION AND ENGAGEMENT

*The Public Body is open, transparent, accountable and responsive*

Detail of Requirement	Assessment
<p>The PO should:</p> <ol style="list-style-type: none"> <li>1. establish clear and effective channels of communication with stakeholders;</li> <li>2. make an explicit commitment to openness in all activities. Engage and consult with public on issues of public interest or concern and publish details of senior staff and board members with contact details;</li> <li>3. hold open board meetings or an annual open meeting;</li> <li>4. proactively publish agendas, minutes of board meetings and performance data;</li> <li>5. establish and publish effective correspondence handling and complaint procedures, and make it simple for members of the public to contact them/make complaints. Complaints should be investigated thoroughly and be subject to investigation by the Parliamentary Ombudsman. Performance in handling correspondence should be monitored and reported on;</li> <li>6. comply with any Government restrictions on publicity and advertising, with appropriate rules in place to limit use of marketing and PR consultants. Have robust and effective systems in place to ensure the PO is not engaged in political lobbying, includes restriction on board members attending Party Conferences in a professional capacity.</li> <li>7. engage the Sponsor Group appropriately especially in instances where events may have reputational implications on the department.</li> </ol>	<p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p><del>Comply</del>/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p> <p>Comply/<del>Explain</del></p>

Overall assessment of communications	G
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## Evidence of compliance or explanation for non-compliance

1.

CITB have a website, customer services capability and undertakes regular communications with customers and beneficiaries. The consensus process, which includes external and independent research, identified how well CITB is servicing and communicating with its beneficiaries.

2.

CITB has some commercial or statutory bars to some information as dictated by the ITA.

We do discuss aspects of our work with stakeholders, e.g. Board changes or Levy simplification.

There is an on line feedback facility for complaints.

Again the Advisory Council will make help connect the organisation with its beneficiaries.

CITB Reviews and Survey of industry provide evidence for decision making.

3.

All minutes are publically available. CITB does not hold open Board meetings. What CITB does is not of general public concern and our activities are limited to a certain sector. We have many other forms of daily contact which are more effective than holding an annual open meeting. However the new Board proposals invite the new Board and its supporting council to consider holding such events in future. When requested individuals are invited to attend Board meetings, e.g. Jane Peters was invited as part of the Triennial Review.

There are Federation dinners, at least once per year, to engage with a wider industry stakeholder group.

4.

CITB publish agendas minutes and supporting paper for Board meetings and other supporting committees on the 2013 Board Papers - <http://www.citb.co.uk/about-us/how-were-run/our-boards-committees/papers/2013-board-papers/>

Board Minutes on website - <http://www.citb.co.uk/en-GB/About-us/How-were-run/Our-Boards-committees/papers/2012-Board-papers/>

5.

CITB have correspondence and complaints management procedures and have a number of complaint channels.

We have had no references to the Parliamentary Ombudsman in the last 5 years. When there have been references before this time, CITB has been supported.

We have a policy of welcoming complaints and use the valuable learning from customer feedback. These are handled as close to the customer as possible but can be escalated and data is collected corporately and reviewed by the Executive.

6.

Following the change of Government, CITB and BIS worked closely to identify with of the controls introduced should apply to CITB and which should not. CITB gained an exemption to the marketing freeze before continuing activity. This was required for us to publicise the Levy regulations and provide the Government with the Grant rates and aspects of claiming Grant, this extends to CITB being allowed to have a separate website, independent of Gov.org, as it is imperative for our stakeholders to quickly find the Levy and Grant information they need.

The Deputy Chairman did not attend the Party Conferences last year as intended, demonstrating compliance in this area when permission is not granted

7.

We have weekly contact with the sponsorship team and discuss anything of interest with them. This is similar to our relationship in the devolved nations. The Sponsorship team supports the marketing events of CITB and have provided links to Ministers and Government events as required, e.g. the CITB 50 anniversary events.

Sources of evidence include:

- minutes of open meetings - 2013 Board Papers - <http://www.citb.co.uk/about-us/how-were-run/our-boards-committees/papers/2013-board-papers/>

### **Strengths identified**

CITB has very good links to industry and employers within the industry  
CITB engages regularly via consensus activities. Surveys and dip surveys are conducted annually to ensure that CITB is communicating appropriately to the industry and providing the services required.

Board members help link CITB to the industry. Devolved committees, the future advisory council, other CITB committees and CITB events all provide direct communication to the industry, e.g. Breakfast meetings

CITB undertakes marketing activity to get people into the industry and interested in construction.

Apprenticeship numbers and bConstructive website hit number demonstrate that CITB is connecting with its intended audience.

50 anniversary celebrations are another opportunity for CITB to engage the industry.

### **Areas for improvement and action planned**

For CITB to become even more engaging of the industry and to become more transparent.

CITB needs to be better at celebrating success and demonstrating to our stakeholders the success and value CITB brings, and how we can be of significant assistance for the good of the industry and country.

The effectiveness of our communications with Devolved nations has lately been tested in regards to communication of the changes to Board Governance and to the Management structure of the organisation. The latter in particular have been the subject of protracted debate and CITB is trying to strike a balance between the efficient operation of its functions and the strong desire for further devolution.

Part of the Board changes includes the inauguration of a council. This will allow greater nations involvement and will improve this situation.



### 13. CONDUCT AND PROPRIETY

*The board and staff of the PO work to the highest personal and professional standards. They promote the values of the PO and of good governance through their conduct and behaviour*

Detail of Requirement	Assessment
1. a Code of Conduct must be in place setting out the standards of personal and professional behaviour and propriety expected of all board members which follows the CO Code and form part of the terms and conditions of appointment;	Comply/ <del>Explain</del>
2. the PO has adopted a Code of Conduct for staff based on the CO model Code and form part of the terms and conditions of employment;	Comply/ <del>Explain</del>
3. there are clear rules and procedures in place for managing conflicts of interest. There is a publicly available Register of Interests for board members and senior staff which is regularly updated;	Comply/ <del>Explain</del>
4. there are clear rules and guidelines in place on political activity for board members and staff with effective systems in place to ensure compliance with any restrictions;	Comply/ <del>Explain</del>
5. there are rules in place for board members and senior staff on the acceptance of appointments or employment after resignation or retirement which are effectively enforced;	Comply/ <del>Explain</del>
6. Board members and senior staff should show leadership by conducting themselves in accordance with the highest standards of personal and professional behaviour and in line with the principles set out in respective Codes of Conduct.	Comply/ <del>Explain</del>

Overall assessment of conduct and propriety	G
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## Evidence of compliance or explanation for non-compliance

1.  
CITB's Board follows the Code of Best Practice for Board Members (Appendix N)

2.  
There are a number of codes of conduct which cover the following:

- Disclosure of Information
  - Responsibilities
  - Industrial Training Act 1982
- Publication of Materials and Copyright
  - Copyright
  - Publication of Materials
  - Responsibilities
- Fees for Lectures
- Additional and or other Employment
- Business Ethics and Counter-Fraud
- Code of Employee Conduct
  - Duties and Responsibilities
  - Accountability
  - Conflicts of Interest
  - Integrity
  - Relations with the Public
  - Use of Resources
  - Official Information
  - Concerns about Improper Conduct
  - After Leaving Employment
- Safeguarding
- Company and Personal Property
  - Office Security

These are freely available on the internal website at all times and are updated regularly. Changes are cascaded through team talks and line management.

3.  
Staff and managers submit potential conflicts of interest notifications to Internal Audit for consideration and addition to a register. Any conflicts of interest for Board members are published in the Annual Report and Accounts. Register not published for staff. The rules are clearly communicated, see above

4.  
The rules are clearly communicated, see above. During times of purdah all staff are informed of their responsibilities via team talks and email updates. For Board members this is addressed in their terms and conditions letter from BIS.

5.  
The rules are clearly communicated, see above

6.  
CITB have a code of conduct which Board members adhere to. There have been no recent breaches to date.

Sources of evidence could include:

- Register of Interest – in Annual Report and Accounts
- Codes of Conduct – Appendix N

### **Strengths identified**

Both Board members and officers of the Board are clear on their responsibilities in relation to conduct and propriety.

### **Areas for improvement and action planned**

There are a number of different standards and policies. There could be benefit from bringing these together into a single document.

## **14. LIST OF EVIDENCE INCLUDED AS APPENDIX**

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### **Appendix**

- A BIS Terms of Appointment Letter to the Chairman
- B Framework Document
- C Letter of authority to carry out activities overseas
- D Freedom of Information List 2013
- E Freedom of Information List 2014
- F BIS letter appointing Adrian Belton as Accounting Officer
- G CITB CEO Role Description and Recruitment Pack showing terms and conditions of appointment (actual terms are confidential but can be provided if specifically requested)
- H CITB Risk Register, May 2014
- I Risk Management Policy
- J BIS letter of appointment for a Board Member
- K CfPS evaluation report on proposed Board changes
- L Role Description for the Chief Financial Officer
- M CITB letter of welcome to Board Members – outlining role and responsibilities
- N Code of Best Practice for Board Members
- O Industrial Training Act (Schedule 1)
- P Audit Committee Terms of Reference
- Q Board Evaluation Report, 2012
- R Freedom of Information Example 1
- S Freedom of Information Example 2
- T Audit Committee Example Minutes
- U Calendar of Management Information Requests
- V Internal Audit Charter
- W Finance Committee Paper - FCIP Investment Strategy Parameters and Rules
- X Finance Committee Minutes - 28 November 2013 – detailing investment guidelines
- Y Reviews of Board Members' performance on reappointment

## **Annex G**

### **Stage Two of the Triennial Reviews for Executive Non Departmental Public Bodies**

# **Governance and Control Assessment documentation**

**BIS Version 0.9**

## **Engineering Construction Industry Training Board**

**Completed by Bruce Barclay on behalf of BIS  
David Edwards and Peter Hill on behalf of ECITB**

**Reviewed by Richard Fitzgerald  
Joanna Rodin**

# Accountability

- statutory
- public money
- Ministerial

G

G

G

G

# Roles and responsibilities

- Sponsor Dept.
- Board
- Chair
- CEO
- NEDS

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*Overall compliance with recognised principles of good corporate governance*



# Effective financial management

G

# Communication

G

# Conduct and behaviour

G

### 3. STATUTORY ACCOUNTABILITY

*Does the public body comply with all applicable statutes and regulations and other relevant good practice?*

Detail of Requirement	Assessment
<p>The PO:</p> <p>9. complies with all statutory and administrative requirements on the use of public funds (including HMT Managing Public Money, and CO/HMT spending controls);</p> <p>10. operates within the limits of its statutory authority and in accordance with delegated authorities agreed with BIS;</p> <p>11. operates in line with statutory requirements for the Freedom of Information Act;</p> <p>12. has a comprehensive publication scheme;</p> <p>13. proactively releases information that is of legitimate public interest;</p> <p>14. Produces annual reports and accounts which are laid before Parliament</p> <p>15. complies with data protection legislation;</p> <p>16. complies with Public Records Acts 1958 and 1967.</p>	<p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>[REDACTED]/Explain</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p>

Overall assessment of statutory accountability

G

## Evidence of compliance or explanation for non-compliance

9. Unqualified audited financial accounts and Trustees' Reports. Compliant Procurement System, use of Framework Agreements. Compliance with Investment Guidelines. Accounting Officer's annual letter of representation. BIS approval of annual operating plan and rolling 5 year Strategic Plan.

Annual Report and Accounts for 2013 laid in Parliament on 16 June 2014. Available on website: <http://www.ecitb.org.uk/custom/ecitb/docManager/documents/ANNUAL%20REPORT%202013.pdf>

10. Adherence to Management and Financial Memoranda and Statements issued by BIS. Evidence of seeking consent to write off debts, novel/contentious settlements, recruitment.

Delegated Authorities are issued by the Department and contained in Appendix A to the Financial Memorandum and Framework Document



ECITB Financial Memorandum - signed



ECITB Framework Document.doc

11. Compliance with FOI requests. Maintenance of a log of request and response within deadlines in most cases. No evidence found. Website refers to FOI Act but no detail of how cases were dealt with/recorded. <http://www.ecitb.org.uk/Publications/PublicationScheme/FreedomOfInformation/>  
<http://www.ecitb.org.uk/publications/publicationscheme/RequestsForInformation/>

12. There is a publication scheme. However, it is in need of review. ECITB do have publications available on their website (which appear to be free to download). They also have a link to their publication scheme: <http://www.ecitb.org.uk/publications/publicationScheme/>

13. Publication of: Guides to Grants and Prospectus etc. Minutes of Main Board, Processes and Guidelines for Statutory Levy and other publications. Declares financial transactions on the website Information published on the ECITB website likely to be of legitimate interest to employers (and workers) in the Engineering Construction Industry (includes Annual Report printed 16 June 2014):

<http://www.ecitb.org.uk/Publications/>

Board minutes published on ECITB website (includes minutes from 1 May 2014 meeting):

<http://www.ecitb.org.uk/AboutECITB/BoardCommittee/>

14. See BIS records See 3.1 (above)



15. No issues raised by Information Commissioner.

**Risk Register (ref HR10) concerns management of Personal Data. Mitigating action states:** New Navision accounting software has a Personnel / HR system / module. This was implemented in 2013. Paper docs currently stored in paper employee files need to be scanned to pdf files and stored electronically. Thorough review of personnel records to check compliance with Data Protection.”

**And progress says** “New Navision accounting software Personnel system will be implemented in 2013. Further work will be carried out in 2014 - see HR 7.”

**This risk is given a green rating**

16. NDPBs not normally subject to PRA and not aware of requirement on ECITB. If subject to PRA, believe ECITB is compliant as records deposit requirements are not yet falling due.

There is no consolidated list of bodies whose records are public records.

Records that are not public records under the PRA include: records of non-departmental public bodies (NDPBs) that are bodies corporate and have not been brought within PRA by their own legislation or by subsequent Order.

Bodies that have been brought within scope of the PRA through their own legislation or in some other way are listed in paragraph 3 of Schedule 1 .

[Source: The National Archives. Public Records Act – Frequently Asked Questions. URL: <http://www.nationalarchives.gov.uk/information-management/legislation/public-records-act/pr-faqs/>]

(Note: The ITA 1982 makes no reference to the PRA. ITBs are not listed in paragraph 3 of Schedule 1. CITB’s assessment also indicates that they are not required to comply with PRA. It is also worth noting that the ITA gives an ITB the powers to obtain information from employers and the Act has strict rules on the disclosure of such information (see below extract form the ITA):

(1)An industrial training board may require employers in the industry to furnish such returns and other information of a kind approved by the Secretary of State and to keep such records of a kind approved by him and produce them for examination on behalf of the board as appear to the board to be necessary for carrying out its functions. .

(2)Subject to subsection (3) below, returns and other information furnished in pursuance of subsection (1) above and any information obtained on an examination made in pursuance of that subsection shall not, without the consent of the employer to whose business the returns or information relate, be disclosed otherwise than to the Secretary of State or one of his officers, or to an industrial training board or a committee appointed by such a board, or an officer of such a board or committee or any person entitled to take part in the proceedings of such a board

**Strengths identified**

***Engagement with Sponsor Team is at least monthly or as required by topics.***

***Open relationship.***

***High degree of transparency of Board discussions and decisions***

**Areas for improvement and action planned**

***The wider BIS community need to be made more aware of the PO activities and interests.***

***Planning ahead on issues with the Sponsor Team to secure pre-approval where necessary to avoid delays in service delivery when compliance issues, such as recruitment requests, arise.***

## 4. ACCOUNTABILITY FOR PUBLIC MONEY

*The Accounting Officer of the PO is personally responsible and accountable to Parliament for the use of public money by the body and the stewardship of assets*

Detail of Requirement	Assessment
5. there is a formally designated Accounting Officer (AO) who in particular has a responsibility to provide evidence-based assurances required by the Principal Accounting Officer (PAO);	Comply/ [REDACTED]
6. the role, responsibilities and accountability of the AO should be clearly defined and understood and the AO should have received appropriate training;	Comply/ [REDACTED]
7. the PO should be compliant with requirements set out in Managing Public Money, relevant Dear Accounting Officer letters and other directions;	Comply/ [REDACTED]
8. the PO should establish appropriate arrangements to ensure that public funds: <ul style="list-style-type: none"> <li>• are properly safeguarded;</li> <li>• are used economically, efficiently and effectively;</li> <li>• are used in accordance with the statutory or other authorities that govern their use;</li> <li>• deliver value for money for the Exchequer as a whole;</li> <li>• are subject to Treasury approval, either directly or through established delegated authority;</li> </ul>	Comply/ [REDACTED]
5. the annual accounts are laid before Parliament after certification by the Comptroller and Auditor General	Comply/ [REDACTED]

Overall assessment of accountability for public money	[REDACTED] G
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<p style="text-align: center;"><b>Evidence of compliance or explanation for non-compliance</b></p>
<p>6. BIS Management and Financial Statements</p>
<p>7. The CEO is also the Accounting Officer. Roles and responsibilities are understood by him and the Trustees/Board members. Briefing on roles etc. is part of Board member induction and training.</p>
<p>8. Unqualified audited financial statements  <a href="#">Annual Report and Accounts 2013 audited by NAO (see 3.1)</a></p>
<p>9. Procurement system. Use of framework agreements. Grant payments driven by evidence of training and qualifications. BIS / HMT approval obtained whenever receiving (e.g. debt write offs), levy settlements, levy order, risk impact assessments contain details of VFM achieved, adherence to investment guidelines.</p> <p><a href="#">ECITB Management Statement and Financial Memorandum sets out the roles and responsibilities, the systems which must be operated and a range of controls and measures which must be followed in order to safeguard public funds.</a></p> <p><a href="#">Risk Management Policy sets out the roles within ECITB:</a>  <i>“The Management Board has delegated authority from the Board to execute the Operating Plan and is responsible for risk management.  In turn, the CEO has the responsibility to ensure compliance with the policy and for appropriate management of the business, taking into account authority levels and reasonable practice. The CEO is also responsible for maintaining and updating the Risk Register.  In turn, the CEO delegates the execution (i.e. risk management) to the Directors or other personnel as necessary.  The Directors of the ECITB meet regularly to review progress against the operating plan and each Director meets with his/her directorate members similarly to monitor and review progress, including risks. The Risk Register is reviewed at least quarterly.  Everyone has duty to support the processes of risk management and to ensure new risks or changes to risk are escalated through the line promptly so that appropriate action can be taken to control the risk or to avoid unnecessary action if the risk has diminished or ceased.  The Audit Committee will review twice each year the Risk Register and request reports on major risk variations.”</i></p> <p><a href="#">Training and Guidance provided to those with budgetary responsibility</a>  Regional and Programme Managers have set budgets for implementation of training programmes across the regions, following close involvement and discussions between senior operational and finance staff. Finance Director</p>

and Financial Controller closely involved in operational decisions. Management of administration for Apprenticeship and Skills & Technical Programmes taken under the control of Finance Department thereby ensuring closer control and monitoring of financial position. CRM system continues to be developed to ensure closer control and visibility of financial commitments and transactions. (Risk Register FIN 2)

10. See BIS records

Annual Report and Accounts have been certified by the C&AG on 6 June 2014. (see 3.1)

#### **Strengths identified**

***Accountabilities are well understood and implemented.***

***Audit and review is carried out regularly.***

***Audit Committee regularly review the comprehensive risk register and strive to improve its effectiveness – see AC minutes.***

#### **Areas for improvement and action planned**

***The understanding that the funds held by the ECITB are in trust for the employers and learners in the industry and is not provided by grant in aid from the Exchequer is not widely understood.***

***Improved briefing amongst BIS / HMT officials and Ministers will be implemented.***

***Risk management system to be reviewed during 2<sup>nd</sup> half of 2014 to be ready and aligned with the 2015 operating plan. Audit Committee in the lead. See AC minutes.***


## 5. MINISTERIAL ACCOUNTABILITY

*The Secretary of State is ultimately accountable to Parliament and the public for the overall performance of the public body*

Detail of Requirement	Assessment
8. the Secretary of State and Sponsor should exercise appropriate scrutiny and oversight of the PO;	Comply/ [REDACTED]
9. appointments to the board should be made in line with any statutory requirements and, where appropriate, with the <i>Code of Practice</i> issued by OCPA;	Comply/ [REDACTED]
10. the Secretary of State will normally appoint the Chair and all non-executive board members of the PO and be able to remove individuals whose performance or conduct is unsatisfactory;	Comply/ [REDACTED]
11. the Secretary of State should be consulted on the appointment of the Chief Executive and will normally approve the terms and conditions of employment;	Comply/ [REDACTED]
12. the Secretary of State should meet the Chair and/or Chief Executive on a regular basis;	Comply/ [REDACTED]
13. Parliament should be informed of the activities of the PO through publication of an annual report;	Comply/ [REDACTED]
14. a range of appropriate controls and safeguards should be in place to ensure that the Secretary of State is consulted on key issues and can be properly held to account (e.g. Business Plan, power to require information, a general or specific power of Ministerial direction over the PO, a power for the Secretary of State to be consulted on key financial decisions.)	Comply/ [REDACTED]

Overall assessment of Ministerial  
Accountability

[REDACTED] G

<p style="text-align: center;"><b>Evidence of compliance or explanation for non-compliance</b></p>
<p>8. Management Statement and Financial Memorandum. Periodic meetings with Minister. Government Observer at Board meetings. Approval of annual strategy and operating plan and budget. Guide to Grants. Monthly review discussions with sponsor team.</p>
<p>9. There is an agreed appointment process and structure for the different categories of Board member and is subject to OCPA guidelines.</p>
<p>10. The Chair is appointed by open competition. Their performance and other needs are reviewed periodically.            (Note: All Board appointments, including Chair, are made by the Skills Minister, on behalf of the Secretary of State. Chair appointments follow OCPA regulations.)            Mechanisms for the removal from office of the Chair are contained in his T&amp;C letter. This states that the chair “shall cease to hold office if he/she becomes in the opinion of the Minister unfit to continue in office or incapable of performing his/her duties”.</p> <p>            Andrew Collinson -            Terms Conditions Let</p> <p>Unfortunately cannot open the letter electronically but a hard copy is on file if you need to have sight of the T&amp;C letter.</p>
<p>11. Comply.</p>
<p>12. Trustees Annual Report and at least annual meeting with Secretary of State or ministerial delegate as required.</p>
<p>13. The annual report is published.  <a href="#">See 3.1</a></p>
<p>14. Controls are in place. The procedure for consultation with SoS is clear – the annual operating plan and Guide to Grants are submitted to BIS for approval each year. Other areas of consultation arise from time to time and ECITB complies – e.g. recruitment requests, exemptions where appropriate. See BIS records. Risk Register is available.</p>

**Strengths identified**

***Consistent compliance with directives and controls.***

***Exemption sought where appropriate to give delivery flexibility required, but spirit of controls still recognised.***

***Trustees (Board members) recognise duties to BIS but ensure service delivery is the top priority.***

**Areas for improvement and action planned**

***Frequency of dialogue with Ministers / Secretary of State needs to increase so that there is greater awareness of the role of the Engineering Construction Industry in the economy.***

***And/or series of briefings to officials. A quarterly review/report direct to Ministers and officials will be implemented for 2015.***

***The ECITB should also be proactive in seeking out where policy is shifting so as to advise officials and Ministers where it has relevant expertise and knowledge. Campaign to be planned with BIS Policy team and implemented in 2015, post ECITB reorganisation.***

***The members of ECITB are leading companies and the access enabled by the collective model is an asset to HMG that can be better utilised by proactivity between ECITB and BIS officials.***



## 6. ROLE OF THE SPONSORING GROUP

*BIS ensures that there are robust governance arrangements with the board of each PO setting out the terms of their relationship, and how they will be put in place to promote high performance and safeguard propriety and regularity*

Detail of Requirement	Assessment
<p>4. the Group should scrutinise the performance of the PO. There should be appropriate systems and processes to ensure effective governance, risk management and internal control in the PO;</p> <p>5. there should be a Framework Document in place which sets out clearly the aims, objectives and functions of the PO and the respective roles and responsibilities of the Secretary of State, the Sponsoring Group and the PO. It should be regularly reviewed and updated and follow relevant CO and HMT guidance. The Framework document should include a Financial Memorandum as an appendix. A review of the Framework document should be carried out every three years and in line with the Triennial Review.</p> <p>6. a Sponsor should be identified and there should be regular and ongoing dialogue between the Sponsoring Group and the PO. Senior officials from the Sponsoring Group may as appropriate attend board and/or committee meetings.</p>	<p>Comply/ [REDACTED]</p> <p>[REDACTED]/Explain</p> <p>Comply/ [REDACTED]</p>

Overall assessment of the role of the Sponsoring Group

[REDACTED] G

## Evidence of compliance or explanation for non-compliance

4. The Accounting Officer publishes an annual Governance Statement as part of the Trustees' Report. The statement is reviewed by the external auditor, and explains the ECITB's governance, risk management and internal audit arrangements.

Governance Statement included in Annual Report and Accounts (see 3.1)  
Annual Report and Accounts are cleared by BIS Finance and with the Skills Minister before being laid in Parliament.

Monthly financial returns are submitted to the BIS Finance Business Partner.

Monthly workforce management information submitted to BIS HR

ECITB Risk Registers are made available to the Sponsor Team (through Board and Audit Committee meetings/papers)

Annual Business Plan submitted to BIS for approval.

The sponsor team carry out a quarterly review of risk / assurance of the ECITB which highlights the key risks and mitigating actions. Attached is the latest assessment.



ECITB Assurance  
Statement template -

5. The Management Statement and Financial Memoranda are due for review. A draft Framework Agreement was submitted to ECITB in ca 2009 for review. ECITB responded, but the matter has not been taken any further by BIS at this stage. In the meantime, ECITB continues to comply with existing governance documents.

(Note: A framework document has been drafted and will be reviewed and issued following completion of the TR. The Sponsor Team agreed with Finance colleagues that this should wait until the Triennial Review is completed).

6. Members of the BIS Sponsor team regularly attend meetings of the Main Board and Audit Committee. Monthly discussions between the Sponsor Team and the ECITB's CEO and Board Secretary. More frequent dialogue on specific issues (e.g. Recent examples include levy order consultation, scope issues, board appointments)

G7 attends Board meetings. HEO attends Audit Committee meetings. Monthly meetings with the CEO and Board Secretary normally attended by G7, HEO and EO on sponsor team.

**Strengths identified**

***Approach to risk management is well established.***

***Governance Statement is evidenced by minutes of Audit Committee.***

***Openness.***

**Areas for improvement and action planned**

***The Framework Agreement needs to be concluded to assist both BIS and ECITB to maintain clarity of which areas are subject to BIS control and where ECITB has authority.***

***BIS to enable ECITB to establish subsidiaries to better able it to generate commercial revenue and protect charitable status and better manage tax liabilities***

## 7. ROLE OF THE BOARD

*The PO is led by an effective board which has collective responsibility for its overall performance and success, and provides strategic leadership, direction, support and guidance. The board has an appropriate balance of skills, experience, independence and knowledge, with a clear division of roles and responsibilities between Executives and Non-Executives*

Detail of Requirement	Assessment
<p>The Board of the PO should:</p> <ul style="list-style-type: none"> <li>8. meet regularly, retain effective control over the PO, and monitor the SMT, holding the CEO accountable for the performance and management of the PO;</li> <li>9. be appropriate in size with membership from a diverse background;</li> <li>10. establish a framework of strategic control specifying what matters are reserved for the board and establish arrangements to ensure it has access to relevant information, advice and recourses to carry out its role effectively;</li> <li>11. establish formal procedural and financial regulations to govern the conduct of its business;</li> <li>12. make a senior executive responsible for ensuring appropriate advice is given on financial matters, procedures are followed, and that all applicable statutes and regulations and other relevant statements of best practice are complied with;</li> <li>13. establish a remuneration committee to make recommendations on the remuneration of top executives. Information on senior salaries should be published and rules for recruitment and management of staff provide for appointment and advancement on merit;</li> <li>14. be evaluated annually, including an evaluation of the Chair and Board members.</li> </ul>	<p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p>

Overall assessment of role of the Executive Board

[REDACTED] G

<p style="text-align: center;"><b>Evidence of compliance or explanation for non-compliance</b></p>
<p>8. 3 x Main / Full Board, 4/5 x Management Board, 3 x Audit Committee and other meetings; all minuted. BIS receives copies of all such meetings. All meeting / Board reports submitted to BIS, including comprehensive performance reports including operational statistics and management accounts.</p>
<p>9. The Board is representative of the diverse employers within the industry and was formed with additional Regional Board members, following strategic review in 2003. The membership has evolved to reflect changing constituents and stakeholders. A review is underway by the Board to assess its effectiveness and makeup so that it is fit for the future. (Note: nothing on a current Board review in the supporting docs)</p>
<p>10. These arrangements are set out in the annual Governance Statement.</p> <p>Governance Statement contained in Annual Report &amp; Accounts (p24-30). The ECITB's governance arrangements and decision-making processes are included as part of a "comprehensive package of documents" provided to newly appointed board members (p25).</p>
<p>11. These are set out in the Financial Memorandum and ECITB's Finance Manual (last reviewed by the Audit Committee and NAO in 2013).</p>
<p>12. Qualified Board Secretary and Finance Director appointed.</p>
<p>13. Management Board assumes responsibility as Remuneration Committee (see annual Remuneration Report). ECITB has implemented a Performance Review system.</p> <p>Management Board minutes contain discussions and recommendations on staff salaries, benefits and pension plans. Noted in minutes that Exec team are excluded from discussion on exec pay. (Note: no "Annual Remuneration Report" was included in the supporting documents. A Remuneration report is included in the Annual Report and Accounts (p21-23).</p>
<p>14. There is periodic review of performance of Board members but this is in need of review.</p> <p>The 'ECITB Board member induction pack contents' contains an appraisal form (item 9), however each 'item' was not included in the supporting docs.</p>

**Strengths identified**

***All Board members are inducted and trained in their duties with periodic refresher training.***

**Areas for improvement and action planned**

***The balance of members needs to be reviewed to ensure sectors and regions are appropriately reflected.***

***This will run in parallel with the planning for the 2015 operating plan with the intention of approval of any recommendations in the final Board meeting of 2014.***

## 8. ROLE OF THE CHAIR

*The Chair is responsible for leadership of the board and for ensuring its overall effectiveness*

Detail of Requirement	Assessment
4. the Board should be led by a non-executive Chair, whose duties, roles and responsibilities, terms of office and remuneration should be set out clearly and formally defined in writing. Terms and conditions must be in line with CO guidance and any statutory requirement	Comply/ [REDACTED]
5. there should be a formal, rigorous and transparent process for the appointment of the Chair, which is compliant with the Code of Practice issued by OCPA. The Chair should have a role in the appointment of non executives.	Comply/ [REDACTED]
6. the responsibilities of the Chair can include: <ul style="list-style-type: none"> <li>• representing the PO in discussions with the Secretary of State</li> <li>• advising the Sponsor Group/the Secretary of State about board appointments and performance of non-executive members</li> <li>• ensuring non executives understand their responsibilities; are trained appropriately and undergo annual assessments.</li> <li>• ensuring the board takes account of guidance provided by the Secretary of State; carries out its business efficiently and effectively, has its views represented to the public.</li> <li>• developing effective working relationships with the CEO (role of Chair and CEO must be held by different individuals.)</li> <li>• being subject to an annual appraisal by the Permanent Secretary or relevant Director General</li> <li>• appraising other board members ensuring they are performing to standard, following disciplinary procedures if necessary and ensuring they are committing the appropriate time to the work.</li> </ul>	Comply/ [REDACTED]

Overall assessment of the role of the Chair

[REDACTED] G

### Evidence of compliance or explanation for non-compliance

4. Chair is appointed following open competition and duties etc. are set out in writing.

5. Process is managed by BIS, independent of PO and OCPA compliant. The Chair is involved in other NED/Board member selection.

6. The Chairs duties are consistent with the list and diligently discharged

The responsibilities of the Chair are set out in 3.4 of the Management Statement (and 7.3 to 7.5 of the Framework Document); and also in the 'ECITB Constitution and ToR'; and the 'Code of BP – Board members'. And are consistent across the three documents.



ECITB Management  
Statement - signed - J



ECITB Framework  
Document.doc

### Strengths identified

***The different aspects of the close-knit community of the Engineering Construction Industry are represented in the Board and the Chair is a figure from the industry. This gives immediate recognition and influence.***

***Training of Board members has increased under the leadership of the Chairman.***



**Areas for improvement and action planned**

***The diverse nature of the Board and relatively large size, having expanded to include paid NEDs, nine regionally elected members and recently to include a member for the nuclear sector, can mean reconciling differing perspectives is a challenge.***

***The Chairman and CEO have commenced a review to assess the appropriate scale and balance needed in the Board.***

***See BIS records of Ministerial accountability meetings.***

***See ECITB reports to the Board on Ministerial meetings – Board minutes***

## 9. ROLE OF THE CHIEF EXECUTIVE OFFICER (CEO)

The CEO is responsible for leadership of the PO and for ensuring its overall effectiveness

Detail of Requirement	Assessment
<p>4. the PO should be led by a CEO, whose duties, roles and responsibilities, terms of office and remuneration should be set out clearly and formally defined in writing. Terms and conditions must be in line with CO guidance and any statutory requirement</p> <p>5. there should be a formal, rigorous and transparent process for the appointment of the CEO.</p> <p>6. the responsibilities of the CEO can include the responsibilities of the Accounting Officer, the Consolidation Officer and Principal Officer for Ombudsman which involve:</p> <ul style="list-style-type: none"> <li>• Overall responsibility for the PO's performance, accounting for any disbursements of grant to the PO.</li> <li>• establishing the PO's corporate and business plans and departmental targets.</li> <li>• <b>informing the Ministry of Justice of any complaints about the PO accepted by the Ombudsman for investigation if applicable.</b></li> <li>• <b>management of senior staff within the PO ensuring they are meeting objectives and following disciplinary procedures if necessary</b></li> <li>• <b>maintaining accounting records that provide the necessary information for the consolidation if applicable.</b></li> <li>• <b>(Details of accounting officer covered under 10: Effective Financial Management.)</b></li> </ul>	<p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p>

Overall assessment of the role of the CEO

[REDACTED] G

**Evidence of compliance or explanation for non-compliance**

4. The CEOs duties are clearly laid out and form part of the induction pack / briefing given to every board member so as to ensure clarity for all. His objectives and deliverables are included in the annual operating plan.
5. The current CEO was appointed from outside the ECITB following an open competition involving consultant support, an assessment centre and a series of interviews with the Chairman and other Board members.
6. The CEO is the AO and he leads the organisation on behalf of the Board. He manages 4 immediate reports who lead the main areas of the ECITBs business. He ensures compliance with all relevant directives and practices of control and governance.

**Strengths identified**

***There is a well organised process of business planning, set out in the ISO 9001 Quality Manual, which ensures engagement with service users and stakeholders.***

***Discipline and control is clear, with frequent reporting and sharing of information with the Chair, Board and other Committees to ensure transparency and involvement.***

***The regional connections and ownership amongst employers of the skills agenda is a function of the organisations design and leadership of the CEO.***

**Areas for improvement and action planned**

***The need for consensus amongst the Board for key decisions does give rise to slow decisions from time to time.***

***Better communication and stakeholder management has been identified as an area to be strengthened.***



## 10. ROLE OF THE NON-EXECUTIVE BOARD MEMBERS

*As part of their role, non-executive board members provide independent and constructive challenge*

Detail of Requirement	Assessment
<p>Non-executive members should:</p> <p>8. form the majority of the board.</p> <p>9. be appointed under a formal, rigorous and transparent process compliant with the code of practice issued by OCPA.</p> <p>10. have their duties, roles and responsibilities, terms of office and remuneration set out clearly and formally defined in writing. Their terms and conditions must be in line with CO guidance and any statutory requirement.</p> <p>11. be independent of management</p> <p>12. allocate sufficient time to the board with details of their attendance published.</p> <p>13. undergo proper induction, and appraisals.</p> <p>14. Include in their responsibilities:</p> <ul style="list-style-type: none"> <li>• establishing strategic direction of the PO and oversee development and implementation of strategies, plans, priorities and performance/financial targets.</li> <li>• ensuring the PO complies with statutory and administrative requirements on the use of public funds and operates within its statutory and delegated authority.</li> <li>• that high standards of corporate governance are observed.</li> </ul>	<p>Comply/ <span style="background-color: black; color: black;">██████</span></p> <p>Comply/ <span style="background-color: black; color: black;">██████</span></p> <p>Comply/ <span style="background-color: black; color: black;">██████</span></p> <p>Comply/ <span style="background-color: black; color: black;">██████</span></p> <p>Comply/ <span style="background-color: black; color: black;">██████</span></p>

Overall assessment of the role of non-executive directors

████ G

<b>Evidence of compliance or explanation for non-compliance</b>
8. All Board members are non-executive.
9. All board appointments (except 7 x ex-officio positions) occur after an appointment process involving public competition and BIS scrutiny in compliance with OCPA requirements.
<p>10. BIS issues terms and conditions to all Board members.  <a href="#">T&amp;C letters for two ECITB Board members (non-remunerated and remunerated)</a></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">             ECITB            non-remunerated Board member         </div> <div style="text-align: center;">             ECITB remunerated            Board member         </div> </div>
11. See 1 above.
<p>12. Meeting attendance records of Board and Audit Committee members are published in the annual Trustees' Report.</p> <p><a href="#">Annual Report &amp; Accounts contains list of Board and Committee members (appendix D) Attendance record of Board members (Appendix B) and Attendance record of Audit Committee members (Appendix D) (Note: The time commitment required for Board member positions is included in the vacancy advert and Board members are advised in their T&amp;C letter of the time commitment required and length of term of office).</a></p>
13. Induction is formalised and supported by appraisal and periodic training.
14. The terms of reference of the Board and its sub-committees are set out in the annual Governance statement (published in the annual Trustees' Report).

<b>Strengths identified</b>
<p><b><i>Information sharing and quality of papers for the Board have been complimented.</i></b></p> <p><b><i>The Management Board takes a significant share of the day to day detail, operating under delegated authority of the Board.</i></b></p> <p><b><i>The Regional Chairs are an important and often more active group than ordinary Board members as they meet with fellow members in the regions to discuss details and gather feedback – typically 3-4 regional meetings pa as well as the Board and Management Board for 2 of them.</i></b></p>

**Areas for improvement and action planned**

***The voluntary nature of the majority of Board positions does give rise to some constraints on time available. Each Board member could be further engaged by giving them a named ECITB support contact and portfolio responsibility. To be included in the review of Board effectiveness.***

***There is often a lot to read in a short space of time and options for more e-documents/cloud sharing are being explored.***

***Opportunities for video conferencing to reduce travel are being evaluated so as to increase engagement and involvement. Being trialled in July 2015.***


## 11. EFFECTIVE FINANCIAL MANAGEMENT

*The PO has taken appropriate steps to ensure that effective systems of financial management and internal controls are in place*

Detail of Requirement	Assessment
1. publish on time an objective, balanced and understandable annual report which complies with Treasury guidance, and includes an Annual Governance Statement;	Comply/██████
2. comply with NAO requirements relating to the production and certification of their annual accounts;	Comply/██████
3. have effective systems of risk management as part of their systems of internal control;	Comply/██████
4. ensure an effective internal audit function is established which operates to Government Internal Audit Standards in accordance with CO guidance;	Comply/██████
5. have appropriate financial delegations in place understood by all relevant staff and stakeholders. effective systems must be in place to ensure compliance with these delegations and the systems are regularly reviewed;	Comply/██████
6. have anti-fraud and anti-corruption measures in place, and clear published rules governing claiming of expenses, with systems in place to ensure compliance. Information on expenses claimed by board members and senior staff should be published;	██████/Explain
7. establish an audit (or audit and risk) committee with responsibility for independent review of the systems of internal control and external audit process;	Comply/██████
8. take steps to ensure objective and professional relationship is maintained with external auditors.	Comply/██████
9. comply with BIS guidance with regard to any department restrictions on spending.	Comply/██████
10. report to Corporate Finance with management accounts and Grant In Aid authorities	Comply/██████

Overall assessment of effective financial management	██████G
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<p style="text-align: center;"><b>Evidence of compliance or explanation for non-compliance</b></p>
<p>11. See published annual Trustees' Reports, which include audited financial statements and Governance Statements. No accounts have been qualified by Comptroller and Auditor General.</p>
<p>12. See above.</p>
<p>13. An effective system of risk management exists and is regularly reviewed by the Audit Committee and internal auditor.  <a href="#">Audit Committee review the Risk register twice each year.</a>  <a href="#">Effective Financial controls and checks on use and approval of resources [Risk Register, FIN4]</a>  <a href="#">Training and guidance provided to personnel with budgetary responsibility [FIN2]</a>  <a href="#">Close involvement by Finance Dept. in understanding and assessing operational management information [FIN3]</a>  <a href="#">Audit Committee ToR: "To promote the highest standards of propriety in the operation of the ECITB by maintaining an overview of its financial and other systems to ensure their effectiveness and integrity of operation. The Committee will receive reports from the Board's internal and external auditors as appropriate." [ECITB Constitution and ToR]</a></p>
<p>14. Confirmed. See annual reports of Mazars Public Service Audit (the ECITB's internal auditor)  <a href="#">Internal Audit Report contained within attached Audit Committee papers (Report starts on p107)</a></p> <div style="text-align: center;">  <p>Audit Committee Papers 26 11 13.pdf</p> </div> <p><a href="#">Further Developments to audit processes and procedures are being implemented to ensure effective delivery (Risk Register, PAM1)</a></p>
<p>15. The ECITB complies with the Financial Memorandum issued by BIS, "Managing Public Money" and its own Finance Manual (which was last reviewed by the Audit Committee and NAO in 2013).</p>
<p>16. The ECITB has issued a Code of Conduct (2013) which applies to all employees and Board members (when acting on ECITB business). This contains the ECITB's rules and processes relating to anti-fraud and anti-corruption, whistle-blowing and other related measures. The ECITB does not publish details of claims by Board members for the reimbursement of expenses.</p>
<p>17. The ECITB has an Audit Committee with clear terms of reference for such matters (see annual Governance Statement).</p>

18. Such steps have been taken both at the “operational level” and with the Audit Committee – both internal and external auditors attend all meetings of the Audit Committee.
19. ECITB complies with BIS restrictions, and when receiving has sought exemptions from BIS.
20. ECITB submits monthly reports to BIS Finance as part of the whole government accounting arrangements.

**Strengths identified**

***The system has improved over time and has brought greater line of sight of operating activities and the financial impact.***

***The monthly management accounts and the performance reports give visibility and accountability to all managers and budget holders.***

**Areas for improvement and action planned**

***Improve the availability of electronic reports via integration of the CRM and Navision accounts.***

## 12. COMMUNICATION AND ENGAGEMENT

*The Public Body is open, transparent, accountable and responsive*

Detail of Requirement	Assessment
<p>The PO should:</p> <p>8. establish clear and effective channels of communication with stakeholders;</p> <p>9. make an explicit commitment to openness in all activities. Engage and consult with public on issues of public interest or concern and publish details of senior staff and board members with contact details;</p> <p>10. hold open board meetings or an annual open meeting;</p> <p>11. proactively publish agendas, minutes of board meetings and performance data;</p> <p>12. establish and publish effective correspondence handling and complaint procedures, and make it simple for members of the public to contact them/make complaints. Complaints should be investigated thoroughly and be subject to investigation by the Parliamentary Ombudsman. Performance in handling correspondence should be monitored and reported on;</p> <p>13. comply with any Government restrictions on publicity and advertising, with appropriate rules in place to limit use of marketing and PR consultants. Have robust and effective systems in place to ensure the PO is not engaged in political lobbying, includes restriction on board members attending Party Conferences in a professional capacity.</p> <p>14. engage the Sponsor Group appropriately especially in instances where events may have reputational implications on the department.</p>	<p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>[REDACTED]/Explain</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p> <p>Comply/ [REDACTED]</p>

Overall assessment of communications	[REDACTED] G
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**Evidence of compliance or explanation for non-compliance**

8. There is a comprehensive communications plan delivered by staff at different levels, from 1 to 1 meetings with customers and stakeholders, group discussions at Forums and briefings to employers also aligns activities and progress.

2013 customer survey showed that customer satisfaction had increased to 82%. Comms plan and engagement plan in place and being maintained. [Risk Register, ref SP1]

Monitor the new 'under enquiry process' for improvements in employer understanding and

engagement. New procedure for checking on the progress of Statutory Return completions has been implemented for returns. Regular review at Operations and Regional meetings to drive progress. In 2013, the ECITB's Guidance Notes on Levy for Employers were

comprehensively reviewed in order to improve knowledge and understanding. [LEVY11]

Comms plan not included in supporting docs

9. Senior staff details are published as well as Board members.

Senior staff and board members names published in Annual report and accounts and on the website.

<http://www.ecitb.org.uk/AboutECITB/BoardCommittee/>

Contact details for all staff (head office and regional) is available on the website: <http://www.ecitb.org.uk/Contact/>

10. Forums are open to regional stakeholders at least annually. The Board itself is for members and invited participants.

11. Minutes and performance data are published.

Minutes contained in:

<http://www.ecitb.org.uk/AboutECITB/BoardCommittee/>

Defined complaints handling procedure, monitored via ISO 9001 Quality system Register of complaints provided, including actions and outcome [Complaints log 2013]

All processes and procedures are documented and recorded in ISO9001 [Risk Register, ref DQS12]

12. Comply when required / seek exemption when appropriate or necessary. Code of Conduct addresses lobbying.

13. Frequent meetings and planning with the Sponsor Group take place.

Sponsor Group engaged in key meetings of Trustees.

(Note: sponsor team attend Board and audit meetings. Regular (monthly) meetings between sponsor team and ECITB.

**Strengths identified**

***Delivery with customers / stakeholders is a key strength.***

***Satisfaction has risen consistently.***

***The ECITB is a successful example of how Public / Private / Partnership can work, putting employers at the centre of skills policy and execution.***

**Areas for improvement and action planned**

***Strengthening communications with BIS and other stakeholders is important to better inform BIS policy on the work and duties of the ECITB / ECI.***

### 13. CONDUCT AND PROPRIETY

*The board and staff of the PO work to the highest personal and professional standards. They promote the values of the PO and of good governance through their conduct and behaviour*

Detail of Requirement	Assessment
7. a Code of Conduct must be in place setting out the standards of personal and professional behaviour and propriety expected of all board members which follows the CO Code and form part of the terms and conditions of appointment;	Comply/ [REDACTED]
8. the PO has adopted a Code of Conduct for staff based on the CO model Code and form part of the terms and conditions of employment;	Comply/ [REDACTED]
9. there are clear rules and procedures in place for managing conflicts of interest. There is a publicly available Register of Interests for board members and senior staff which is regularly updated;	Comply/ [REDACTED]
10. there are clear rules and guidelines in place on political activity for board members and staff with effective systems in place to ensure compliance with any restrictions;	Comply/ [REDACTED]
11. there are rules in place for board members and senior staff on the acceptance of appointments or employment after resignation or retirement which are effectively enforced;	[REDACTED]/Explain
12. Board members and senior staff should show leadership by conducting themselves in accordance with the highest standards of personal and professional behaviour and in line with the principles set out in respective Codes of Conduct.	Comply/ [REDACTED]

Overall assessment of conduct and propriety	[REDACTED] G
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<b>Evidence of compliance or explanation for non-compliance</b>
<p>7. In 2013, the Management Board approved a Code of Conduct applying to Board members (whilst on ECITB business) and staff on all such matters.</p> <p>Code of conduct is issued to all Board members (see code of BP Board members included in supporting docs)</p>
<p>8. See 1 above</p>
<p>9. See 1 above. There is a register of interests and at every Board and Committee Meeting the Chair asks for declaration of conflicts of interest. At that Agenda item, those affected may be required to leave the discussion.</p> <p>There is a register of Interests of Trustees published in the Annual Report (Appendix C). Declarations of Interest for specific Board/Committee agenda items recorded in minutes. (Example: Management Board minutes mention where exec team leave the meeting when staff remuneration issues are discussed).</p>
<p>10. See 1 above</p>
<p>11. No such arrangements (other than implied contractual terms for senior staff) exist. (Note: Under the ITA, an ITB can employ staff on such terms and conditions as it determines. ITB staff are not classed as civil servants).</p>
<p>12. Standards of behaviour are maintained via the Code of Conduct. There have not been any instances of inappropriate behaviour for over 10 years.</p>

**Strengths identified**

***Kept under review.***

**Areas for improvement and action planned**

***Nothing at this time.***



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**BIS/15/686**