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Learning on the job:

Improving the Apprenticeship Levy

September 2019
People and Skills



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Executive Summary

Businesses – rightly - place a high priority on training and development.

This has long been the case. But there are two structural changes taking place in the labour market that makes it even more important right now. Automation and AI are transforming the workplace and bringing with them demands for new skills. And the future shape of the UK's immigration system remains unclear, but it is likely to increase the demand for 'home grown' talent, particularly for technical skills.

Two findings from the *2018 CBI/Pearson Education & Skills Survey* illustrate this point:

- More than four in five businesses expected to maintain or increase their investment in their workforce through training.
- But two thirds of businesses (66%) said they were not confident there will be enough people available in the next three to five years with the right skills to fill their high-skilled jobs.

The Apprenticeship Levy was introduced in April 2017 with the aim of increasing firms' investment in training.

Yet the Apprenticeship Levy and other new regulations have impacted the market in several ways, not all of them positively:

- **The overall number of apprenticeships starts has fallen** since the introduction of the Levy.
- **There has been significant growth in older apprentices on higher-level courses.** Higher-level provision represented 13% of all apprenticeships in 2017/18, up from just over 5% in 2015/16.
- **Younger learners - and those at lower qualification levels - have been impacted by the fall in apprenticeship starts**

There are common problems which are hindering learners', firms' and providers' ability to access and deliver quality training:

- **There isn't a clear picture on how the system is working or what is being funded.** There is limited data on the apprenticeships system, which makes it hard for firms to analyse the performance of the system. Many firms also don't understand how their contributions are being used and spent.
- **Many employers have struggled to engage with apprenticeships and the Levy.** 26% of businesses in the *2018 CBI/Pearson Education & Skills Survey* said they were not using their Levy and treating it as a tax, and there is also evidence that SMEs have suffered.
- **The apprenticeships system remains challenging for many companies to work with.** While well-intentioned, many employers have struggled with the complexity of several aspects of the apprenticeships system. The shift from frameworks to standards; the role of the Institute for Apprenticeships and Technical Education (IFATE); the 20% 'off-the-job' training rule; assessment and quality assurance; and a lack of quality provision have all caused challenges for firms.
- **Businesses want more flexibility to spend their Levy, but growing financial pressure is raising questions about the sustainability of the system in its current form.** While many individual businesses have 'unspent' funds showing in their Levy accounts, the apprenticeships budget is at risk of being overspent in the coming years. As spending pressure builds on the Levy, the government may come under pressure to consider restricting how employers can use their funds.

Further reform of the Apprenticeship Levy is vital if it is to address these concerns

The CBI has identified crucial steps the government must take to increase businesses' confidence in the Levy so that it addresses skills gaps. Increasing transparency to improve firms' understanding of the system; ensuring that the apprenticeships system becomes more user-friendly and allows firms to access the right training; and producing a sustainable financial plan which allows firms to continue to use the Levy to spend on apprentices of all ages and levels.

When these conditions are met, the government should start a discussion on the long-term, including a consultation on turning the Levy into a flexible 'Skills Levy'.

Step 1: Increase transparency for employers and improve the use of data to measure the effectiveness of the Apprenticeship Levy

- Improve publicly-available data and analytics – including clearer breakdowns by age, level, business size, region, and sector – to improve businesses’ and policy makers’ understanding of how the apprenticeship reforms are progressing.
- Introduce immediate and regular transparency around Levy receipts and expenditure: so employers understand better how the system works and what is being funded.

Step 2: Ensure that the apprenticeships system becomes more user-friendly and allows firms to access the right training


- Ensure that the availability of quality provision continues to grow: to allow firms to access the right training.
- Make the apprenticeship system more accessible, by clarifying end-point assessment and quality assurance processes, regularly reviewing standards to ensure they fit future needs, and exploring changes to the 20% off-the-job rule on a sector-by-sector basis.
- Allow the Institute for Apprenticeships & Technical Education to effectively undertake its role as a robust and independent body, and champion of employers.

Step 3: Deliver a sustainable financial plan for the apprenticeship budget that allows firms to continue to invest in apprentices of all ages and levels

- Commit to maintaining the rate at which firms pay the Apprenticeship Levy at no more than 0.5% for the duration of the next Parliament.
- Provide a £100 million annual government top up in the upcoming Budget, to ensure that Levy payers and SME non-Levy payers can continue to use the Levy to spend on apprentices of all ages and levels.

Step 4: Open-up conversations on the long-term, including a consultation on turning the Levy into a flexible ‘Skills Levy’

- When these conditions are met, open-up a discussion on the long-term future of the system, including a consultation within the next Parliament on turning the Levy into a flexible ‘Skills Levy’.
- Any review of the Levy should examine the purpose of the apprenticeships system. Is the objective to increase workplace productivity, offer young people a route to a good career, widen participation or a combination of all of these?



"Firms of all sizes across all sectors are strongly committed to growing the apprenticeship brand. Yet with the Apprenticeship Levy having been in place for over two years, there is concern as to whether it is working as effectively as it could be."

Businesses are passionate supporters of apprenticeships and technical education

Businesses place a high priority on investment in training and development. Firms of all sizes across all sectors are strongly committed to growing the apprenticeship brand. Yet with the Apprenticeship Levy having been in place for over two years, there is concern as to whether it is working as effectively as it could be. If the Levy is to be effective, it needs to create a stable market for skills, encouraging investment in quality by employers and providers alike.

The introduction of the Apprenticeship Levy was a major shift in skills funding

Prior to April 2017, the government paid part of the apprentice's training costs and government funding was paid directly to the training provider.¹

The introduction of the Levy means that businesses across all sectors with an annual pay bill above £3 million pay 0.5% a year to fund apprenticeship training. While the Levy covers the United Kingdom, apprenticeships policy is devolved meaning there are separate arrangements in Scotland, Wales and Northern Ireland. This report focuses on English apprenticeships policy, unless specifically stated.

The Levy can only be spent on Institute for Apprenticeships & Technical Education (IfATE) approved apprenticeship training, with a strict 24-month sunset after which funds expire. Alongside the Levy, the term 'apprenticeship' became more formal with requirements attached, including a minimum duration of 12 months, a minimum of 20% training as part of the apprenticeship, and an independent assessment at the end.²

The introduction of the Levy has been a major shift in skills funding over several years, as shown in **Exhibit 1.1**. It is part of the longer-term shift towards greater employer ownership of skills. The government's aim, to increase the amount that firms invest in skills training, was the right one.

Exhibit 1.1 Apprenticeship Levy Timeline



July 2015

George Osborne announces creation of an 'Apprenticeship Levy'.



October 2016

New apprenticeship funding rules published, after CBI responds to consultation.



January 2017

Institute for Apprenticeships create.



April 2017

First Apprenticeship Levy payments taken.



May 2017

First funds appear in firms' levy accounts.



April 2018

Levy payers now able to transfer 10% of their funds to another employer.



October 2018

Government announces changes to Apprenticeship Levy following CBI recommendations, including an increase in the amount firms can transfer and reduced costs for SMEs.



April 2019

Levy payers able to transfer up to 25% of their funds to other employers.



Summer 2019

Non-Levy-paying employers start to be moved onto the digital 'Apprenticeship Service'.



August 2020

Withdrawal of all apprenticeship frameworks in favour of new, employer-designed standards.

Businesses support apprenticeships and technical education...

In the *2018 CBI/Pearson Education & Skills Survey* more than four in five businesses expected to maintain or increase their investment in their workforce through training. But two thirds of businesses (66%) said they were not confident there will be enough people available in the next three to five years with the right skills to fill their high-skilled jobs.³

Apprenticeships have an essential role to play in providing firms with the right combination of people and skills they will need to succeed. Two structural changes taking place in the labour market that make them even more important than ever before. Firstly, Automation and AI are transforming the workplace and bringing with them demands for new skills. Secondly, while the future shape of the UK's immigration system remains unclear, it is likely to increase the demand for 'home grown' talent, particularly for technical skills. As a powerful tool to achieving more productive and flexible workforces and driving social mobility, apprenticeships have a vital role in filling the UK's skills gaps. **Exhibit 1.2** shows the value that that one firm in the health and social care industry places on apprenticeships.

Exhibit 1.2:

How BUPA is applying a commercial and social lens to the Apprenticeship Levy

Last year BUPA established an Apprenticeship Board with a belief that it would take a collective business approach to make the most of the Levy for its people. The Board is formed of senior business leaders from across BUPA working together virtually once a month. This has turned the programme from a HR initiative to a strategically important talent programme. It was clear from the start that the Board had a passion for developing front line colleagues and managers. Of the 1,054 active apprentices, 77% are based in those types of roles across the care, hospital and dental sectors. They also felt conscious about being a good ambassador. With 6% uptake they confidently signed the 5% Club pledge, becoming the first healthcare provider to do so.

BUPA have also gifted part of their Levy to Salford Skills for Business Apprenticeship Fund in Greater Manchester to offer visible support for SME organisations to grow their talent. This is because they see the Levy as a crucial tool for driving social mobility. Bupa is open to sharing their story with other organisations, including how it is aiming to use the Levy to meet commercial and social aims.

...but there are still lots of challenges with the system to work through

This report will highlight the main challenges with both the apprenticeships system and the Levy mechanism itself from an employer perspective. It will examine the impact of the apprenticeship reform programme, including the shift from frameworks to standards, the creation of IfATE and the requirement for 20% of an apprenticeship to be 'off-the-job' training. **Exhibit 1.3** shows how the CBI has been working with government to improve the Levy.


Exhibit 1.3:

Business has been working with government to improve the Apprenticeship Levy

The CBI consistently campaigns to improve the Apprenticeship Levy and apprenticeship system. In the 2018 Budget government accepted the CBI's case that significant reform is needed, announcing four CBI recommendations as policy changes in the 2018 Budget:

- ✓ Increasing the proportion of funds employers can transfer from 10% to 25% to allow more firms and apprentices in supply chains to benefit.
- ✓ Properly resourcing IfATE to speed up the approval of apprenticeship standards and better regulate the 20% off-the-job requirement.
- ✓ Cutting in half the cost of apprenticeship provision for non-Levy payers.
- ✓ A commitment to start discussing what a more flexible 'Skills Levy' could look like post-2020 to support the development of the skilled workforce business needs.





"A growth in prestigious, high-quality, and high-level apprenticeship provision should be welcomed. This is an important step in apprenticeships, rightly, being seen as equal to a Bachelor's degree. In choosing these programmes, employers are responding to growing demand for leadership and management skills."

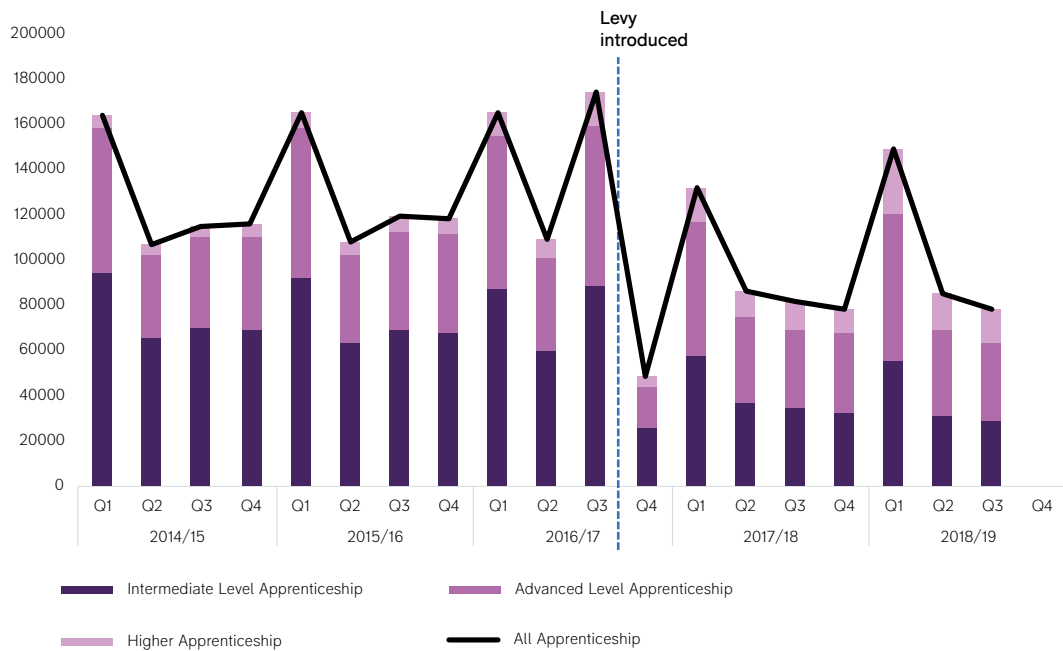
There has been growth in higher-level programmes, but overall starts have fallen

The Apprenticeship Levy was introduced in April 2017 to grow the amount of training that firms invest in. In practice, the outcome has been more nuanced. While there has been a shift towards higher level programmes, especially among older apprentices, the overall number of starts has gone down. This highlights the need for ongoing reform of the Levy and apprenticeship system to make it more effective.

The overall number of apprenticeships starts has fallen

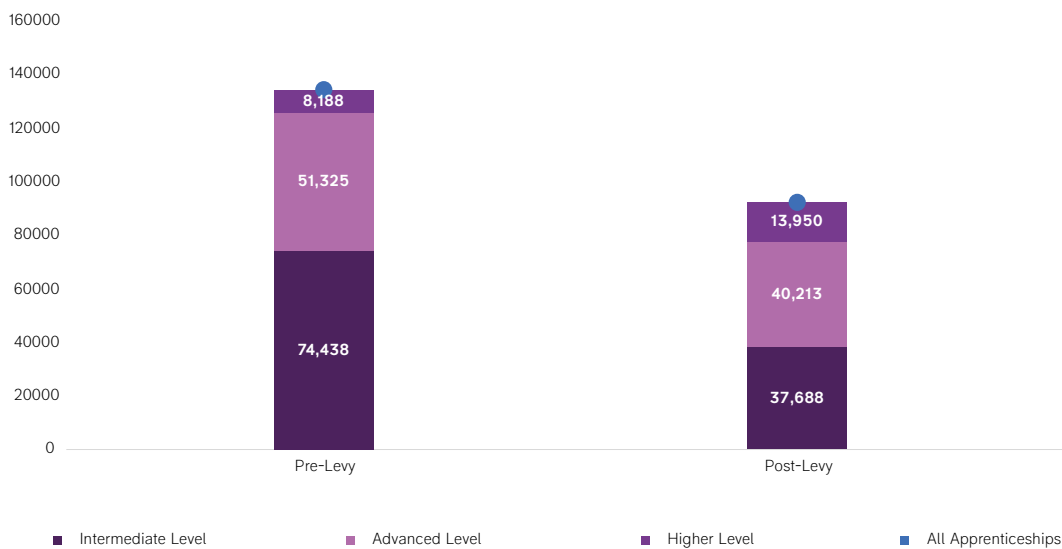
Analysing the apprenticeships data is not simple. As **Exhibit 2.1** shows, there is usually a spike in the number of starts in Q1 of the academic year (August to October). There was also a spike in starts in Q3 of 2016/17 (February – April) – the final quarter before the Levy was introduced.

Exhibit 2.1 Quarterly apprenticeship starts, 2015/15 - present⁴



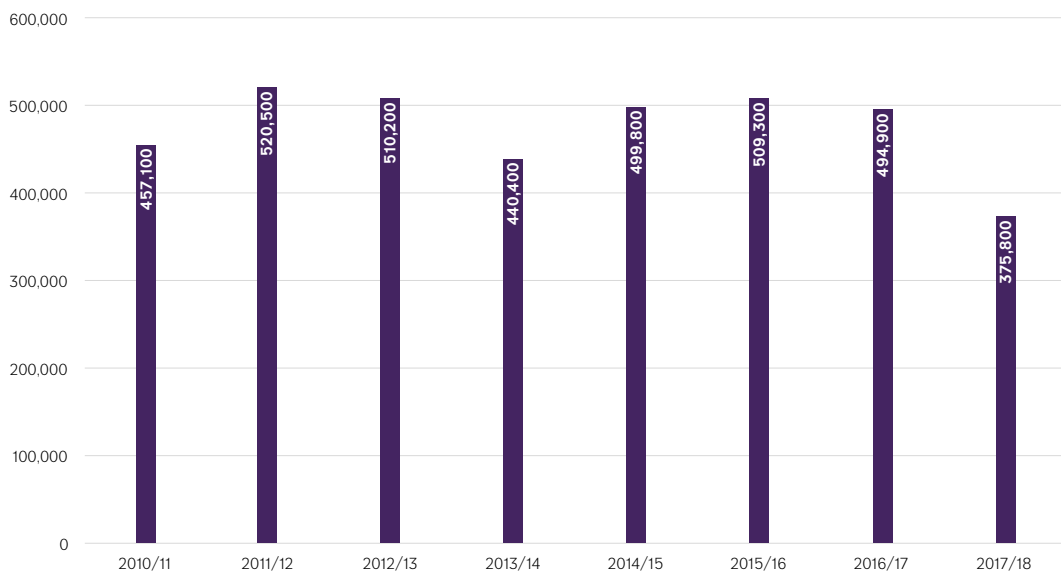
Yet it is possible to see some clear shifts in the post-Levy landscape. Overall, apprenticeship numbers have reduced since the introduction of the Levy. **Exhibit 2.2** shows a comparison between the average number of starts in the eight quarters immediately preceding the introduction of the Levy, and the eight quarters since its introduction. This shows a fall of 31%.

Exhibit 2.2 Average quarterly number of apprenticeship starts by level before and after the introduction of the Levy⁵



This decline is also supported by **Exhibit 2.3**, which shows the total number of starts by academic year. For example, 2015/16 (the last full academic year before the Levy was introduced), there were 509,000 starts. In 2017/18, the only full academic year for which there is data since the Levy came in, there were 376,000 starts, a fall of 26%.

Exhibit 2.3 Total apprenticeship starts by academic year⁶



These results are consistent with the findings of the *2018 CBI/Pearson Education & Skills Survey*, which found a fall of 13 percentage points in the share of firms saying they are involved in apprenticeship programmes (down to 70% to from 83% in 2017).⁷

There has been a shift in employer behaviour, with a rise in older apprentices on higher-level courses

Exhibit 2.4:

Apprenticeship levels by Department for Education classification

- **Intermediate** (Level 2) - equivalent to five good GCSE passes.
- **Advanced** (Level 3) - equivalent to two A-level passes.
- **Higher** (Level 4 / 5) - equivalent to the first stages of higher education, such as a foundation degree, or degree (Level 6 / 7) - comparable to a Bachelor's or Master's degree.

One of the most notable trends since the introduction of the Apprenticeship Levy has been a rise in higher-level provision (Level 4+) for older learners aged 25 and over, albeit from a low base. For example, there were 19,600 higher-level apprenticeship starts in 2015/16 at age 25 and above, compared to 31,100 in 2017/18 - an increase of 59%.⁸ **Exhibit 2.5** also shows the growing proportion of apprenticeship starts that higher-level provision represents: up from just over 5% in 2015/16 to almost 13% in 2017/18.

Exhibit 2.5 Proportion of apprenticeships starts by age and level, 2010/11-present⁹



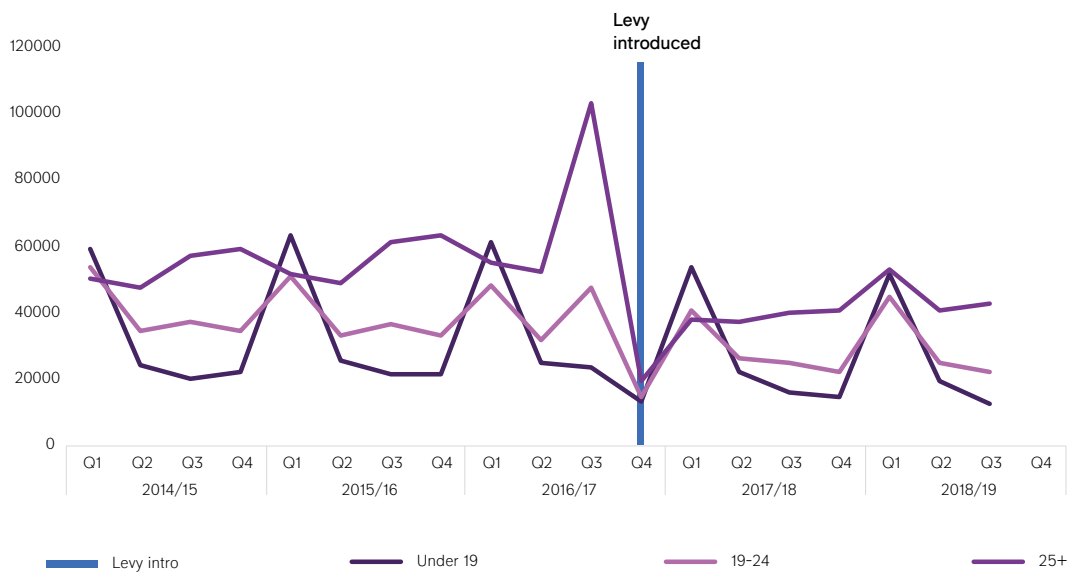
A growth in prestigious, high-quality, and high-level apprenticeship provision should be welcomed. This is an important step in apprenticeships, rightly, being seen as equal to a Bachelor’s degree. In choosing these programmes, employers are responding to growing demand for leadership and management skills. For example, as the *2018 CBI/Pearson Education & Skills Survey* highlighted more than seven in ten respondents (74%) expected to grow the number of people with leadership and management skills over the next three to five years.¹⁰

Many firms are also finding that given the age profile of their current workforce, the apprenticeship standards currently available to them and their internal capability requirements, the Levy offers a big opportunity to upskill existing members of staff.

Younger learners - and those at lower qualification levels - have been impacted by the fall in apprenticeship starts

It is important to note that over 25s represented the largest proportion of apprenticeship starts before the introduction of the Levy - as **Exhibit 2.6** shows.

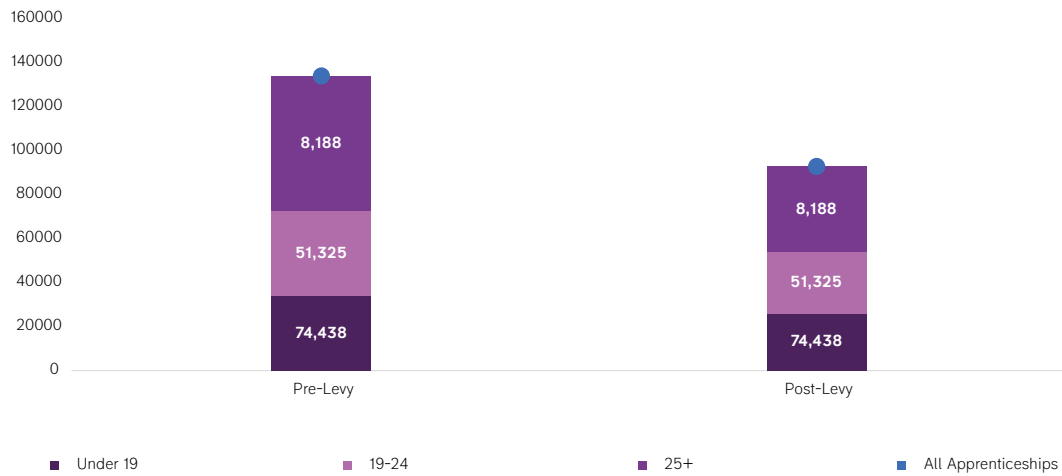
Exhibit 2.6 Proportion of apprenticeships starts by age and level, 2010/11-present¹¹



There are a few positive signs for younger learners from the apprenticeships data, which reflect the broader shift to higher level provision. For example, in the year 2018-19 to-date (up to May 2019) the number of Higher Level starts (Level 4 and above) for under-19s was over double the level they were at in the whole of 2015/16 (pre-Levy). The number of higher-level starts for 19-24 year olds has also increased by almost three-fold in the same period from 5,800 to 17,000.

However, the fall in apprenticeship starts has reduced the number of opportunities for older people studying Level 2 qualifications and young people. **Exhibit 2.7** shows a comparison between the average number of starts by age in the eight quarters immediately preceding the introduction of the Levy, and the eight quarters since its introduction. Over 25s have had the largest fall in starts in both volume and percentage terms – as **Exhibit 2.5** shows, most of this fall has been at Level 2. Meanwhile, apprenticeships starts in the same period for under 19 category fell 23% from almost 33,000 to just over 25,000, and among the 19-24-year olds fell 30% from just under 40,000 to 25,000.

Exhibit 2.7 Average quarterly number of apprenticeship starts by age before and after the introduction of the Levy¹²



It may be an oversimplification to say that the introduction of the Levy has reduced the number of lower-level apprenticeship starts at the expense of higher-level programmes. The Levy's introduction was accompanied by lots of regulation changes, including the 20% off-the-job ruling (**see Chapter 3**). These may also be a driver of the fall in starts at lower levels. In addition, as **Exhibit 2.8** shows, firms do still provide many entry-level opportunities



Exhibit 2.8:**Sainsbury's: how apprenticeships help power social mobility**

Sainsbury's has grown its apprenticeship offer from two to 35 distinct programmes, ranging from in-store craft bakery roles to analytics and software engineers. 85% of colleagues on programmes with us are over 24. What's important is the extent to which apprenticeships – and particularly entry-level roles – can serve as gateways to other qualifications and jobs within the business. That's because they help colleagues to re-connect with learning, boosting their confidence and helping them reassess their career opportunities with a growth mindset.

There are many colleagues at Sainsbury's who have harnessed their apprenticeships in order to progress into more stretching, senior and complex roles. This includes Baker to Network Engineer; Baker to Convenience Store Manager; and Grocery Online colleague to Software Developer. Take Lauren Waind as an example. Lauren started working as a Customer Service Assistant in our Aylesbury store when she was a student and, thanks to the apprenticeship programme, has now been promoted all the way up to a senior Level 5 HR Change Manager. The Level 3 Team Leader Supervisor Apprenticeship served as an excellent gateway for Lauren's next qualification, Level 5 HR Consultant, which is supported by CiPD and helping her to move up the management rungs.

While Sainsbury's would support the creation of a more 'Flexible Skills Fund' in the longer-term, the short-term priority should be retaining existing features of the Apprenticeship Levy – funding for all age groups and at all levels – in order to ensure it remains a driver of social mobility.

Yet if these overall trends continue, this may have long-term consequences for what an 'apprenticeship' is, with its traditional role as the first rung into a career in decline. If this decline were to continue and not be reversed, the implications for social mobility could be stark, with the opportunities for the 50% of people who don't study a Bachelor's degree shrinking.¹³ This shrinkage will hit those from poorer or disadvantaged backgrounds hardest. Any future review of the Apprenticeship Levy should explore any direct correlation between the growth in higher-level programmes and reduction in lower level starts.

As well as young people being impacted, smaller and medium businesses have suffered

Small and medium sized businesses (SMEs) in a Levy context normally means non-Levy payers – those with a payroll below £3 million a year.

Unlike Levy paying firms, non-Levy payers have not yet had access to the online Apprenticeships Service to purchase training. Instead, as part of the transition period for moving SMEs onto the service, providers have had to tender for a share of the Levy money in order to be able to deliver training to these firms. Concerns have been raised by several SMEs, who are struggling to find providers in their local areas with enough funding to deliver to these firms.¹⁴ Anecdotally, SMEs also struggle with non-provision costs, and, yet, at present, there is a lack of clear data on apprenticeships starts among this type of firm.

The Levy is being used to upskill and retrain employees, as well develop new talent

Many businesses see opportunities arising from the Levy, as it has given a new focus to investment in training and can be an effective talent development tool, as shown in **Exhibit 2.9**.

Many firms have shifted how they invest in their people to accommodate the Levy, including some setting up an internal 'Levy Strategy Board' to develop an approach for utilising the Apprenticeship Levy. Where a well-established strategy already exists, firms should seek to share best practise with other employers. Business organisations, including the CBI, should improve awareness of apprenticeships, especially among SMEs.



Exhibit 2.9:**How employers are using their Levy funds****Marks & Spencer: Using apprenticeships to support early careers strategy and digital transformation**

In the last two years, M&S has adopted a flexible approach to deliver new skills training to colleagues and to maximise its Apprenticeship Levy funds to invest in training. This has included introducing a Level 2 Retailer Apprenticeship for store employees, a Level 3 Retail manager programme as well as converting a pre-existing school leavers management programme into a Level 4 retail leader Apprenticeship. These schemes form an important part of the company's talent pipeline in M&S stores and provide good entry-level training and progression opportunities for younger people.

Other recent innovations include a partnership with Decoded to create a new Data Academy, which will result in 150 M&S office employees completing an 18-month Level 4 Apprenticeship in Data Management.

Whilst M&S would still like greater flexibility within the policy framework to support future skills training, the company is now delivering over 1000 apprenticeships per year at different levels across the organisation. This investment is critical as M&S transforms to become a more agile and digitally enabled retailer.

BT and Openreach: Embracing the Apprenticeship Levy to develop future skills

BT and Openreach have embraced the Apprenticeship Levy, using the opportunity to greatly broaden its Openreach trainee engineer programme; grow existing programmes; and create new programmes to develop the future skills that new and existing staff need. BT has used this opportunity to significantly increase its numbers since the introduction of the Levy. BT currently has 6000 learners on programme and is looking to start another 4000 in 2019, making BT and Openreach one of the UK's largest apprentice employers.

BT is an employer-provider and delivers programmes where it feels it has the expertise. BT also uses a range of specialist training organisations to develop apprentices for those future skills it has identified. Consequently, BT works with several providers who all have different methodologies, approaches, reporting systems and values. BT's challenge is to leverage the benefits of this approach while making sure that it ensures quality and consistency across the whole programme. BT has made good progress by sharing best practice; clearly communicating its needs; listening and continuously trying to improve. It has been hard work, but BT is committed to a long-term apprenticeship programme with benefits for BT, Openreach and the apprentices they employ.

Apprenticeships data and the Levy need ongoing reform if it is to support more learners and tackle skills gaps

Apprenticeships data from the first two years of the Levy paints a mixed picture. The Levy and the changes in regulations have driven a behaviour shift, as businesses look to maximise their return on investment within the current system and invest in the future skills which they will need. The Levy offers clear opportunities to develop and upskill existing staff, and to extend apprenticeships into new areas of the business where these have not been traditional. All employers should be encouraged to explore the opportunities that the Levy offers as a workforce development tool, seeking to share and learn best practice with each other on how it can be used effectively. Business organisations, including the CBI, have a crucial role to play in raising awareness of apprenticeships.

Nevertheless, the overall fall in starts can be attributed, at least in part, to ongoing business concerns about the Apprenticeship Levy. The government has argued that while the introduction of the Levy has reduced apprenticeship numbers, it has increased the growth of quality apprenticeship programmes. However, as the CBI's report *In Perfect Harmony* highlighted in 2018, past governments have equated quality with a rise in the number of higher level qualifications, rather than whether the underlying skills gaps were being met.¹⁵ The government should also include clearer data breakdowns by age, level, business size, region, and sector - to improve businesses' and the government's understanding of how the apprenticeship reforms are progressing.

These recommendations are designed to improve understanding of the impact of the Levy and increase business engagement with the apprenticeships system.

Government should:

1. Make greater use of publicly-available data and analytics – including clearer breakdowns by age, level, business size, region, and sector - to improve businesses' and policy makers' understanding of how the apprenticeship reforms are progressing.

Businesses should:

1. For large businesses, create an internal 'Levy Strategy Board' to develop an approach for utilising the Apprenticeship Levy. Where a strategy already exists, firms should seek to share best practise with other employers.
2. Business organisations, including the CBI, should improve awareness of apprenticeships, especially among SMEs.

The apprenticeships system as well as the Levy needs to improve

The government has set out ambitious goals to reform the skills system, with the apprenticeships a central pillar of that vision. The past six years has seen a positive shift towards greater employer engagement, through trailblazer groups, T-level panels, establishment of the IfATE and most recently with the Levy itself, which was introduced in April 2017. It is important for the next stage of reform steps up to improve effectiveness.

In January, the CBI published *Getting Apprenticeships Right: Next Steps*, which focused on strengthening the role of IfATE and improving the supporting apprenticeship system.¹⁶ Key recommendations included giving the IfATE the independence and clout it needs to build and regulate a world-class skills system; measures to speed up the process for approving new apprenticeships provision; and an appeals system that gives employers longer to spend their Levy when the blockage is caused by the apprenticeship system, rather than the employers' fault.

The Department for Education (DfE) and IfATE have taken some welcome steps to improve efficiencies, for example by speeding up the pace with which standards are approved.

The next stage of improvement must include a stronger role for the IfATE

For the IfATE to be at the heart of a truly business-led system that lasts for the long-term, it must be given a broader and more independent role – on a par with that of Ofqual, or the Office for Students does in the university sector.

Rather than setting an arbitrary target of 3 million apprenticeship starts beyond 2020, the government should allow IfATE to set evidence-based and credible goals. The government should also directly reflect the importance of these success criteria by giving IfATE a legal reporting responsibility for its findings to ministers through an annual report to Parliament that is given time for scrutiny by MPs.

These success criteria should include reference to employment destinations, progression to additional education, wage data, and the closing of skills gaps in the economy. This would give IfATE the ability to make independent recommendations publicly including on any future changes to the Levy rate and the apprentice minimum wage.

Ensure employers have access to apprenticeship provision and gaps are addressed

Over two years since the Levy was introduced, many firms are still struggling to find the right quality provision in their area or sector. The lack of pre-existing provision, the sheer variety and complexity of their skills needs and – in some cases – insufficient scale are all given as reasons for this.

This issue is particularly acute for smaller and medium-sized businesses, who have the least capacity to find provision. Encouragingly, the government's decision to move non-Levy payers onto the Apprenticeship Service from August 2019 should improve access to a range of digital support and quality providers.¹⁷

In addition to moving non-Levy payers on the Apprenticeship Service, there is a clear need for a strategy to expand and improve the supply of provision. This is similar to the responsibility Regional School Commissioners have when it comes to supply and quality of school places, of the Further Education Commissioner with Colleges. IfATE and DfE should therefore work closely together to deliver an effective supply-side strategy.

The strategy should be in two parts. Firstly, the DfE and IfA should use data and analytics to build up a clear picture of the geographical distribution of sector-specific training and assessment provision. While local Skills Advisory Panels, Combined Authorities, or Local Enterprise Partnerships can play a major role in delivering this work locally, feeding into Local Industrial Strategies, there must also be a nationally coherent picture, linking up training and assessment provision in different areas and addressing any gaps. Secondly, the DfE and IfATE should support more collaborative and co-delivery partnerships between employers and providers, to support more innovative provision, such as the example highlighted in **Exhibit 3.1**.



Exhibit 3.1:

Open University: using a partnership approach to deliver flexible provision

The Open University is a provider of apprenticeships to over 400 large and small employers across the UK. Its successful model is acclaimed due to its flexibility and high quality.

The OU delivers the apprenticeship both online and face to face which gives employers and apprentices more flexibility to tie in with working life. It also can be delivered anywhere in the UK and so the OU's expert nationwide practice-based tutors are able to support apprentices at their workplaces, wherever they are located. This helps address geographical 'cold spots' where there is perhaps no local HE or FE provision, or indeed supports employers across multiple sites.

Its model is also flexible as it operates across all levels and partners with FE colleges as well as other training providers. From a partnership with the Collab Group, through to licencing content and validating apprenticeships with the likes of Chichester College, the OU can support the delivery of high-quality flexible apprenticeships and build collaborative solutions that help fill skills gaps.

The government and other combined authorities should consider the lessons of the West Midlands Combined Authority (**Exhibit 3.2**) under Mayor Andy Street, with a view to roll out further pilots. While local innovation should be encouraged, it will be essential that areas without a devolution deal are not left behind, fragmenting the experience of employers and inadvertently creating a postcode lottery on apprenticeships.



Exhibit 3.2:**Funding for apprenticeship training through the West Midlands Combined Authority**

In July 2018, the West Midlands Combined Authority (WMCA) agreed a unique Skills Deal with government, enabling them to work with businesses and transfer Levy funds locally. WMCA is securing £40m over 5 years from Levy paying employers, supporting small to medium-sized businesses (SMEs) receive 100% funding for apprenticeship training and assessment, focused on priority skills linked with the delivery of the West Midlands Local Industrial Strategy.

This free service is delivered by the WMCA, with support from over 20 trusted training providers, managing the introduction between SMEs and Levy funding employers. Since launching in March 2019 large businesses have supported over 70 apprentices in the West Midlands. SMEs working across sectors including Manufacturing, Construction, Professional services and Retail, are benefiting from funding to train apprentices in engineering, digital and finance roles.

Ensure consistency and quality in the delivery of end-point assessment

An apprentice's achievement of an apprenticeship is assessed at the end of their training through an end-point assessment (EPA). While this is an important part of the quality assurance process, challenges with EPA are adding to the perceived complexity of the apprenticeship system for employers.

Some employers, particularly smaller ones, have struggled to find any registered EPA providers for the standards they are operating. This can have negative implications for the experience and development of the apprentice if they begin a programme without an EPA in place.

There is also a lack of consistency in quality assurance of EPA provided by External Quality Assurance Organisations. IfATE oversees this system and, while it was originally intended as a backstop option, directly quality assures the assessment of nearly half of all standards. Many businesses have expressed concern that this complex and fragmented approach is causing a lack of consistency and could lead to a two- or three- speed system of regulation.

The government and IfATE should bring more clarity and consistency to the quality assurance of EPA. This should include better communication of Ofqual's external quality assurance service.

Develop clear guidance for the operation of the 20% minimum training 'off-the-job' rule

As part of the wider reform programme, apprentices are required to spend a minimum 20% of their time in training off the job. The principle behind the 20% requirement is correct - learners must receive a minimum amount of quality training and are protected from exploitative practices or inappropriate use of the apprentice minimum wage. It is also correct to say this requirement has caused serious issues, especially for smaller firms, which must be addressed urgently.

As a result, there are significant inconsistencies in the way the 20% rule is interpreted, applied, and measured. While guidance on its operation has been published, there remains a significant amount confusion among employers. For example, many firms are encouraged to release their apprentices from work one day a week, regardless of whether they receive quality training. Many firms also continue to be advised that 20% off-the-job training needs to be time spent outside the workplace. These are both incorrect. In addition, some employers and apprentices have reported that enforcement and measurement procedures are very ad hoc. The management of off-the-job training is especially difficult for SMEs, many of whom lack the manpower and management systems to track it.

In addition to inconsistent interpretation, the 20% rule is a blunt and inflexible policy tool, however well intentioned. Different roles, naturally, have varying training needs and some occupations benefit from more practical learning than others. For example, it is now believed that only 10% of learning for leadership roles in companies is through training courses, with 70% happening 'on the job', and 20% through mentoring and coaching.¹⁸

To address these issues, the government should issue comprehensive and clear guidance to address inconsistencies in the delivery of 20%. As part of this approach, the ESFA should develop a toolkit for small businesses to monitor and track 20% off-the-job training that is undertaken in the workplace. The IfATE should also be able to offer flexibility in the precise amount and structure of the off-the-job training required when doing so would not sacrifice the quality or value of an apprenticeship.

Funding decisions must be made through a more transparent process

Since May 2018, IfATE has conducted a review of the funding bands for apprenticeship standards. In August 2018, the number of funding bands were raised from 15 to 30, although the funding maximum was not increased.¹⁹ It has also reviewed the bands in which apprenticeship standards are placed, recommending that funding for some programmes should be cut and increased for others.

Ongoing review of funding bands is of course important to ensure the system is flexible, but employer experience of the process has been mixed.

While some firms have found it effective, others have found the both the review process and subsequent appeal period to be too short. This has meant a limited amount of time for all required information and data to be gathered and appropriately assessed, or for any meaningful engagement with employers and providers beyond those involved in trailblazers. There has also been uncertainty about what data and evidence are being used to support decisions and changes in pay bands.

It is vital that the funding bands should fairly consider the full cost of delivery, otherwise there is a risk that providers will not be able to deliver these programmes. To its credit, IfATE has listened to concerns and announced changes to the way it conducts funding reviews. From May, more information has been made available to employers, including a commitment to publish the data which was used to support conclusions.

Keep apprenticeship standards up to date so that they meet the changing needs of employers

One of the most positive aspects of the apprenticeships reforms has been the shift from apprenticeship frameworks to standards. The first apprenticeship standards were introduced in 2014 following the recommendations of the Richard Review, which called for greater employer ownership over training.²⁰ Firms who have been involved in Trailblazer Groups, that oversee the create of each standard, have been able to shape provision alongside providers.

Since taking on responsibility for standards, IfATE has sped up the approvals process with the introduction of the *Faster & Better* programme in January 2018.²¹ This has clearly had a positive impact, as these changes have streamlined bureaucracy involved in the approvals process, improved trailblazer guidance, and shortened the time a standard spends waiting for delivery. Meeting the target of getting the approval process average complete down to 8 months is vital in the coming few years.

In addition to improving the approvals process, eliminating duplicated of standards and spotting narrow or low-skill standards which are not relevant to industry is essential. IfATE is obliged to lead regular reviews, with digital standards being the first of 15 routes that will be examined over the next two years. Technological advances mean however that skills needs in many sectors are changing so rapidly in some sectors that there is a risk that programmes become out-dated in this time frame. IfATE must therefore shorten the cycles for conducting the statutory reviews of all existing standards as well as embedding a process for employers to raise concerns a standard is becoming out of date outside of formal reviews.

Reviews are an opportunity to consider:

- Whether standards have a broad requirement for the knowledge, skills and behaviours required for a range of roles, rather than being too job specific.
- How best to prevent fragmentation of standards, leading to the need for a major review similar to the government's Review of post-16 qualifications at level 3 and below in England in March 2019.
- Clear progression routes within all apprenticeship standards, including how they map across to T-levels and higher T-levels. This means linking IfATE's occupational maps that "group skilled occupations with similar knowledge, skills and behaviours" to a system of progression maps.

Allow local leaders to create a matching service on the digital Apprenticeship Service to support levy paying employers to transfer funds to non-Levy-paying employers

Since April 2018, Levy-paying employers have been able to transfer their Levy allowances to one employer and, from July 2018, to multiple employers. The CBI campaigned for the ability to transfer, and campaigned hard for the increase in the transfer limit from 10% to 25%.²² The government agreed to this in the 2018 Budget, a move which became effective from April 2019.²³

Transferring funds from Levy-paying employers has the potential to develop the skills base of supply chain, or firms in a region or sector. Where large employers struggle to fill a class, transferring funds to smaller firms could support training at a scale required by many training organisations.

Progress on levy funds being transferred has been slow, often because of additional administrative burdens involved. This is because transferring requires multiple points of engagement between sending and receiving employers. The complexity of this system adds to the wider challenges of navigating the apprenticeship system. While over 700 commitments that have led to starts have now been recorded on the system, as of March 2019. This is a low number and points to significant barriers to administering transfers.²⁴ The government should allow local leaders, to develop a 'matching service' on the Apprenticeship Service to support Levy paying employers to pass on unused funds to Non-Levy-paying employers. This should include introducing a function on the Apprenticeship Service that allows levy payers to express a desire to transfer a portion of their funds.

These recommendations are designed to make the apprenticeships system more user-friendly for all businesses, and to ensure firms can access the right training.

Government should:

In the next six months:


1. Ensure that SMEs are supported to make the transition to the Apprenticeship Service, including through a range of digital and online resources.
2. Allow local leaders, to develop a 'matching service' on the Apprenticeship Service to support Levy paying employers to pass on unused funds to Non-Levy-paying employers. This should include a function on the Apprenticeship Service that allows levy payers to express a desire to transfer a portion of their funds.
3. IfATE and DfE should work closely together to deliver an effective supply-side strategy for the apprenticeship market, using data and analytics to link with local Industrial Strategies.
4. DfE and IfATE should support more collaborative and co-delivery partnerships between employers and providers, to support more innovative provision.
5. The government and IfATE should bring more clarity and consistency to the quality assurance of EPA, including better communication of Ofqual's EQA service.
6. IfATE should review the funding band review process by improving information sharing and bringing more transparency to the appeals process.
7. IfATE should shorten the cycles for conducting the statutory reviews of all existing standards, to ensure they keep pace with firms' changing skills needs.

In the next year:

8. Give IfATE a broader remit over the system, including the power to set success criteria for the apprenticeships geared towards productivity that replaces the volume-based starts target after 2020.
9. DfE and the ESFA should issue new guidance to address inconsistencies in the delivery of 20% rule by training providers and ensure that the rules are communicated effectively to providers and learners. As part of this approach, the ESFA should develop a toolkit for small businesses to monitor and track 20% off-the-job training that is undertaken in the workplace. In the medium to long-term.
10. Give IfATE the power to offer flexibilities in the amount and structure of the off-the-job training required by apprentices.

Business should:

1. Employer groups – including the CBI – should do more to raise awareness among employers of the apprenticeship funding regime, including incentives for SMEs.
2. Firms which have already used – and benefitted from – transferring should share best practice with other employers.



“Greater transparency over how the Levy is spent, ensuring the financial sustainability of the whole programme, and clear evidence that the system is working effectively are all needed to open-up discussions on the future direction of the programme.”

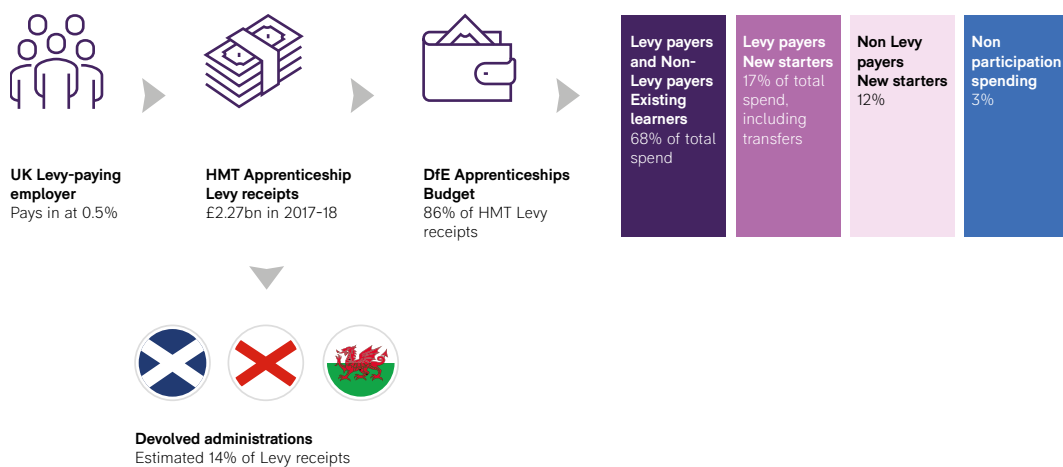
The Apprenticeship Levy itself must evolve to be more sustainable – and successful

The Levy could have much to offer learners and employers; this is not yet the case. The CBI remains committed to the long-term ambition for the Apprenticeship Levy to evolve into a more flexible 'Skills Levy' but certain conditions must be met first. Greater transparency over how the Levy is spent, ensuring the financial sustainability of the whole programme, and clear evidence that the system is working effectively are all needed to open-up discussions about the trade-offs that more flexibility will involve.

There is growing financial pressure on the apprenticeships budget...

While many individual businesses have 'unspent' funds showing in their Levy accounts, the overall apprenticeships budget is at risk of to being overspent in the coming years. This, at face value, is completely illogical. To understand why there is financial pressure, it is important to understand the difference between the 'Levy' and the apprenticeships 'budget' (**Exhibit 4.1**).

Exhibit 4.1 How the Apprenticeship Levy is collected, and the apprenticeships budget is set (based on funding figures for 2017-18)



Levy-payers pay into the Levy at 0.5% of payroll, which generated annual receipts of £2.27bn in 2017-18.²⁵ These funds were allocated across England, Scotland, Wales and Northern Ireland in line to their share of the UK's total population. Consequently, around 14% of the receipts were allocated to the governments in Scotland, Wales and Northern Ireland, for them to spend on skills training. The UK-wide operation of the Levy has been challenging for firms with a presence in Scotland, Wales and Northern Ireland **(see Exhibit 4.2)**.

Exhibit 4.2:

Business needs a more responsive apprenticeships system that works across the UK

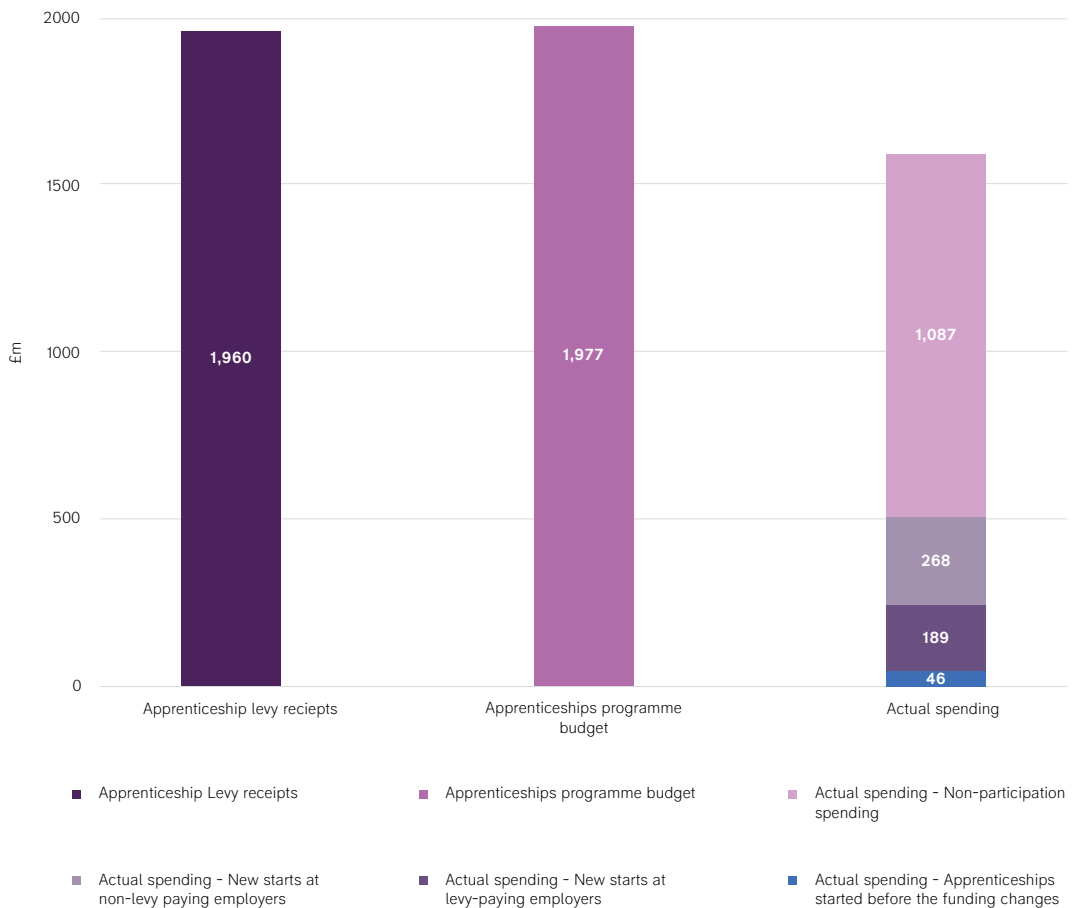
While the Levy applies to all large employers in the United Kingdom, how the Levy money is spent in the devolved nations is the responsibility of the Scottish, Welsh and Northern Irish governments. Businesses in the devolved nations are committed to investing in skills, but don't feel that the implementation of the Levy yet meets their expectation that the system should be more responsive to business needs. There remain significant outstanding issues with how the four UK skills systems interact on apprenticeships where companies employ people in more than one nation and pay the Levy for all their staff.

Having a level of coherence across the UK is essential, and the UK and Scottish, Welsh and Northern Irish governments should work more closely together to ensure that the Apprenticeship Levy has a positive impact on raising skills levels right across the UK. As each of the devolved nations determines how the Levy will interact with their skills system, it is vital that there is transparency about where and how Levy money is spent and that it is used to create a skills system that is more responsive to business needs.



The DfE is then allocated an apprenticeships budget (an estimated 86% of Levy receipts), which is used to fund both Levy and non-Levy payers in England. This is illustrated by the programme’s spending for 2017-18 in **Exhibit 4.3**.

Exhibit 4.3 Apprenticeship programme funding and spending, 2017-18²⁶



Source: National Audit Office

According to the National Audit Office’s (NAO) report into apprenticeships in March, the departmental budget was underspent by £400m in 2017-18, due to a lower number of starters than expected as firms adjusted to the new system.²⁷ At the time the NAO report was published the DfE expected to underspend its budget by £500m in 2018-19 (£1.7bn against a budget of £2.2bn). However, the financial pressure on the budget was expected to pick up in 2019-20, with the report noting DfE expectations for spending to be roughly on budget (£2.6bn) in 2019-20.

The reasons for this growing financial pressure on the apprenticeships budget remain complex and unclear - it has happened despite the number of apprenticeships starts falling. The NAO's report said that the budgetary pressure stems from higher-than-expected average cost of each apprenticeship programme. Although the DfE had budgeted for an average cost £4,500 for each apprenticeship start on a standard, the average cost at the end of 2017-18 was around £9,000.²⁸

This information is a shock to many employers, given the Levy system was not explained fully at the outset. Firms were not told that the system was not designed for all employers to be able to get back all their money. Indeed, the policy was often explicitly sold as all employers would be able to recover 100% of what they put in. However, if Levy-paying firms were to use all their funds, there would be little to nothing left for non-Levy payers, as the budget is also used to cross-subsidise smaller firms.

...but restrictions in how employers can use their Levy funds risk undermining confidence in the system

As spending pressure builds on the Levy, the government may consider restricting how employers can use their Levy funds. This would be ill-advised, whether it's by age, level, prior qualification or sector. Firms and providers who have spent two years adapting their training to the Levy would be unlikely to welcome being penalised and having to adapt to new rules in a very short space of time.

Indeed, restrictions on how Levy funds can be used could be counter-productive to addressing some of the biggest skills challenges employers face. These include new technology, such as automation and AI, in the workplace that means retraining and upskilling is more important than ever. With adult participation rates in training also the lowest in twenty years at 37%,²⁹ and whilst employment rates are the highest since records began in 1971,³⁰ a large cohort of individuals are likely already be in work, some for many decades, in need of higher levels of skill.

The introduction of the Levy has encouraged many more firms to embrace a culture of lifelong learning by embedding upskilling and personal development into their workforce development strategies (**Exhibit 4.4**). While positive progress has been made, there is still much more to do. The CBI has worked closely with the government on the design of a new National Retraining Scheme and is optimistic, if done correctly, about the potential for it to provide support and training to workers who are most vulnerable to automation.

Exhibit 4.4:**Using the Apprenticeship Levy to upskill staff**

Northern Gas Network are an energy company that cover an area that stretches from northern Cumbria to the North East and much of Yorkshire, with 37,000km of gas pipes. They employ 2,000 people, including around 800 contractors.

Upskilling is a fundamental part of the business development and training strategy. Prior to the introduction of the apprenticeship levy, upskilling was funded by their old operational training budget, which has now merged alongside their apprenticeship spend.

“Upskilling and training would happen whether the Levy existed or not – the training budget would remain. This is because of the variety of technical qualifications and standards required, but also a cultural part of the business.”

Apprenticeship coordinator

When the apprenticeship levy was introduced, they started to look at how their apprenticeship offer could provide new opportunities for colleagues who had spent long periods at the business to take an apprenticeship. They also looked to use apprenticeships as a way of offering retraining routes from people outside of the business, attracting them into roles that do not have the glamour of other engineering roles, such as car manufacturing or aerospace. The funding and support offered one employee to move from a career in the police force to NGN.

“After a 7-year recruitment freeze because of police budget cuts, I ended up leaving University for fulltime work. Several years later, I decided I wanted to get into the gas industry and applied for the apprenticeship I’m now on.”

Gas engineer apprentice**Government must better explain the Apprenticeship Levy to providers and business...**

Greater transparency on how taxes paid by individuals and businesses are spent, including on skills and training, is essential and ultimately improves policymaking. Businesses must be able to understand the workings of the Apprenticeship Levy system better.

Given the direct link between the collection of the tax and investment in skills, much more should be done to communicate how the money is invested in apprenticeships training to the payers of the Levy and the wider public. This should include immediate and regular transparency around the level of Levy receipts and expenditure, so firms can see how their contributions are being used and spent. To achieve this, IfATE's annual review should include analysis of level of taxes paid and then which firms uses the funds. This will bring together the Levy receipts data published twice annually by the Treasury and the DfE's annual report on spending, allowing for more effective performance analysis of the Levy. Until this is the case, employers will lack confidence in the system.

...and preserve the long-term credibility and financial sustainability of the system

Given ongoing problems with the apprenticeship system and lack of employer confidence in the Levy, there is not a case to increase the rate at which the Levy is paid for the duration of the next parliament. Instead, the focus should be on reforming the existing system to maintain quality and increase apprenticeships starts. The government should use the upcoming Budget as an opportunity to provide greater funding certainty preserve the long-term sustainability of the system.

Ensuring that the system remains solvent in the near term must be the priority, so that the DfE does not have to resort to changing the system or rules to make up the projected short fall. The government should use the upcoming Budget to guarantee the DfE an additional £100m annually over the next three years to allocate to the apprenticeships budget.

A flexible 'Skills Levy' should remain the long-term ambition that government and business must work towards

Many businesses strongly believe that the Levy should evolve into a more flexible 'Skills Levy' that allows firms to invest in other forms of training that can help support workers upskill and retrain, alongside apprenticeships. Lifelong learning – of which apprenticeships are one component – plays a critical role in rapidly changing industries and markets that demand more flexible and productive workforces in order to succeed. A flexible 'Skills Levy' would offer a more intuitive way of matching and resourcing the supply of skills and labour with changing business needs.

In order to get to a point, however, several conditions must be met. First, transparency around the level of Levy receipts and expenditure so how the system works is vital. Second, a sustainable financial plan for the Levy budget through an additional £100 million annually to allocate to the apprenticeships budget. Third, ensuring that the availability of quality provision continues to grow in a way that allows firms to access the right training. And fourth, the IfATE effectively undertakes its role as an independent body and champion of employers.

Creating a roadmap towards a more flexible 'Skills Levy' will involve trade-offs for both employers and providers. For example, would employers be willing to pay into the Levy at a higher rate in return for greater flexibility? Should the threshold at which firms pay the Levy be lowered to bring more firms in scope? Should non-Levy payers be removed from the Levy pot and return to government directly funding them?

Even without a discussion on a flexible 'Skills Levy', there are questions about the apprenticeships system that must be addressed. Is there a direct correlation between the fall in lower-level starts and growth of higher-level programmes? What is, and what should be the core objective of the apprenticeship programme: to increase productivity, offering young people a clear route to a good career, to widen access, or some combination of these?

Given these questions are fundamental and potentially existential, the government must introduce a formal public consultation on the future of the Levy within the next Parliament, allowing for an open and frank discussion of future options, including amongst employers, providers, apprentices, and parliament. The government should use the multi-year Spending Review in 2020 to address some of these fundamental questions.

These recommendations are designed to secure the long-term future of the Apprenticeship Levy

Summary of Recommendations

Recommendations for government:

In the next six months:

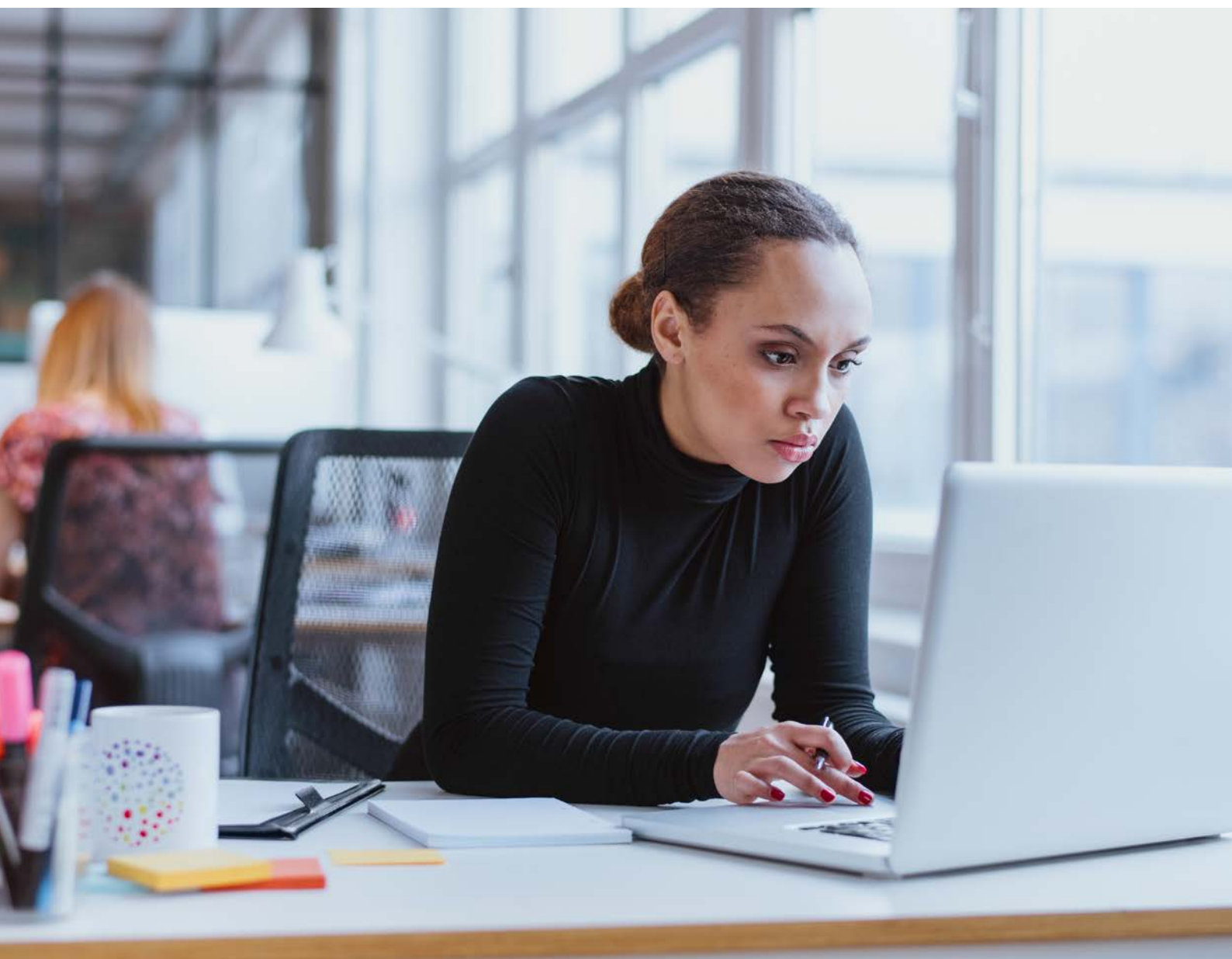
1. Commit to maintaining the rate at which firms pay the Apprenticeship Levy at no more than 0.5% for the duration of the next Parliament.
2. Introduce immediate and regular transparency around the level of Levy receipts and expenditure, including analysis of level of taxes paid and then which firms uses the funds. so firms can see how their contributions are being used and spent.
3. Provide a £100 million annual government top up in the upcoming Budget, to ensure that Levy payers and SME non-Levy payers can continue to use the Levy to spend on apprentices of all ages and levels.

In the next three years:

1. Introduce a public consultation on the future of the Levy within the next Parliament, which allows for an open and frank discussion of future options.
2. The UK and Scottish, Welsh and Northern Irish governments should work more closely together to ensure that the Apprenticeship Levy has a positive impact on raising skills levels right across the UK.

Recommendations for business:

1. Ensure there is good understanding of the workings of the Apprenticeship Levy at boardroom level.



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