

Nadhim Zahawi MP  
Parliamentary Under Secretary of State  
Department for Business, Energy and Industrial Strategy  
1 Victoria Street  
London  
SW1H 0ET

29.10.20 Dear Minister,

I am writing to update you on the work of the Construction Leadership Council's *People & Skills Network* to support a skills led recovery from COVID-19.

The *People & Skills Network* is a working group of key construction employers, federations, training providers, and other industry bodies established by the CLC to deliver the skills priorities of the CLC's Roadmap to Recovery. In November, the group will publish *Skills for Recovery*, a plan proposing a number of priority interventions to support industry's skills needs in recovery and address critical future skills challenges in modernising the industry and reaching net zero.

I have attached two papers from the group outlining priority policy interventions for Government to support a recovery in construction apprenticeship starts and to progress more FE learners into our industry. I thought it would be helpful to briefly outline the key proposals below.

#### **Apprenticeships**

As you know, apprenticeships have long been the industry's preferred route for new entrants. Prior to the pandemic apprenticeships continued to produce the highest rates of progression (92%) from completion of successful training into employment. The majority (72%) of construction apprentices are employed and supported through their training by SMEs. As such, it is critical to limit the impact of financial pressures construction employers are experiencing as a result of the pandemic, which will be particularly acute for SMEs, and ensure they are best equipped to take on more apprentices as the economic recovery begins.

To address this and to reflect the Prime Minister's commitment to greater flexibility within the apprenticeships system, including reform of the Apprenticeship Levy, we propose:

1. A temporary 12-month deferral for the existing 24-month deadline for construction employers to spend their AL funds
2. Allowing construction employers to transfer up to 25% of their Apprenticeship Levy funds in bulk to a ring-fenced fund to be used to strategically address apprenticeship needs:
  - o Supporting construction SMEs who have previously supported apprenticeships to maintain or increase their capacity to train apprentices
  - o Supporting those SMEs seeking to recruit apprentices for the first time
  - o Employing an evidence-based approach to address geographic or occupation-based skills gaps with targeted interventions role

Additionally, we are proposing that government extend incentive payments to take on new apprentices beyond the current January 2021 deadline. This would align with the proposed deferral, further incentivising employers to support increasing apprenticeship starts.

**FE progression**

As the recovery begins it is probable that more people than normal will enter the FE system for construction courses due to a lack of apprenticeship recruitment opportunities. The FE route has historically struggled to deliver success for construction learners and employers. Only 41% of the approximately 36,000 students per year who undertake construction courses move directly into a job or an apprenticeship in construction. To maintain access to a skilled workforce, industry, providers, and government need to increase the number of learners who successfully progress from FE courses into apprenticeships and employment.

The working group has identified four key interventions for supporting progression from FE construction courses:

1. A new 12 month 'fast track apprenticeship' that recognises prior learning in Further Education and with tangible links to the T Levels pathway, backed by construction employers.
2. A Traineeship+, with a high-quality 8-10 week employer work-placement, to support Year-1 FE learners develop the skills and behaviours they need to progress onto this apprenticeship.
3. Adequate incentivisation of employers, resources for colleges and brokerage support, including through an expanded Construction Skills Fund, to ensure the above route and its work-placement is a success.
4. Flexibility in funding models so that adjusted incentives can be provided to support skills provision, across the various training levels and pathways, to specific parts of industry or specific geographic locations according to industry demand.

The industry, through CITB, is already working closely with FE providers and government to develop the proposals, which we would be delighted to discuss further with you and your officials.

Yours sincerely,



**Andy Mitchell**  
Co-Chair, CLC

## **SKILLS FOR RECOVERY – FE/HE sprint group asks to Government**

Roadmap to Recovery – An Industry Recovery Plan for the UK Construction Sector

In June 2020 the Construction Leadership Council (CLC) published its Roadmap to Recovery for the industry. The roadmap identifies three phases for the recovery: restart, reset, and reinvent.

### **Moving to reset and reinvent**

Since the launch of Roadmap to Recovery, industry has come together to restart projects, maximise employment, and minimise skills disruption to the industry. While this work will remain critically important throughout the recovery, we now need to respond to other emerging skills challenges. This includes developing an improved bridge into employment from FE/HE routes.

### **The importance of the FE route and recovery**

The economic impact of the pandemic is likely to dramatically decrease the ability of construction employers to recruit construction apprentices in the immediate future (especially the SMEs who employ 72% of construction apprentices). As such, it is probable that more people than normal will enter the FE system due to a lack of apprenticeship recruitment opportunities from September. The FE route has historically struggled to deliver success for construction learners and employers. To maintain access to a skilled workforce, industry, providers, and government need to increase the number of learners who successfully converts from FE courses into apprenticeships and employment.

### **Asks to government**

The Skills working group has developed some key asks to Government to enable the FE and HE routes to best support construction skills during the recovery and beyond. These are:

1. A new 12 month 'fast track apprenticeship' that recognises prior learning in Further Education and with tangible links to the T Levels pathway, backed by construction employers. This will increase the conversion rate of those in FE construction courses and help construction get the skills pipeline it needs to deliver the Government's built environment commitments.
2. A Traineeship+, with a high-quality 8-10 week employer work-placement, to support Year-1 FE learners develop the skills and behaviours they need to progress onto this apprenticeship. This will provide the much-needed practical experience for success in their construction career and could provide a model for long-term change to the structure and routes of entry. It is important that there is sufficient funding available to support the work placements required across the various pathways into construction (Traineeship+, T Levels etc.).
3. Adequate incentivisation of employers, resources for colleges and brokerage support, including through an expanded Construction Skills Fund, to ensure the above route and its work-placement is a success.
4. Flexibility in funding models so that adjusted incentives can be provided to support skills provision, across the various training levels and pathways, to specific parts of industry or specific geographic locations according to industry demand. This will provide clarity and reduce risk for employers and providers.

## **Proposed reforms of the Apprenticeship Levy system to support apprenticeships in recovery**

### **OVERVIEW**

1. This paper outlines two interventions proposed by the Construction Leadership Council's People & Skills Network to reform the Apprenticeship Levy (AL) to support the post-pandemic recovery of construction apprenticeships as a critical pipeline to meet the skills needs of industry.

The two proposed interventions are to:

- A temporary 12-month deferral for the existing 24-month deadline for construction employers to spend their AL funds
- Enable construction employers to transfer up to 25% of their AL funds to a ring-fenced fund to be used to strategically address industry's skills needs including:
  - Supporting construction SMEs who have previously supported apprenticeships to maintain or increase their capacity to train apprentices
  - Supporting those SMEs seeking to recruit apprentices for the first time
  - Employing an evidence-based approach to address geographic or occupation-based skills gaps with targeted interventions role

### **CONTEXT**

#### **Apprenticeships are the main source of industry recruitment at entry level**

2. 20,300 people entered construction in 2018. Of this group, 11,350 entered via apprenticeship compared with 8,900 who entered via another Further Education (FE) route. Prior to the pandemic apprenticeships continued to produce the highest rates of progression from completion of successful training into employment. Currently, 92% of those who achieve a construction apprenticeship enter industry. Only 41% of the approximately 36,000 students per year who undertake construction courses move directly into a job or an apprenticeship in construction.

#### **Level 2 (intermediate level) apprenticeships are most needed by the construction industry**

3. Two thirds of construction apprenticeship starts in England are at the intermediate level. This reflects the skills needs of industry, which relies on a steady pipeline of people qualified to this level entering industry to deliver essential work onsite, including in the core construction roles such as bricklaying and plastering. Since the introduction of the AL in 2017 starts at the intermediate level have declined by 23%. There appear to be a range of reasons for this, including levy-payers using their funds for higher apprenticeships and low levels of business confidence across the economy.

#### **COVID-19 is likely to dramatically decrease construction apprenticeships in the immediate future**

4. Large reductions in construction apprenticeship starts are expected, even with the introduction of significant policy interventions to mitigate rapidly falling employer demand. This is as we would expect, with employers facing uncertainty about future work and a possible second wave of the virus. Construction is likely to be particularly hard hit, due to its heavy reliance on small contractors with limited financial resilience, with SMEs employing 72% of construction apprentices. We anticipate there could be significant apprenticeship displacement due to redundancies and company failures.

#### **Dependent on the economic picture, we anticipate an increase in apprenticeship demand in 2021**

5. Reduced output and employment prospects will likely mean a lack of employer apprenticeship demand unless public investment in key construction and infrastructure projects and programmes are quickly realised. However, as the recovery progresses into 2021, we would expect apprenticeship starts for September 21 (the peak time of the year for construction apprenticeship recruitment) to be up on 2020. Therefore, extending the funding use deadline via the proposed deferral would enable construction employers to invest funds that would otherwise expire prior to 2021 in supporting the training of new construction apprentices.

#### **AL employer spending deadlines could further reduce employers' ability to take on apprentices**

6. The AL is currently based on a 'money-in apprenticeships-out' demand-led model that will not generate high levels of apprenticeship provision for construction when the industry is in a downturn. AL-paying employers currently have up to 24 months to spend funds in their digital accounts, before the Government take any underspend back to support apprenticeships provided by non-AL paying employers. Given current low levels of confidence among construction employers to invest in apprenticeships in the immediate future, this funding could be lost to industry at exactly the time it is needed to preserve construction apprenticeship provision.

**Allowing employers to pass on 25% of their AL contribution is unlikely to significantly increase construction apprenticeship provision without reform**

7. The structure of the construction industry (long supply chains, majority of construction businesses being SMEs, and a large proportion of self-employment) means there is a need to examine how the levy system's existing transfer mechanism might be altered to ensure that levy-paying employers are able to invest their funds in supporting the skills of the industry. For construction, whilst the transfer mechanism alone could not deliver all the intermediate starts the industry requires, it should be able to usefully contribute to addressing this fundamental need.
8. Survey research conducted in 2019 by IFF, commissioned by CITB, found that construction employers of all sizes were not enthusiastic about the existing transfer arrangements, whereby a levy-paying employer can transfer up to 25% of their funds to another employer in their supply chain to support apprenticeship training. Feedback from employers included:
  - concern around the 'sundown' clause which employers felt committed them to funding training over the duration of an apprenticeship rather than upfront as a lump sum
  - lack of capacity in SMEs (especially micro employers) to engage with the transfer process
  - perception that by transferring fund levy-paying employers were essentially funding the skills development of smaller businesses who worked for them at the time, but who would likely work for their competitors on their next or future projects

**AL reform to support construction's skills needs should be looked at as a priority given the industry's importance to the Government's growth and employment priorities and its unique challenges**

9. There are compelling reasons for the government to understand the need to take action to support construction's skills pipeline including the apprenticeships system on which the industry relies so heavily. The construction industry is both economically and socially important, employing large numbers of people in all areas of the country, as a proven vehicle for the increased social mobility that the Government's 'levelling up' ambition requires.
10. Construction will also be central to delivery of the Government's ambitions for infrastructure, which are likely to be a key part of supporting the economic recovery post-crisis. In particular, a loss of industry skills (through both a ruptured skills pipeline and experienced workers leaving the industry) would be likely to push up significantly the costs of the infrastructure plans and/or delay their delivery.

**INTERVENTION 1 – INCREASE THE DEADLINE FOR EMPLOYERS TO SPEND APPRENTICESHIP LEVY FUNDS**

11. Construction employers, through the Construction Leadership Council, are asking DfE to work with HMT and other Government Departments to implement a temporary Covid-19 deferral of 12 months for the current 24-month deadline to spend AL funds. As the recovery progresses there will be an urgent need to bring construction apprenticeship recruitment up to pre-pandemic levels, reopening a crucial pipeline for meeting industry's skills needs. This would give construction employers the flexibility to ensure that as their financial situation improves across 2021 their existing AL funds could still be used to support new apprenticeship starts.
12. To further support increasing apprenticeship starts the government's recently announced scheme of incentive payments to take on new apprentices between August 2020 and January 2021 could be extended. This would align with the proposed deferral, further incentivising employers to support increasing apprenticeship starts.
13. We recognise that the prevalence of subcontracting across the industry means that the larger construction employers (i.e. those eligible to pay the AL) don't directly employ many people in the core construction roles that require a steady supply of apprentices. However, the proposed deferral could combine with the ring-fenced funding pot (see Intervention 2 proposed below) to strategically address the skills needs of the industry. This would include enabling young people to enter the industry via an apprenticeship, and addressing urgent skills gap issues (which could be geographical gaps, sectoral gaps, or gaps in training provision).

14. The support for apprenticeship starts provided by these proposals would align with proposals we are developing with DfE and training providers to create an FE transition route, including an expanded Traineeship, to improve progression of learners from FE courses to apprenticeships (or employment). This route would equip learners through their FE course and a newly developed work placement to begin an 'accelerated apprenticeship'. If in place this intervention would provide a pipeline of learners ready to start an 'accelerated apprenticeship' in 2021, which could then be supported by employers using deferred AL funds.

## **INTERVENTION 2 – ALLOW EMPLOYERS TO TRANSFER 25% OF THEIR APPRENTICESHIP LEVY FUNDS TO A NEW STRATEGIC APPRENTICESHIP FUND FOR CONSTRUCTION**

15. We would also ask DfE to work with other Government Departments to agree the principle of construction employers being allowed to transfer up to 25% of their levy funds into a ring-fenced fund to meet the industry's strategic apprenticeship needs. The fund would be administered by an appropriate industry organisation working in cooperation with construction employer partners to an agreed implementation plan to meet the industry's most urgent skills needs. This would be informed by evidence and research provided by CITB and others.

### *Size of the funding pot*

16. We do not have access to DfE data about how much construction employers pay into the AL per year, but we estimate it to be approximately £50 million. This would set a maximum amount of £12.5 million per year as potentially transferable, though we anticipate that in reality the amount transferred to the ring-fenced pot would be likely less than half of this maximum. We expect that there will be construction employers who choose to spend their levy funds themselves, some employers who choose to transfer their unspent levy funds directly to specific businesses in their supply chain, and other employers who neither spend all of their funds nor transfer them to anyone.

### *Criteria for the fund*

17. We propose that transferred funds in the ring-fenced pot would be:
- Easily understood and accounted for, to build the confidence of both employers and Government
  - Additional to interventions CITB and others would be making to support industry
  - Covering costs that would not normally be covered by Government or CITB funding/grants
  - A discrete fund to which people/organisations submit bids
  - Of value to (if not necessarily directly benefiting) large employers
  - Reflecting the particular challenges faced by the construction industry, so Government could justify treating construction differently from other sectors

### *What might the ring-fenced fund be used for?*

18. The following possible uses of the fund are examples as a starting place for further discussion. We would welcome working with government to develop these or other ideas in line with government policy objectives.

### Increasing apprenticeship starts and completions

- Supporting construction SMEs who have previously supported apprenticeships to maintain or increase their capacity to train apprentices and supporting those SMEs recruiting apprentices for the first time
- Recognising these SMEs may need more incentive to invest their resources in an apprentice during the recovery
- Support SMEs to meet some of associated the upfront costs (e.g. training for mentors/supervisors, new equipment since apprentices will not have their own, additional management overheads, additional legal/H&S support)
- Additionally, where there is evidence to show need on geography and occupational role (including apprenticeships for specialist roles) funding can be used to address those needs with targeted interventions
- To compliment this proposed approach, CITB is also developing a new service to improve apprenticeship completions

### Supporting apprenticeship infrastructure

- Enabling construction training providers to buy the latest equipment for apprenticeship (and other) training
- The anticipated size of the fund would probably not cover the costs of the most expensive equipment (e.g. plant)
- But it would allow the ring-fenced fund to focus investment to improve the geographical spread and accessibility of particular facilities, and support specialist/cutting edge provision

- Fund could be co-ordinated with the Government's planned capital investment in colleges, potentially through a match funding arrangement

This relatively straightforward flexibility would better enable AL-paying construction employers to use their levy funding to help meet the skills needs of the whole sector.