Federation of Master Builders (FMB)

response to:

Industry Training Board Reform

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About the FMB

The Federation of Master Builders (FMB) is the largest trade association in the UK construction industry. With more than 6,500 member firms, representing around 45,000 employees, the FMB is the recognised voice of micro and small construction businesses. The FMB is the largest 'Prescribed Organisation' (PO) in CITB, representing a third of the number of businesses registered under PO's, with around 30% of our total members paying the CITB levy.

Local builders sit at the heart of supporting the economy, creating new jobs and training the next generation of builders with skills fit for the modern economy. They are also key drivers in helping to deliver government priorities on growing the economy, quality housing delivery, and improving the UK's existing housing stock to be healthier.

Response

Executive Summary

- There is no clear evidence that a merger would improve outcomes for small construction firms.
- A merger is likely to dilute the voice of smaller companies that make up the majority of the sector.
    - It would further homogenise a complex industry and deliver poor outcomes for already underrepresented parts of the industry.
- If a merger has to go ahead, it needs to be coupled with reform.
    - Any future ITB needs to be reformed with greater focus on sector body representation.
        - Culture change to an industry first approach will be vital to the success of any future ITB.
        - Greater accountability and transparency of decision making and funding.
- The risks of disruption caused by a merger, at a time when the industry is under great pressure, particularly to align with government ambitions, could undermine its ability to train and employ staff effectively.

Background – the current model

In preparation for this consultation the FMB consulted members that pay the levy on their opinions on the future of CITB. There have been long held concerns that CITB is struggling to penetrate down to smaller firms when it comes to accessibility of schemes and communication. This is disappointing given small and micro firm make up the majority of the industry, with 90% of construction businesses being micro companies (fewer than 10 staff) - this is primarily what the FMB's membership is made up of.

Only 50% of levy payers that are FMB members are currently accessing funding or involved in schemes that include CITB funding. It is also clear that there are strong feelings towards the reduction and removal of services to make up for funding shortfalls – with 80% of members agreeing that it has become harder to access training support. 80% also found their willingness to engage in training has been impacted because of recent changes to CITB funding.

There were also clear markers for change that members would like to see, such as greater communication and transparency, alongside better promotion of the industry as a whole. Only 4% of members think that the CITB is s fit for purpose, 56% thought it was not fit for purpose; and 39% said it was partly fit for purpose.

While we are aware that this is not a consultation on the CITB and how it functions, we want to flag the issues with CITB are systemic. There is poor sentiment amongst small building companies, which is concerning considering their importance to the industry. Regardless of whether there is a merger or not, we want to make it clear that fundamental change, mostly regarding governance and cultural change, will be required to turn the ship around regarding sentiment and outcomes. A merger to deliver the undefined outcome of efficiency is little comfort to a struggling industry. We support the ITB model, which the majority of members back, but they are demanding reform.

1. Do you agree with the proposal to create a single, unified ITB by bringing together the CITB and ECITB?

No.

2. Please explain the key reasons for your answer to question 1.

Sector support

Only 4% of members feel a merger should go ahead. With 74% suggesting that the needs of small companies could be outweighed by those of large engineering-led employers. The benefits to smaller construction firms are not made clear in the consultation and answers have not been forthcoming as to the benefits, when directly addressed to DWP.

We're concerned that a merger is convenient only for the Government and not the industry, with few benefits articulated. When we questioned the Department for Work and Pensions on protection for SMEs, we were told this would be up to industry to decide. What is not clear is what the process looks like regarding creating a governance structure to protect the voice of small construction firms. Leaving it up to industry, with little guidance, seems to be a naive approach considering the scale and complexity of the industry, which is disparate in nature.

While similarities exist across all of industry and that appears to be a driving force for a merger, that is a broad and simple understanding. Larg and small employers have completely different approaches to skills and training. They also have very different capacities to deliver training, with small companies struggling with the costs to train and employ, which in turn impacts absorption rates.

Dilution of sector voices

The concern that issues affecting micro and small companies' will be drowned out by larger companies is a legitimate one predominantly because large contractors have the time and resource to commit to training programs and continuous consultation with CITB on training outcomes. This could get worse if well-resourced engineering firms join one organisation. Small businesses are almost solely reliant on their representative organisations to provide their voice.

Understanding of the construction sector and its complexities is poor within government, with little data and insight into most firms operating in it. A merger of bodies will likely further homogenise the industry which has many nuances but is often treated as a simple unified sector. This approach has delivered damaging policy outcomes – particularly regarding smaller building companies. Construction is not an industry that lends itself to a one size fits all approach, but that appears to be the opinion that has led to a merger of the ITBs being the preferred option by the Government.

Outcomes

The lack of clear outcomes or benefits for small construction companies needs to be carefully considered. The domestic RMI industry for example, which provides home improvements and is exclusively made up of micro companies, mostly under three staff, represents more economic output than housing or infrastructure. However, it is very rarely acknowledged as an important sector for economic growth across government and other bodies.

The proposed merger could further erode the prioritisation of this sector to deliver meaningful change, particular regarding retrofit and energy improvements. More broadly it may well damage outcomes for smaller builders, who already struggle to train due to expense and administrative burden.

3. What do you see as the most significant potential benefits of a single, unified ITB and how might these be maximised?

While it is not clear what the benefits would be, the largest potential benefit could be reform of the existing organisations to better reflect the composition of the industry – with better outcomes for SMEs.

We propose that CITB or its equivalent new organisation enact the following three outcomes:

1. **The 'Prescribed Organisations' (POs) to be formally integrated into the governance structure:**
    - CITB has moved toward fragmented employer engagement and shifted their focus away from representative bodies who represent large numbers of levy payers. This has led to smaller companies finding themselves underrepresented and is preferential to larger employers by virtue of resourcing.

- This would allow for greater industry input into decision making and outcomes.
- Would ensure that the sector is represented broadly, with specialist and general views.
- Ensures that strategic decisions involve 'boots on the ground' feedback to negate negative outcomes.
- We would argue that the board structure requires the inclusion of sector representative bodies to full ensure that small businesses are well represented.
- It would ensure the voice of small firms are truly represented – SME is an unhelpful term in construction, as it is too broad. Most POs represent micro companies, yet these companies would find it hard to give time to governance activities – especially at Board level.

2. **Clear accountability and transparency:**
    - Transparency and visibility of levy spend.
    - Improved communication, fully utilising the POs to communicate with the industry.
    - Cross collaboration between larger employers and smaller employers, rather than seen as two distinct groups – there may be opportunities for collaboration.

3. **Culture Change:**
    - The organisation, in whatever form, must have an industry first approach. The instinct of the organisation should be collaboration with industry to achieve positive outcomes.
    - Cross collaboration on research and sharing of data to improve training outcomes.
    - Work with POs to develop training regimes for members on areas that are outside of scope, but would benefit broader outcomes, such as business skills.

We see that the three proposals above will lead to better outcomes for small and micro building firms. While clear KPIs and accessible, well communicated, funding mechanisms will be vital to delivering a positive skills environment, a new approach from the bottom up will ultimately deliver this by putting industry back in the driving seat, rather than being a passive observer.

4. **What do you see as the most significant potential costs and risks of a single, unified ITB and how might these be mitigated?**

    As answered as part of Question 1 we see no benefit to training outcomes for small builders, but do see significant impact on their representation and therefore skills outcomes.

    With the ITBs being sector funded bodies, no decision should be taken on a merger without the consent of those that pay for it to operate. Any efficiencies that government may see with a merger do not seemingly correlate to positive outcomes for industry but may have adverse effects which impact the sector at a time when demand on it to achieve key outcomes for Government are required.

5. **If you answered ‘No’ or ‘Don’t Know’ to question 1, please identify any other approaches to ITB reform that should be considered and the reasons why they would be more effective in meeting the employers’ construction and engineering construction skills needs.**

   What has become clear in discussions with members and wider industry is that a regime other than the ITB system would not deliver the necessary outcomes for the industry. While the current system is deeply flawed, this can be redeemed with reform rather than abolition.

Further comments

- **Levy Period**
  - It is not clear what the benefits of extending the levy period beyond the current three -year period would bring. We would discourage a short time span, as this would create uncertainty and a lead to an almost constant bureaucratic process.

- **Transition Period**
  - Our understanding is that no change is likely to be enacted until 2028. We have concerns that this merger has not come at the request of industry and may disrupt skills outcomes unnecessarily. We would encourage a smooth, well-ordered transition period, with constant consultation with industry to deliver the outcomes required to make such a change worthwhile.