

ALL-PARTY PARLIAMENTARY GROUP ON APPRENTICESHIPS

WRITTEN EVIDENCE: APPRENTICESHIP LEVY

Response from: BusinessLDN, One Oliver's Yard, 55-71 City Road, London EC1Y 1HQ

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Introduction

1. BusinessLDN is a business membership organisation with the mission to make London the best city in the world to do business, working with and for the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We are made up of 180 leading employers across a wide range of sectors.

2. We welcome the opportunity to provide written evidence to the All-Party Parliamentary Group on Apprenticeships to inform its annual report on the Apprenticeship Levy. BusinessLDN and our members support apprenticeships as an important part of any employer's workforce strategy.

3. At its best, the apprenticeship system provides employers with access to individuals with the skills, knowledge and behaviours required to succeed in today's workplaces. Apprenticeships also open new pathways into employment, deepening the pool of labour that businesses can access. It also offers individuals the opportunity to experience on-the-job learning. However, data on take-up and feedback from our members indicates that reform of the Apprenticeship Levy is needed to make the system work more effectively.

Impact of the Apprenticeship Levy

4. The Covid-19 pandemic had a significant impact on the London labour market – with higher increases in unemployment and greater losses of workforce jobs, particularly amongst young and ethnically diverse Londoners. Data published by the Recruitment and Employment Confederation and KPMG indicated London saw the sharpest fall in permanent labour supply in the country.

5. Meanwhile, labour and skills shortages are presenting a challenge to business recovery and growth. Our survey in February 2023 of more than 1,000 London business leaders and HR managers, carried out by Survation, found that three-quarters of firms (77%) are reporting open vacancies and of those two-thirds (65%) are struggling to fill them.

6. This means that apprenticeships are more important than ever to provide long-term pathways to skilled employment in growing industries. However, our survey of over 500 HR professionals, undertaken in Autumn 2021 by Survation, found that while 4 in 5 (80%) surveyed planned to hire at least one apprentice in the next 12 months, fewer than 1 in 5

(17%) believe that the current apprenticeship system is working well and doesn't require changes.

6. Our 2020 report, Shaping the Workforce of Tomorrow shows that from 2011 – 2016 apprenticeship starts were steady at around 500,000 starts per year. Starts were predominantly in Intermediate Apprenticeships (60% of the total) and Advanced Apprenticeships (37%), with Higher Apprenticeships accounting for just 3% of starts over that time.

7. Since the introduction of the Apprenticeship Levy in 2017, however, Government data shows apprenticeship take-up has dropped significantly, in all regions including London. Starts for 2017/18 dropped sharply by 120,000 (24%) from 495,000 to 375,800, driven by a fall in the number of starts in Intermediate Apprenticeships. Despite a slight increase on previous years, the number of starts in 2021/22 (349,200) remains significantly below the level before the introduction of the Apprenticeship Levy. On a positive note, starts in Higher Apprenticeships have increased and now account for 30% of total starts. This shows that learners are increasingly viewing the apprenticeship system as a pathway into higher-skilled employment.

8. Apprenticeship take-up was already on a downward trend, but the pandemic and lockdown period has exacerbated the trend - these had a disproportionate negative impact on apprenticeship starts for those aged under 19, and those starting an intermediate level apprenticeships. While there has been some evidence of recovery in the numbers, apprenticeship starts recorded in the first quarter of academic year 2022/23 remained 3% down on the 125,800 reported for same period in 2019, before the pandemic struck.

9. There has also been an impact on the diversity of apprenticeship starts, with our 2020 report, Shaping the Workforce of Tomorrow, finding that:

- The number of women starting apprenticeships has declined at twice the rate as for men (80,000 fewer starts compared to 39,000) – the first time since 2009/10 that women have accounted for less than half of apprenticeship starts
- 28.4% of learners were aged 16-18. 16,180 fewer starts in this age group following the levy's introduction. However, a 48% increase in the number of starts in Higher Apprenticeships. This sharp rise has been largely driven by upskilling of existing employees, as it has been easier for employers to invest in higher-level apprenticeships.
- 87% of learners starting apprenticeships were White. The proportion of starts from learners from Black, Asian, and Minority Ethnic backgrounds was 11.2% (compared to 14% across the population). This proportion was steady following the levy's introduction.
- 11% of apprenticeship starts were learners with learning difficulties and/or disabilities. The proportion of new starts by learners with learning difficulties and/or disabilities has been increasing steadily since 2013/14.

10. Our report Central Government's role in London's Recovery estimated that underspend by London Apprenticeship Levy payers in 2020/21 was c. £460m, indicating that employers were struggling to make the levy work for them or their supply chain. A recent City & Guilds survey found that only 4% of employers are spending their Apprenticeship Levy funding in full. This highlights the need for the levy to be more flexible so businesses can more effectively use their funding. For our 2020 report, Shaping the Workforce of Tomorrow we spoke to

businesses and training providers in London, the North West and throughout England to understand how they have been affected by the changes to the apprenticeship system. We found that the key issues were:

- The apprenticeship system can be difficult for businesses to navigate, the right information can be hard to find and communication between employers and ‘the system’ is problematic;
- Inflexible rules prevent funds from being allocated to their best possible use;
- Not all apprenticeships are achieving the desired level of quality; and
- Apprenticeship Standards development, approval and review processes are lengthy and resource intensive.

Our consultation with business illustrated a significant split in the opinions of businesses that pay the Apprenticeship Levy and those that do not. On the whole, levy payers are more able to navigate the apprenticeship system than non-levy payers (typically SMEs).

See the report for further detail on these barriers – section 4.

In our recent survey with Survation, we found that when asked about the barriers to transferring levy funding to the supply chain, the most common problem was its complexity, both for the firm doing the transfer (28%), and for the SME in the supply chain (27%). 26% said that the inflexibility with the existing rules prevents SMEs in the supply chain from taking up the funding on offer. Challenges in spending the levy mean only half (51%) are currently transferring unspent funds within their supply chain. 24% of businesses report that they have been unable to use any levy funding within their own organisation.

Improving the Apprenticeship Levy

BusinessLDN research overwhelmingly points to the need for further reform of the Apprenticeship Levy as critical for boosting apprenticeship take-up in London and across the UK. In our survey with Survation businesses said that Apprenticeship Levy funds could be better utilised if:

- The deadline for spending levy funds was extended from two to three years (35%)
- Employers were allowed to use some of the levy to contribute towards the wage costs of new apprentices (35%)
- Employers were incentivised to convert Kickstart placements into apprenticeships (35%)
- Larger employers were able to transfer more funds to SMEs (25%)

2 in 5 (41%) said that an increase in the percentage of levy they could transfer to the supply chain would make them more likely to do so, indicating that an opportunity to boost skills post-pandemic is currently being missed. Increasing it from 25% to 40% was the most popular option (30% respondents) with 30% (22%) the second most popular. 16% of respondents would like to see the level raised to 50%.

These survey results align with BusinessLDN’s advocacy on apprenticeships. BusinessLDN is calling for the Government to reform the apprenticeship system to reverse the decline in

apprenticeship numbers seen since the introduction of the levy in 2017. Specifically the Government should:

- Support the creation of a London Apprenticeship Fund targeted at small firms and sectors affected by Covid-19 to re-start apprenticeship growth in the capital (this could be funded by returning any underspend by London Apprenticeship Levy payers from the Treasury to the Mayor – estimated to be c.£460m in 2020/21).
- Temporarily extend the amount of time employers have to spend their levy from two years to three years.
- Give businesses greater flexibility in how they use levy funds, by:
 - Allowing business to transfer 40% rather than the existing 25% of their levy funding to their supply chain SMEs via a single digital transaction, and continuing to streamline the process;
 - Allowing some levy funding to be used for pre-employment training to get people ready for an apprenticeship.
 - Allowing levy-paying employers to use some of their levy to contribute towards the wage costs of new apprentices from priority groups.

As well as addressing the challenges with the mechanism of the levy, there are several things government should do to improve the efficiency, operation and quality of the apprenticeship system including:

- Improve communications channels between businesses and the apprenticeship system, with a one-stop-shop for employers to access information and support.
- Promote apprenticeships to young people and their families, emphasise the role of them in the economic recovery, and highlight the long-term opportunities they provide. The Mayor has a role in doing this in London, of course.
- Address the current blockages in End Point Assessment processes.
- Work with Institute for Apprenticeships and Technical Education members, employers, training providers and End Point Assessment representatives to speed up the Standards approval and review system.

We have welcomed the role the Mayor has played in supporting London employers to take full advantage of apprenticeships. For example, the GLA supported the London Progression Collaboration (LPC) pilot, alongside the IPPR and JP Morgan Foundation, which provided a free business support service enabling small business to offer high-quality apprenticeships. The scheme – which is now funded by Youth Futures Foundation, Trust for London and Gatsby Foundation – does this through helping larger levy paying employers transfer unused levy funding to SMEs in their supply chain or local economy. Feedback from BusinessLDN members on the LPC has been positive.