



The 5% Club
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Rt Hon Kwasi Kwarteng MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

22 September 2022

Dear Chancellor,

APPRENTICESHIP LEVY REFORM

The 5% Club is a registered charity that was established in 2013 to, *"Inspire positive employer action for increased, accessible and inclusive workplace learning for all"* with a goal of raising and improving the national skills base, leading to increased employment, productivity, and shared national prosperity. In 2013 we were early in recognising that skills development, by reducing inequality and its associated levels of poverty, is an essential driver of social mobility and strength – in fact, the levelling-up agenda.

In representing the demand side of employment – across all sectors and sizes of business – The 5% Club is virtually unique. Our membership, which includes MoD and the DfE, continues to grow and today comprises over 700 employer-organisations which collectively represent 1.6 million employees (circa 5% of UK workers) of whom 93,000 are participating in "earn & learn" schemes, including Apprenticeships, Graduate Schemes, and those "sponsored students" on course placements. Our Members therefore offer 10% of the UK's current Apprenticeships and mainstream Graduate Schemes; even more significantly, 60% of our members are Small-to-Medium Enterprises (SMEs).

In his Spring Statement, your predecessor highlighted how the UK lags behind our international peers in terms of Adult Technical Education and, to address this, he "committed" to considering whether the tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise the right business behaviour.

In response to this "call to action", we have reached out and asked our Members and the wider Employer community for views on those areas that should be included in these considerations, and have grouped our enclosed recommendations into three principal areas:

- National Resilience. In these challenging times as we tackle both the short- and long-term issues and opportunities of our era, the UK needs a world-class education and skills system, capable of engaging every individual, enabling them to achieve their full potential and participate positively in society through the world of work. This system needs both to deliver the skills urgently needed today in many sectors, and to evolve rapidly in response to the changing nature and needs of tomorrow's economy.

Apprenticeships will be a key component of this system – for every stage of “lifelong learning” - and we must ensure that the **funding created through the Apprenticeship Levy is sustained and used effectively for the national good**. We have proposed a number of “transformational adjustments” to the notional “levy management system” that merit consideration, and which we believe will ensure the delivery of the right schemes, in the right place, to the right people, at the right time.

- Increasing Productivity. The UK continues to lag the rest of the developed world in terms of productivity, and we believe workforce skills development is an inherent part of the solution here. But this needs an approach that is supportive of employers, reducing complexity not adding additional layers of bureaucracy and administration. The system should be an encouragement and not a detractor – in terms of time and resource – and must be grounded in business reality, including the need to sustain cash-flow, the lifeblood of investment and the innovation required for productivity improvements. We have proposed a number of measures for consideration.
- Levelling-Up. It is widely accepted that “talent is everywhere, but opportunity is not”, and that restoring parity of opportunity for all – irrespective of personal characteristics and circumstances, and agnostic of location – is the essential driver in levelling-up. We believe there are adjustments that can be made to the Levy management system that will be supportive of this national agenda and will ensure the available funding can deliver the skills required through a genuinely inclusive and accessible approach.

Finally, we believe the time has come to remove the national minimum wage for Apprentices. This suggests that apprentices are the least valued workers in our society and stigmatizes this career choice; in consequence, most young people still believe apprenticeships are second-rate when compared to the University pathway. There are other ways to encourage employers to employ apprentices, and we ask that we now remove this approach of encouraged wage suppression.

On behalf of our members, I hope you will consider these proposals in more detail. I would be happy to meet and discuss them, perhaps bringing some of our membership, including those SMEs who are so often under-represented in such deliberations.

Yours Sincerely,



Mark Cameron OBE
Chief Executive, The 5% Club

APPRENTICESHIP LEVY AND TAX SYSTEM – IMPROVEMENT MEASURES FOR CONSIDERATION

1. National Resilience

Full transparency on Apprenticeship funding and expenditure. The system uses 2 allocations of funding; that provided to the Department of Education (DFE) for the totality of the Apprenticeship Programme (Resource Department Expenditure Limit, RDEL), and that which is notionally allocated to the levy paying employers' accounts. This creates misunderstanding and confusion. The former is routinely underspent (rising to £604 Million in FY2020/21), with reports up to £1.2 Billion being removed from the latter each year.



Recommendation 1 – Consider the creation and use of a single report, with full transparency of planned and actual DFE Apprenticeship Programme and Levy Account expenditure, including the performance against the assumed levels of expenditure by both levy and non-levy paying employers.

Hard-link levy taxation to the funding for Apprenticeships. As we enter an era of inflation and rising wages, the increasing revenues generated from the Apprenticeship Levy should all be passed to The Department for Education (and the devolved administrations) to fund Apprenticeships.



Recommendation 2 – Consider Increasing the levels of funding provided for the DFE Apprenticeship Programme to the rate of increase in Apprenticeship Levy receipts in England.

Index Link Apprenticeship Funding Band Limits – the delivery of quality apprenticeships requires appropriately funded training provision. Given the current inflationary pressures, there is a risk that Training Providers shift their focus from training effectiveness towards cost reductions and training efficiencies.



Recommendation 3 – Consider indexed linking of funding band limits to the Consumer Prices Index.

Temporarily waive the co-funding charge. There are certain instances where employers are required to co-fund apprenticeships by paying 5% of the delivery cost. Given the increasing Apprenticeship Levy receipts and the continued underspending of allocated funding, this charge could be waived, which could allow for significant streamlining of the system.



Recommendation 4 – Consider waiving the co-funding charge.

Reconsider the cap on non-levy paying employer apprenticeship reservations. The “10 Apprentice” cap creates an unnecessary barrier for some employers.



Recommendation 5 – Consider increasing or removing the cap on apprenticeship reservations.

Levy Spend Time Limit Extension. Extend the time limit on Levy spend to 5-years to remove the “pressure-to-spend”, which could be driving some employers towards the more expensive, higher-level schemes.



Recommendation 6 – Consider extending the time limit for spending funding in Apprenticeship Levy accounts, from 2 to 5 years.

Increase Levy Transfer thresholds. Removing the thresholds or increasing the percentage of funding that Levy paying employers can transfer will encourage greater participation from Small-to-Medium sized Employers.



Recommendation 7 – Consider removing or increasing the Levy Transfer thresholds.

Tax reliefs/credits on Apprenticeship Co-funding. Using a similar approach to Research and Development Tax Credits, allowing a tax deduction on all additional apprenticeship management costs (excluding apprentice remuneration). This could range up to 525% of incurred costs, at which point the relief would completely offset the expenditure.



Recommendation 8 – Consider allowing tax deductions for all additional apprenticeship management costs.

T-Level Placements– given the linkage between T-Levels and Advanced/Higher Level Apprenticeships, use the Apprenticeship Programme funding to increase support payments to £3000 per placement and remove the cap of a maximum 20 placements per employer to encourage employers to link apprenticeships and T-level placement provision (i.e., using T-Level placements to “backfill” apprentices who are training “off-the-job”).



Recommendation 9 – Consider funding T-level placements from the Apprenticeship Programme and increasing Employer Incentives to £3000.

Professional Registrations. Increase the participation of the Professional Institutions/Bodies by allowing levy funding to be extended to cover professional registrations, accreditations, and certifications for eligible apprentices.



Recommendation 10 – Consider funding professional registrations, accreditations, and certifications for eligible apprentices.

2. Increasing Productivity

Reduce Administration/Bureaucracy. There is a considerable administrative burden and cash-flow impact on both Levy paying and Non-Levy paying employers, which should be examined and reduced. Much of this is driven by the existing system (e.g., Levy Accounts, Reservations, Co-funding, Levy Transfer) and could be reduced or removed by structural changes, such as those we have proposed for consideration.



Recommendation 10 – Consider reducing, simplifying, or removing the levels of bureaucracy/administration within the Apprenticeship System, aligned to wider changes.

Provide administrative support to non-Levy paying Employers. Where administration is required, this can prove to be a disproportionate burden to non-Levy paying Employers, where Human Resources, and Learning and Development may well be delivered by single individuals, or very small teams. In those instances where administration is necessary and cannot be removed, there are opportunities to create a central administration service, or to encourage Training Providers, End Point Assessment Organisations, or Intermediaries to assist through targeted financial support.



Recommendation 11 – Consider creating a central administrative function to support non-Levy paying employers or provide financial support for the activity to be delivered by Training Providers, End Point Assessment Organisations, or Intermediaries.

3. Levelling Up

Centrally fund Apprenticeships for certain cohorts. This should cover the full training and assessment costs for: all those aged 16-18; All those aged 19-24 who have been in local authority care, or are the subject of a local authority education, health, or care plan.



Recommendation 12 – Consider additional central funding for certain cohorts to increase their chances of accessing an Apprenticeship

Functional Skills. The achievement of Level 2 Functional Skills should form a core remit of the Education System, rather than become the remit of Employers and their Apprenticeship provision; placing the onus on Employers risks creating a disincentive to Apprentice employment for this cohort.



Recommendation 13 – Consider funding and delivering the provision of Level 2 Functional Skills outside of the Apprenticeship Programme.

Apprenticeship Costs. Increasing the allowance for administrative costs from £1000 to £3000 will encourage apprenticeships for young people, which could be extended to provide targeted support for certain individuals aged 50 and over (Long-term unemployed, no level 2 in Maths and English).



Recommendation 14 – Consider increasing the help available for other costs and extend this to support certain individuals aged 50 and over.

Encourage sector intermediaries to assist with Levy transfers, creating a mechanism to promote and manage surplus for the benefit of sector specific skills challenges, to target that funding on under-represented or hardest to access groups.



Recommendation 15 – Consider encouraging Intermediaries/Charities to help promote and manage Levy Transfers, using the surplus to fund their administration costs.

Streamlined, single apprenticeship application service. Given the importance of Level 2 and Level 3 Apprenticeships in the transition from school to work, the creation of a single, nationwide application process should be considered, like UCAS for universities – this created to ensure a single application process, to replace a system where each apprenticeship place requires a unique and separate application.



Recommendation 16 – Consider creating a single, nationwide application process for all Apprenticeships, allowing an individual to complete one “form” that can be used in all Apprenticeship Applications.

Apprenticeship Programme Sustainment Fund. We applaud the funding created by the Apprenticeship Levy but remain concerned that critical funding goes unspent because of the barriers to spending within the system; some of these by design. Given the prospect of a rising underspend, we believe unspent funding from the Apprenticeship Programme should be held in reserve in a “Sustainment Fund”, which can be used to balance the risk of future overspend and used to fund initiatives which improve access to Apprenticeships for the disadvantaged. Such an approach will ensure scarce resources are used appropriately for the most deserving in our society. Appropriate independent governance should be established, to exercise control without being overly bureaucratic.



Recommendation 17 – Consider the creation of an Apprenticeship Programme Sustainment Fund, under independent governance, to ensure unused Apprenticeship funding generated by the Levy is used to best effect to support access to Apprenticeships for the most deserving.