

Levying Up: Delivering Sustainable Skills

City & Guilds and The 5% Club | January 2023

Foreword:
Anthony Impey,
Chair, City & Guilds
Industry Skills Board



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Foreword

City & Guilds Industry Skills Board

With the UK entering a recession and costs on the rise, these are turbulent times for businesses and their employees. Having the right skills will be critical for businesses' ability to weather the storm, seize new opportunities and to bounce back in the future.

To support individuals and organisations through this time, we need the apprenticeship system to work where it can make a difference, and deliver the skills businesses need to survive and thrive. Right now, that isn't happening and coupled with tight times ahead for public spending this needs to change.

Given the considerable dissatisfaction being expressed by many employers regarding the apprenticeship levy, the large amount of unspent levy and the huge drop in apprenticeship starts since the levy was introduced, it is clear that the system – as it stands – is not working for everyone.

While some employers have been able to make use of the apprenticeship levy to their benefit, very few have been able to spend all of the money available to them, with nearly £4bn of levy contributions unused since May 2019. Meanwhile, most businesses are still struggling to hire people with the right skills and lack the support to develop them internally.

The current system is also failing many young people and those from less advantaged backgrounds. The current policy and business focus on higher level skills – and desire to reduce the number of level 2 apprenticeships available – could be detrimental for both young people and businesses in the long-term.

It reduces the scope of professional development opportunities, and limits access to entry level jobs, impacting social mobility and holding people back from achieving their full potential. If that wider potential were met, there would be significant benefits for the UK economy, its growth and crucially its productivity.

In this report, the current apprenticeship system is reviewed, and a number of ways have been investigated that it could be adapted to better meet the needs of employers, support industry skills requirements and provide opportunities for individuals.

We also know that apprenticeships and broader options for skills development are good for local growth and should therefore be part of a national strategy. Change could come in the form of a broader skills levy or an evolution of the current system to make it more effective. Both would make training, apprenticeships and skills more accessible for employers, with more flexibility and options for learning increasing engagement and encouraging more businesses to use their levy funding. Through this, we can support social mobility and economic growth during an increasingly difficult time for UK businesses.

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Anthony Impey,
Chair at City & Guilds
Industry Skills Board & CEO,
Be the Business



Foreword

The 5% Club

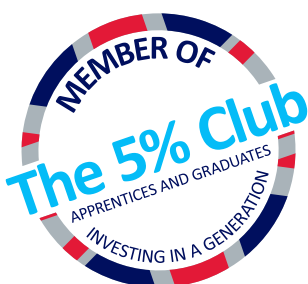
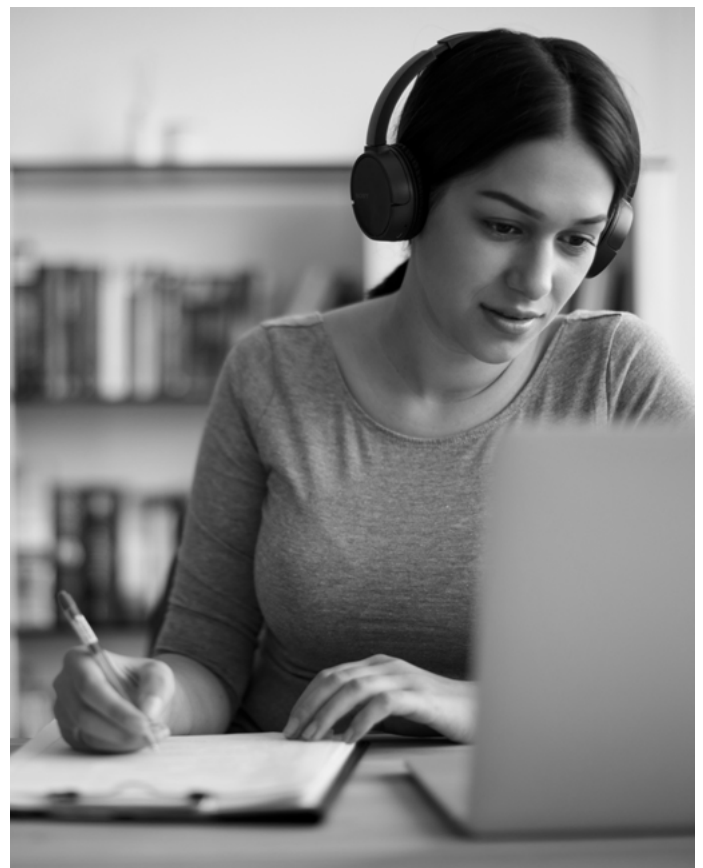
As the UK continues to recover from the long-term impact of the global pandemic, faces up to the realities of Brexit and adjusts to a more unstable global environment, it is easy for organisations and individuals to lose sight of long-term goals and focus on short-term survival, especially with challenging economic and financial times ahead.

Developing worker skills must form part of businesses' long-term plans or they risk missing out on future opportunities or struggling to achieve their goals. As it stands, most businesses in the UK report that they are facing skills shortages, and a shift to short-termism would only exacerbate this problem.

It is not only businesses who will lose out. Failure to invest in training also impacts employees, and their opportunities to develop new skills and increase their earning potential – and with the rising cost of living, many will be anxious to move up the ladder and increase their salaries.

The 5% Club exists to inspire positive employer action for increased, accessible and inclusive workplace learning opportunities for all, and we have a clear focus on making sure that the apprenticeship system is properly funded, prioritised and achieves the right outcomes for the UK, for both businesses and our citizens, especially those who face disadvantage in all its forms.

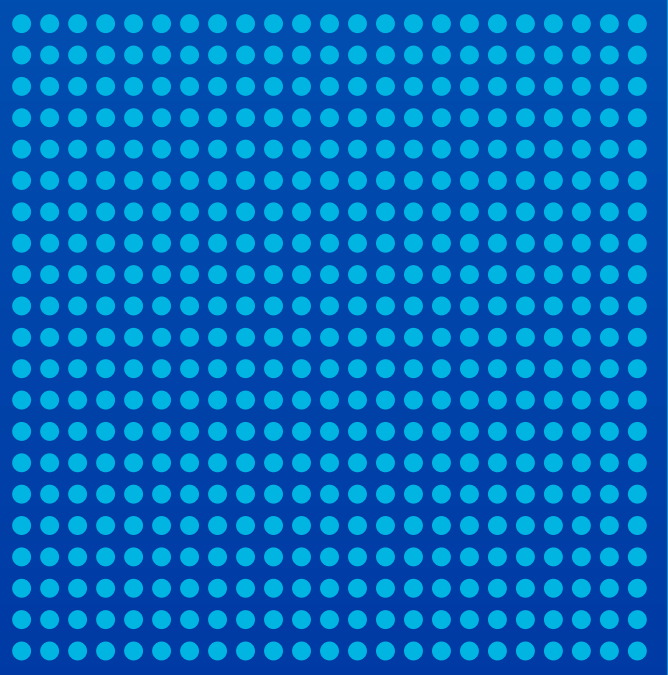
This research provides further insight into the challenges faced by large and small businesses as they strive to improve productivity and develop the skilled workforces they need for future success. There are many renewed and fresh insights and perspectives captured by and emerging from the results, and we will look to champion these and deliver the desired and needed improvements, for the benefit of all employers and their workers across our nation.



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Failure to invest in training also impacts employees, and their opportunities to develop new skills and increase their earning potential

Mark Cameron OBE,
Chief Executive Officer at
The 5% Club



More than five years on from the introduction of the apprenticeship levy, it is clear the current system is not working for all businesses – or the thousands hoping to learn new skills and progress their careers.

Apprenticeships and the levy:

Where are we now?

The latest figures from the Department for Education covering the 2021/2022 academic year show that apprenticeship starts are down by 13 per cent compared to 2018/2019, and the number successfully completing their apprenticeship has fallen by 7 per cent in the same time period.

Exacerbated by the decrease in apprenticeship uptake and completion, businesses are still struggling to find skilled talent but still seem reluctant to hire and grow their own. Training workers is one solution for closing these skills gaps, but with the UK heading into an economic recession and business costs increasing rapidly, organisations are less able to afford training, creating even more barriers to skills development and workforce entry. Engagement with the Levy, which subsidises the training costs, could be a key solution to this problem.



Failure to launch

When it was first introduced to an albeit mixed reception, the apprenticeship levy was touted as a solution to businesses' skills shortages, bringing new opportunities to those entering the workforce, those hoping to upskill and underrepresented groups.

While taking on an apprentice could be a good solution to filling skills gaps and providing individuals with the opportunity to earn while they learn, feedback from employers shows that the system is difficult to access, too bureaucratic, and overly time-consuming. This acts as a barrier, leaving employers unwilling or unable to engage and more likely to prioritise other challenges despite recognising the immense value that apprenticeships deliver using funds that have already been set aside.

Many of those who are making use of their levy funding have redirected the funds to focus on higher-level skills for existing employees, which is great for lifelong learning, continuous professional development and employee retention. However, the focus on higher-level skills, and the general decrease in engagement from employers, means that apprenticeships are not currently serving young people or contributing towards social mobility in the way they were intended.

There has been a significant drop in the number of level 2 apprenticeship starts, and with the Government planning to scrap many entry-level qualifications all together, there is a worry that we will see further barriers to workforce entry for those from lower socio-economic groups and lose opportunities for a diverse resourcing to the talent pool sorely needed for national growth. A high skill and high wage economy is a worthy ambition, but there needs to be an accessible ladder of opportunity for those furthest from that goal – or we risk creating a ghetto of under achievement and trapped potential that jeopardises the achievement of the long-term goal.

5%

of employers say they are never able to hire talent with the skills they need

15%

can always find talent with the skills they need



A lost resource

While employers are frustrated with the process for accessing apprenticeship levy funding, there is huge potential for building skills and supporting entry-level workers in kick-starting their careers.



According to HMRC data, businesses' overall levy contribution has increased by 41% since the apprenticeship levy was introduced, rising from £2.27 billion in 2017/18 to £3.21 billion in 2021/22. There are billions up for grabs that businesses could use to develop skills, but the system needs to change to reduce the administrative input required to access the funding and consider wider incentives to galvanise employer engagement.

Businesses need to spend their apprenticeship levy funding within two years or it cannot be used. According to FOI data received from the Department for Education, during the 2021/22 financial year, more than £1.31 billion of business' contributions expired, which shows the scale of the missed opportunity for organisations to gain skills they desperately need to achieve their objectives and provide more people with learning opportunities.

Until recently, a large part of the funding set aside by the Department for Education – for non-levy payers as well as contributors – remained unspent. While many business leaders remain unconvinced by apprenticeships, that underspend all but disappeared in the 2021/22 financial year, with only £11 million of a £2.5 billion budget being returned to HM Treasury. This reflects the growing uptake in advanced and higher apprenticeships, which are more expensive, potentially taking training opportunities away from younger and low-skilled workers.

What are the ‘apprenticeship rules’?

Apprenticeships were designed to offer high-quality, consistent skills training that employers can trust to deliver the skills they most need. However, to achieve these aims, there are a number of rules that were included, which can sometimes act as a further barrier to employers, in addition to the complexity of accessing funding.

Duration

An apprenticeship must provide for a practical period of work and training that lasts for a minimum duration of 12 months. For many employers, especially in the current climate, this is a sizeable commitment, which increases uncertainty as to whether taking on an apprentice is the right option for their business.

Standards

Apprenticeships can exist only where standards exist. Standards are rigid, which often results in a lack of flexibility and opportunities to tailor learning to the needs of the business – a module that is irrelevant cannot be traded out for something more helpful.

Off-the-job training

Apprentices are required to spend at least six hours per week in ‘off-the-job’ training, which can be difficult for businesses and apprentices to manage, depending on approach and the nature of the work.

Viability constraints

Rigid funding bands for different types of apprenticeships means that it is not viable for some providers or suppliers to deliver some standards, which means employers may not be able to find an organisation to deliver training or end-point assessments for the apprenticeships that are most relevant to them.



1.4%

The UK economy is expected to shrink by 1.4% in 2023

The 'Big Picture'

Businesses are facing a challenging year. The Office for Budget Responsibility predicts that the UK economy will shrink by 1.4 per cent in 2023, with resurgence not expected until 2024, which will make for a turbulent time for many businesses that are already facing rising costs and staff shortages.



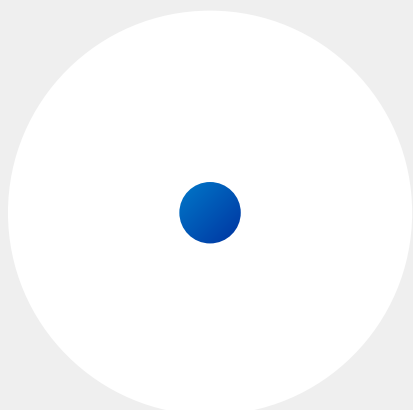
In the following year, what do you think will happen to your business revenues?



Grow - 50.4%



Remain the same - 34.2%



Shrink - 15.2%

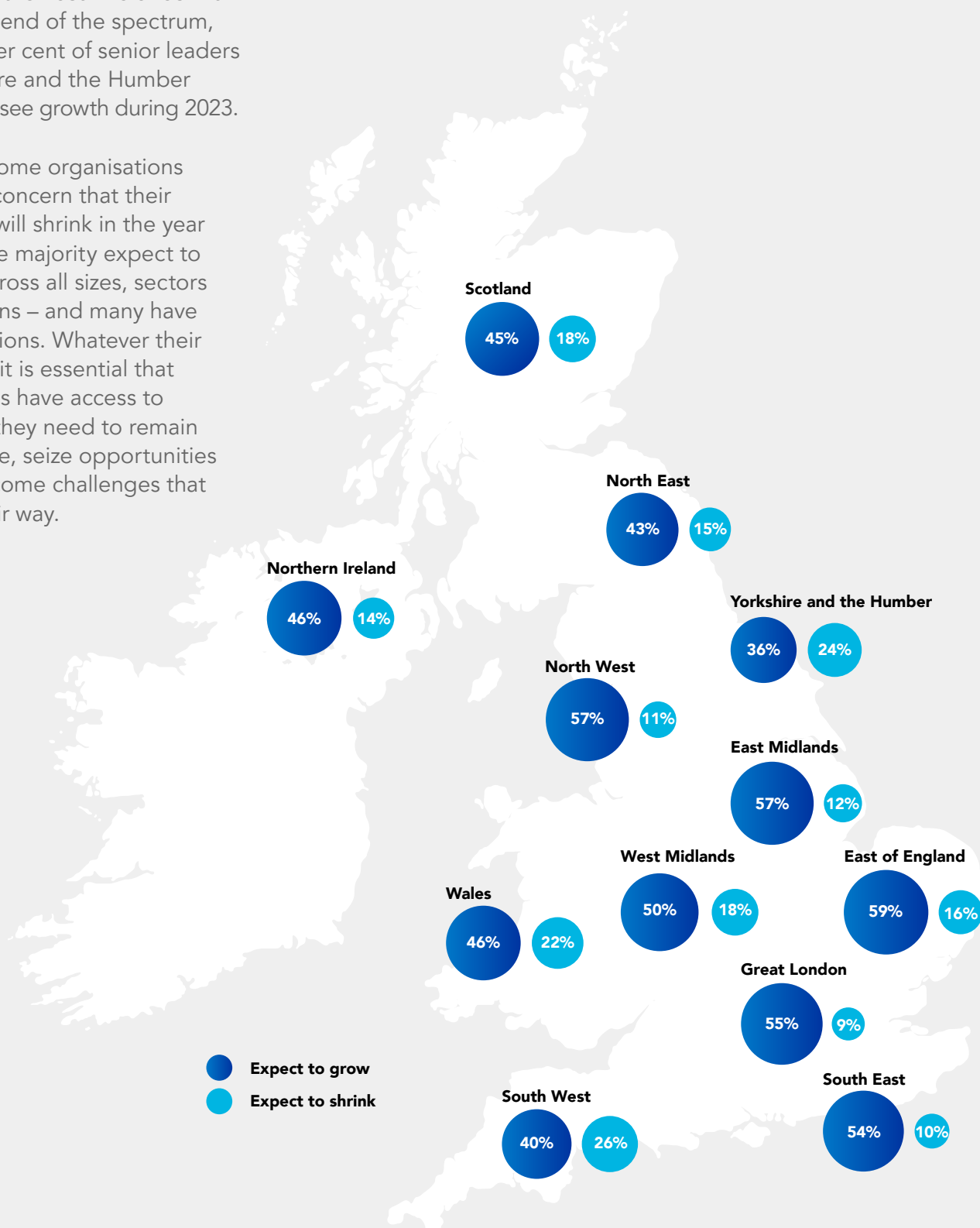
Despite warning signs on the horizon, businesses are still feeling confident about their growth prospects. New research conducted amongst 1,000 HR decision makers at levy-paying organisations for this report reveals that half are expecting to grow over the next 12 months, while a further one in three expect to remain the same size. But in order to grow, and protect their interests at a difficult time, having the right skills and engaged talent will be crucial.



Growth by region

Businesses in the East of England are expecting the most significant growth at 59 per cent, followed by those in the North West and the East Midlands. At the other end of the spectrum, only 36 per cent of senior leaders in Yorkshire and the Humber expect to see growth during 2023.

Despite some organisations showing concern that their business will shrink in the year ahead, the majority expect to grow – across all sizes, sectors and regions – and many have big ambitions. Whatever their situation, it is essential that businesses have access to the skills they need to remain productive, seize opportunities and overcome challenges that come their way.



The skills shortage challenge

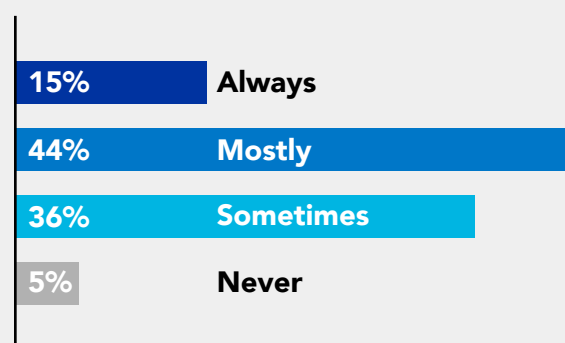
Only 15 per cent of businesses have found that they can always hire the skilled people they need, showing that vital skills needed to enhance productivity and business growth are still in short supply, and it is critical that this issue is addressed – and quickly.

Just one in 10 (10%) of the UK's largest companies (those with more than 500 employees) are always able to recruit new employees with the skills they need, leaving 90 per cent experiencing at least some difficulty in hiring the right talent to help their businesses grow.

Companies operating in architecture and engineering are the least likely to be able to hire, with 10 per cent saying they are always able to hire skilled talent, in comparison to a quarter (25%) of those in the retail, catering and leisure sector.



My business is able to recruit the skilled people it needs:



Of those who are struggling to recruit the skilled people they need, paying competitive salaries is their most significant issue (38%). Given the tight labour market in the UK, many businesses are willing to increase the salaries they offer to secure people with the skills they need to grow and secure their businesses.

With more than a quarter (26%) finding it hard to hire due to local labour shortages, business leaders may need to consider the qualifications or experience of those they hire. 26 per cent of employers are looking to recruit people who already have the skills for the job, putting further barriers in place to securing the skills they need.

Seeking skills



More than a quarter (26%) of UK businesses are finding it hard to hire due to local labour shortages.



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Paying competitive salaries is a significant issue (38%) for UK businesses.



10% of UK businesses say they are always able to hire skilled talent.



25% of UK businesses within the retail, catering and leisure sector say they are able to hire skilled talent.

Where businesses cannot afford to compete with rising salaries or face difficulties in finding people with the skills they need, apprenticeships could be an ideal solution.

Apprenticeships allow businesses to broaden their talent pool by hiring and training candidates with potential or upskilling existing employees – and in many cases the funding for apprenticeship training has already been set aside. For levy-paying employers, the funds in their levy account cover the full cost of apprenticeship training, and for non-levy payers (with a payroll bill of less than £3 million a year) the government funds 95 per cent of the training costs.



Apprenticeships could be an ideal solution for businesses finding it hard to find the right people

With 18 per cent of businesses struggling to hire due to a lack of progression opportunities, offering opportunities to earn-while-you-learn is critical for improving attraction and retention, making the organisation more appealing to incoming and existing employees who want to learn, upskill and grow in their roles.

In the long-term, it is critical that businesses embrace a culture of lifelong learning and invest in skills or the deficit in skilled workers will grow, leaving businesses unable to achieve their goals, with a knock-on effect to the UK's economic growth and productivity.



Case study

PwC

Nicholas Jamison, BSc Hons,
Leading on Customer Operations Business Ops

With offices in 152 countries and almost 328,000 people, PwC is among the leading professional services networks in the world. We help organisations and individuals create the value they are looking for, by delivering quality in Assurance, Tax and Advisory services. We are founded on a culture of partnership with a strong commercial focus. This is reflected in our purpose: To build trust in society and solve important problems.

On our Flying Start degree apprenticeship in Business Management, students gain a full BSc Honours degree while working in our PwC office in Belfast. Course fees are fully funded by PwC whilst students receive a competitive salary from day one. This means that funding does not need to be a barrier to gaining a degree for students from lower socioeconomic backgrounds.

Nick started on the apprenticeship programme in September 2021 and is one of many examples where our opportunities have had a positive and lasting impact.

In Nick's own words:

The apprenticeship provided me with a second chance - being able to move careers from Education to Business. I now work as a Risk Analyst in a busy corporate environment working to tight deadlines, whilst juggling my degree.

Although I had completed a degree, I still felt like there was a gap in my knowledge with regard to business acumen and experience. Wanting to

bridge that gap, I looked for opportunities where I could enhance my academic learning while gaining real-life business experience in a reputable and supportive environment.

That's when I found the PwC Flying Start Degree in Business Management. For me, the programme ticked all the boxes; on-the-job learning, working with real clients, on real projects whilst gaining academic qualifications and gaining a salary. All this with structured support provided by a career coach and buddy system and the potential to stay within the firm once I had completed the programme. For me, it was the perfect opportunity that ticked all my requirements and is why I believe the programme is so successful.

The apprenticeship offers me many different experiences. I'm a team trainer, and a peer representative on a wellbeing committee. I also regularly volunteer as an ambassador for the HLA programme at firm events across NI - I'm regularly profiled across our social channels to showcase PwC and the great opportunities available.

These are experiences which as a result of being on the HLA programme, have helped me to develop my confidence in so many ways including my presentation skills and communicating with a wide range of audiences. My involvement with extracurricular activities stems from my passion for the programme and wanting to make this fantastic opportunity known to others.

The hybrid approach of both university and work experience has resulted in me putting my hand up for experiences that I would not have had the confidence to do otherwise. These include training new HLAs, mentoring other apprentices within the business and being a spokesperson on both the student committee at university and within the office.

The apprenticeship programme at PwC not only helps to develop both the theory and the practical knowledge simultaneously, but the support students also receive from the firm is invaluable. Students are assigned both a career coach and a buddy. A career coach guides them through their role and is someone to whom they are able to ask questions and seek career advice in a structured way. A buddy also assigned to each student is more informal and is usually a peer that the apprentice may feel more comfortable with asking different types of questions.

Apprenticeships are gaining more traction as a result of the many merits beyond those received by the student. These include pursuing an education/ gaining a professional qualification alongside

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The apprenticeship has made a huge difference to my life. The programme with PwC is the perfect fit for me because I'm able to earn while I work, and study at university. Whilst undertaking the office element, it provides a good work life balance. I have been able to fit in many trips abroad with friends that I've made through work and university. I've also had the chance to travel with work and I've supported several events such as the School RoadShow, and I promote our programmes at various exhibitions and conferences.

My job is both challenging and rewarding, and the perfect example of hard work leading to great outcomes. My degree apprenticeship has empowered me to become resilient and I'm grateful to PwC & Ulster University for giving me my 'second chance'.

valuable work experience. For the business, this results in securing outstanding talent with a vested passion for learning and commitment to the role. Apprenticeships also help to establish effective and mutually beneficial relationships between universities and the businesses that support them. For parents an apprenticeship offers peace of mind knowing their children won't be burdened with student fees or the worry of supporting them.

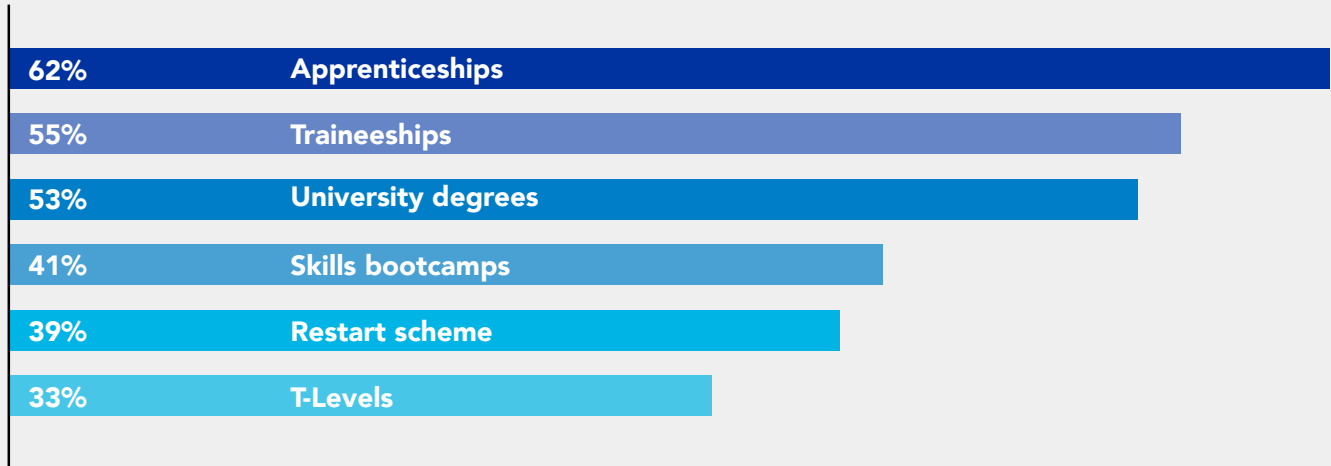
Despite the government introducing a range of training initiatives to help employers to address their skills shortages, many businesses are still crying out for skilled talent – so what is causing this disconnect and what is going wrong?

How are employers training their workforces?

Aside from a significant proportion of available funding going unused each year, it is clear that the current range of initiatives are not delivering all the support and solutions that businesses need.



What is the most effective route for training?



Apprenticeships have been the success story of recent government training initiatives, ranking as more effective than all other training routes, including university degrees. While they have been more of a struggle for mid-size businesses, they have enabled the smallest businesses to grow skills in a cost-effective way and benefitted businesses large enough to have the right support structures in place.

Architecture, engineering and building businesses are finding apprenticeships the most helpful, with 76% rating them as effective, followed by those in transport and finance. While 60 per cent of organisations operating in the manufacturing and utilities sector find apprenticeships effective, 24 per cent have found them ineffective – the highest of any sector.

Architecture, engineering and building businesses are finding apprenticeships the most helpful

When it comes to other qualifications, such as T-levels and skills bootcamps, the relative novelty and a general lack of awareness of all the options may explain employers' views on their effectiveness.

Given so many businesses are having trouble hiring in the skills they need, it is disappointing that the government solutions designed to plug gaps and support businesses are not working as they should. With billions being invested by both employers and the government, it is clear that change is needed.

The focus is so often placed on informing the learner at school or college or through DWP work coaches, but perhaps this evidence suggests that more focus should be placed on informing employers on the best support available to them for their workforce planning strategies and skills needs.





Case study

Lloyds Banking Group

Ian Browne,
Early Careers Lead

Lloyds Banking Group is a financial services group focused on retail and commercial customers – with millions of customers in the UK and a presence in nearly every community. With a variety of apprenticeship programmes on offer to new starters and existing staff they are perfectly placed to comment on both the apprenticeships system as well as the UK's wider skills challenges.

Ian Browne, early careers lead for Lloyds Banking Group explains how shifts in customer behaviour in recent years, alongside the transition to online and digital banking services has increased the breadth of skills needed across the Group. With millions of customers and over 50,000 colleagues based in the UK he explains how apprenticeships are supporting the skills needed to take the Group forward.

“We have a lot of colleagues who really understand our values, our customers, and the DNA of the company. They understand our heritage and our products, and we need to ensure they have the required technical skills. We are actively reskilling colleagues in data and technology which are constantly evolving skills in high demand not just in the UK but worldwide. For some colleagues, returning to formal learning after some time means building confidence as well as learning new skills.”

Lloyds Banking Group offers internal opportunities for colleagues to try coding and data related roles and apprenticeships actively underpin these career pivots. Apprentices at Lloyds are a blend of new starters as well as colleagues transitioning careers. Apprenticeships are actively used for recruiting, reskilling, upskilling and progression through career pathways.

“In 2022 we welcomed several hundred graduates and higher apprentices into the organisation joining us at a joint welcome day in Birmingham Library and that number is set to increase. The apprenticeship programmes are always competitive but that's because apprentices join us as a permanent colleague, enjoying all the benefits that financial services careers have to offer. Apprentices tend to get the learning bug and continue to develop even after their apprenticeship has finished in specialisms such as Google Cloud Certification. We have one apprentice who joined us straight from school and over the course of a decade has trained initially in front line customer service, then reskilled as a Software Developer and has just recently completed his master's degree in Digital and Technology Solutions with a distinction.”

Lloyds Banking Group recognises the benefits of using apprenticeships in different ways and are mindful of how this flexibility can be supported. As well as providing a great vehicle for young people starting their career, there are also real benefits for using apprenticeships for reskilling later in life and some greater flexibility to balance learning and life commitments.

Lloyds Banking Group was also one of the first organisations to use levy transfer, contributing funds to West Midlands Combined Authority, Greater Manchester Combined Authority, LPC in London and the Advanced Manufacturing and Training Centre in Coventry. To date they've committed £11.8 million to the levy transfer and have helped 950 external apprentices onto their journey.

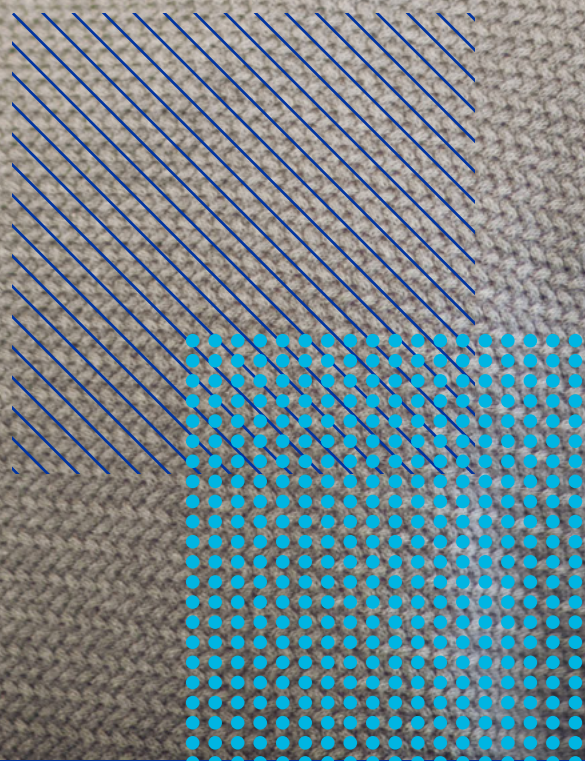
Our support for SMEs is more than just funding, we provide guidance and insight allowing business owners to lean on our deep experience of apprenticeships.



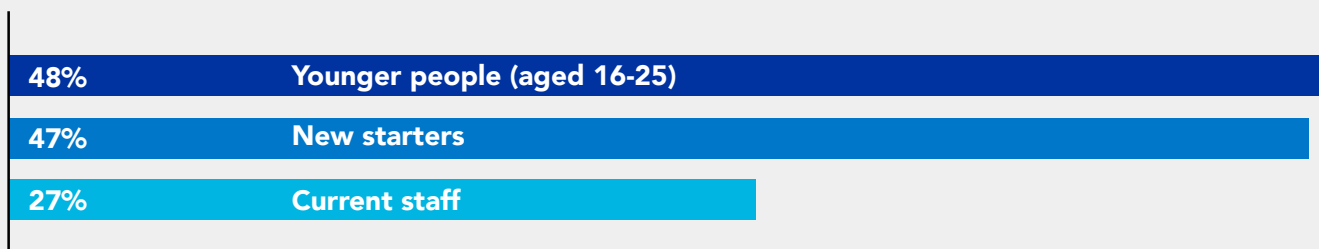
According to FOI data from the Department for Education, more than £3.5 billion of employers' levy funds have expired since the introduction of the apprenticeship levy. With so much training potential going to waste – and only four per cent of employers spending their full funding – it is clear that the levy, in its current state, is not useful for most employers.

How useful has the levy been for employers?

There has been an increase in employers using their levy funding to support level 6 and 7 apprenticeships (Degree Apprenticeships), with a focus on building higher-level skills. While 56 per cent of employers have found these apprenticeships effective, they are seen as being less effective than other apprenticeships (62%). With more employers focusing on advanced and higher level apprenticeships, more of the Department for Education's ring-fenced funding is being used up, leaving less money available for other apprenticeships.



Who did organisations spend their levy on?



While it is encouraging to see more than a quarter of employers using the levy to fund apprenticeships for current staff, it is important that this investment goes into upskilling staff and offering opportunities for career development rather than providing further opportunities for those already qualified. It is critical that business leaders embrace lifelong learning – but they must not forget about the lower rungs of the ladder that provide vital progression opportunities for less qualified workers.

While nearly half are funding apprenticeships for younger people and new starters, the focus on Intermediate, Advanced and Higher apprenticeships could be excluding some people from training, progression or even from the workforce altogether.

The government is aiming to reduce the number of level 2 apprenticeships, and there has been a significant drop in the number of apprenticeship starts as a result as the appropriate standards have not been approved for development. Given that 20 per cent of people do not pass GCSE Maths and English each year, many are not able to complete level 3 and above programmes, which is further limiting opportunities for younger people and social mobility.

As it stands, there is a risk of rising youth unemployment, particularly amongst underrepresented groups, which could impact businesses and the economy's resilience and the pace of recovery from the current recession. By investing in entry-level apprenticeships employers could play a vital role in stabilising the future of the economy in the UK, and protect their own prospects through engagement with untapped talent pipelines.

Many employers are treating their apprenticeship levy contributions as a sunk cost and writing it off, when they could be playing a role in building a pipeline of talent for the future. Employers can invest in the future of young workers with potential by using their apprenticeship levy funding to support them as they learn new skills and work their way up the business – and those they help are more likely to remain loyal. For those unable to make the commitment, transferring underspent levy to their supply chain or local community could support skills development in their wider ecosystem.

55.5%

Mean percentage of apprenticeship levy spent in the last five years



Case study

Xtrac

Warren Page,
Apprenticeship Manager

Xtrac is the World's leading supplier of high-performance transmissions for top level professional Motorsport and high-performance automotive applications. Headquartered in the UK in Thatcham, Berkshire and with additional operations in the USA in Mooresville, North Carolina and Indianapolis, Indiana, Xtrac designs, manufactures and assembles all transmissions in-house using the very latest design and analysis tools, and state of the art machining, assembly, and test equipment.

The biggest challenge the company currently faces is finding skilled people to do the variety of predominantly engineering jobs. New apprenticeship standards have also been made restrictive, and skills qualifications have been removed making apprenticeships more difficult to work with. Being based in a semi-rural area has also been a challenge to recruiting skilled workers.

Warren Page said:

"I've been involved with Xtrac Ltd for 30 years and have worked with apprentices on and off throughout my working life. I do not think there were enough apprenticeships on offer in the 1990s and 2000s which has created the loss of two working generations of skills."

Xtrac Ltd have been running apprenticeships since 1991 and revised their apprenticeship scheme in 2003. Since starting their apprenticeship programmes, numbers have risen from one or two per year to around 15 apprentices being recruited in 2022. Offering mainly engineering apprenticeships, they also run other programmes in HR and Mentoring. The company has used the

apprenticeship levy mainly on new starters looking to get into engineering but also leadership and management training for existing staff looking to progress. Their most popular apprenticeship is Engineering Technician, out of the nine different apprenticeships schemes they run.

"Our apprentices are fully integrated within the business, and have proved their worth through knowledge, skills and behaviours right across



the board, up to senior leadership level. For us apprenticeships have been an effective method of getting skilled people into the business and supporting the transferring of skills. The main issue we face currently is ensuring we have enough trainers in place to train our Apprentices as they go through very intensive training. By investing heavily in their training means they should go on to be the next generation of trainers, using their existing knowledge and building on it.”

For us apprenticeships have been an effective method of getting skilled people into the business and supporting the transferring of skills.

Xtrac Ltd have a reputation for training multi skilled staff who have come onto their apprenticeship scheme and have either stayed working at Xtrac Ltd or gone on to work in the industry, sometimes for competitors or customers of Xtrac themselves.



“Even though we’ve been around for nearly 40 years, our growth this year is the biggest we’ve ever had. We’ve gone from 380 employees to c.420 with c.30 operational engineering vacancies. We recognise we have an ageing workforce and we’re hoping that apprentices come in and fill future roles.”

What has held organisations back from spending their levy?

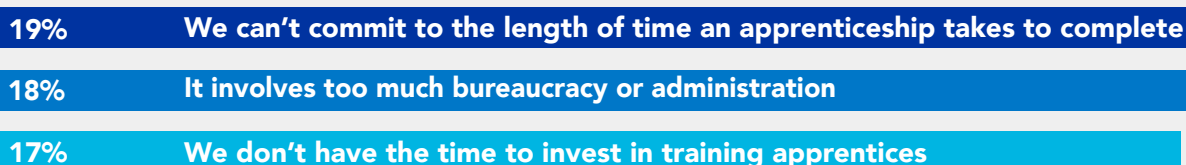
94 per cent of HR leaders at businesses who haven't spent their whole levy in the past five years report at least one barrier to spending their apprenticeship levy funding. From the administrative burden and the length of commitment to access to training providers for relevant standards, almost all businesses are experiencing issues that restrict their engagement.

In a difficult recruitment market, which has seen vacancies outnumber the number of unemployed people, bringing apprentices on board has been challenging for many businesses – particularly in the last two years. More than one in five (22%) say that attracting and hiring apprentices has been too difficult, preventing businesses from using the levy before they even get started.

There are also supply and demand issues in other areas of the system. Many businesses – conscious of their expiring funds – would like to share more of their levy. One in five (19%) agree they are unable to share enough of their levy with the supply chain, which would help to ensure their business' security and interests in the long-term. At the same time, 16 per cent say that training providers won't supply their organisation with the skills

training programmes they need, leaving businesses demands for training unmet.

The scale of the commitment needed to bring in apprentices using the levy is another significant blocker for employers. Instability over the past few years has left many teams time-poor, with the idea of training or on-boarding inexperienced new starters feeling overwhelming. Newly-introduced shared apprenticeship programmes that allow employers to dip in and out of training based on their own needs and capacity could help, but there are other challenges too. For example, inducting new starters in post-pandemic hybrid working environments is a challenge for all employers, but considered even more problematic for younger, less-experienced workers.





Case study

Breedon

Ceri Travers
Early Careers Manager

Breedon is a leading vertically integrated construction materials group based in Great Britain and Ireland.

Ceri Travers explains the challenges the industry currently faces when it comes to hiring and retaining talent, including that of an aging workforce. Ceri states "44% of our staff are over the age of 50. So, in the next 15 years, we're going to lose nearly half our staff. And with that, all the skills that they take with them."

An additional challenge is the vast skills gaps in construction creating a war on talent and wages. "In our industry, opportunities and wages are good, but we do tend to poach staff from each other. That's not sustainable long term." I don't think they're vast skill gaps. I think the industry has a short-term view, which means when they need a new skill or role, the first thing they do is poach from each other. We've not focused on internal pipelines. We do however support technical development.

A key solution to this is apprenticeships, however Ceri states, "In terms of younger people, you need to make sure that you've got a really structured and organised programme with great mentors."

There are also issues around perception of the industry, "The construction and quarrying industry isn't sexy, however there are great roles available leading to promising careers. Employers need to do more in positioning roles and opportunities for young people entering this industry."

Recently Breedon employed a dedicated Early Careers Manager so they can shape the future opportunities against critical skills and changes to create an offer which will really appeals to young people.

"In the past, we have given the government levy funds back that could have been invested in young people. If your corporate objective is to fill your skills gaps and future roles by creating amazing quality career opportunities for young people at the start of their career, it will naturally get spent". If you can't use your levy in construction, engineering and quarrying then something isn't quite right."

Ceri maximises using the Levy transfers to help scale the business and develop the skills needed to support the business and the sector. Ceri will be working very closely with the business to invest levy funding to help scale up the number of apprentices in the business and support the skills needed for the sector. Some of the key areas of investment in the future will be programme for quarry management, electrical and mechanical maintenance and road surfacing operative.

Currently Breedon belongs to The 5% club, that is a dynamic movement of employers that are committed to earn and learn as part of building and developing the workforce they need. The purpose is to support its members and all employers increase further the number, quality



and range of earn and learn opportunities across the UK. Breedon has around 61 apprentices which makes them silver membership tier, although Ceri is aiming for gold. Achieving this would mean Breedon is recognised as one of the UK's leading employers of apprentices, graduates and degree placement students and it would provide invaluable benchmarking for its early talent programmes.

Given the amount of levy that Breedon once handed back, Ceri is open to flexing the levy to use on other training programmes.

"I wouldn't mind the opportunity to spend our levy on straightforward qualifications, where we support someone to attend night school. For example, they go and do a HNC on a Monday and Tuesday night at a local college.

In England, Scotland, Northern Ireland, and Wales the apprenticeship system is completely different and according to Ceri this means real disparity of opportunity for our young people. Ceri states, "Why should somebody from Scotland who wants to become a mechanical engineer be disadvantaged because their funding and programmes work differently than they do in England? We pay the levy in England, and then it comes back to us, for us to choose how we spend that with registered providers. That money doesn't come back to us elsewhere, we are at the mercy of what's on offer. And it's not always what we want, or what we need. I think that young people in other parts of the devolved nations are disadvantaged compared to the way that we do it in England."

Back in 2018, our Flex for Success report suggested that the government should consider reducing red tape to reduce the administrative burden for businesses who want to use the levy, as well as flexing the levy so that it could be spent on other training and skills programmes.

A broader skills levy for the future

With a significant proportion of levy funding going unspent and the same barriers persisting, it is important for the government to look at solutions that will actually work. Overall, 97 per cent of businesses would like to see change, and the appetite amongst businesses for a broader or more accessible skills levy remains strong.



What would encourage organisations to spend more of their levy in future?

38% Create a broader skills levy that allows us to spend on different sorts of training

38% Allow businesses to spend their levy on apprentice salaries

33% Make the apprenticeship system less bureaucratic

Due to the challenges and barriers businesses face they are not spending their apprenticeship levy, with much of it heading back to HM Treasury. Those who have made use of their funding report that the training on offer is not particularly effective. It is not working – but asking HR leaders reveals plenty of ideas of how they could spend their allowance under a broader system.

Employers are keen to find their own ways of addressing their skills shortages with training, away from the rigid frameworks of apprenticeships. Many would favour a less formal approach that keeps ringfenced funding to support with skills and development, with training in specific areas like customer service, health and safety, and compliance training all welcomed.

What would a broader skills levy look like?

26% Leadership and management training

24% Work/Industry placements and internships

24% Accredited in-house training



1%

Only one per cent say there is no training they would like to spend their levy on

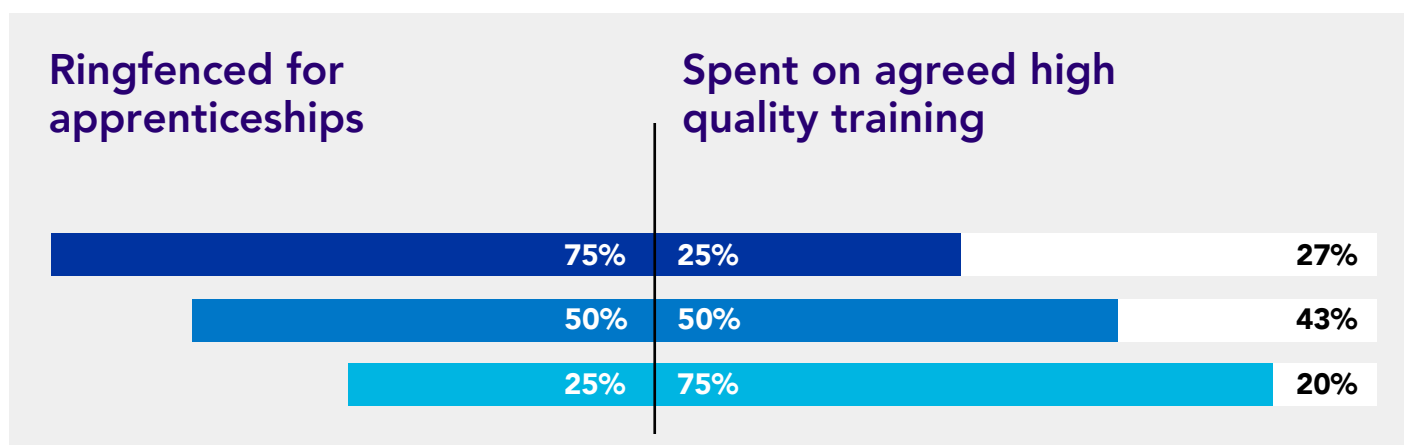
Reframing the levy

It is important to note that HR leaders do not want to see the apprenticeship levy scrapped altogether. They would prefer to shift towards a 50:50 model, where half of employers' levy funding is ringfenced for apprenticeships, and the other half is more flexible – allowing businesses to identify the best way for them to meet their skills needs themselves.

Only 7 per cent would like to see all of the funding continue to be ringfenced for apprenticeships, although this more than doubles amongst businesses with fewer than 50 employees (16%), who are also more likely to agree that apprenticeships are effective.

A 'trade' arrangement, where some commitment to apprenticeships essentially 'buys' businesses an option to use the remainder of their levy in other ways, could be beneficial, but requires careful thought from policy makers. In particular, consideration would need to be given to how non-levy paying organisations' engagement with the apprenticeship system would be subsidised. The government would also need to be much clearer with employers about how the myriad initiatives stitch together, to ensure that such an arrangement delivers results.

Under a broader skills levy, 26 per cent of HR decision makers would spend funding to develop leadership and management skills, but 24 per cent would fund work placements and internships, which could significantly benefit junior workers and the overall pipeline of talent, which would be supported by nearly half (47%) of MPs according to a separate survey.



Making changes to the wider skills system

Levying funding from businesses to pay for training does not appear to give employers the support they need. There are many organisations hoping for wider changes to the skills system that would help them to make better use of the funding and training initiatives available to them; the sheer scale of what is on offer can be overwhelming for some businesses, let alone taking advantage of them.

99 per cent of businesses would like to see the government make changes to the skills system, demonstrating the extent of the need for more support and better options. Employers are keen to provide better opportunities for progression and investment in skills, but the government needs to remove barriers to ensure the success of their initiatives.

While the number one change HR leaders would like is a better careers advice and guidance service (29%), this is one of the lowest priorities amongst MPs. Only 11 per cent believe this element of the skills system needs to be addressed, which suggests that businesses are likely to be disappointed.

Despite apprenticeship standards being developed by employer-led trailblazer groups – typically consisting of large employers – they are not a good fit for many SMEs, whose needs are not being met. As a result, nearly a quarter (23%) of HR leaders would like to see greater input from employers in developing qualifications, which could perhaps be achieved by engaging wider variety of employers or through better use of online tools or surveys.

24 per cent would like there to be greater input from young people, which could help to keep them engaged, ensure training is helpful and reduce attrition rates. City & Guilds recent report – Youth Misspent – indicated that many young people feel excluded from the labour market, which is damaging for them, businesses and the economy.

What changes would you like to see to the skills system?

29% A better careers advice and guidance service

28% More funded bitesize training to allow people to train throughout their careers

28% A better funded skills system

While businesses are generally feeling positive about the year ahead – with most expecting to see growth – a lack of access to skills could be a fly in the ointment when it comes to realising these ambitions.

Conclusions

With the introduction of the apprenticeship levy, the Government hoped to help large businesses build the skills they need to grow and become more productive – with the additional hope that this would also boost the UK's economy and cascade into wider benefits in the long-term.

However, with £3.5 billion of apprenticeship levy funding left to expire since the introduction of the levy and apprenticeship starts in continued decline, it is clear that the levy is not working for many employers, and organisations and their employees are missing out as a result.

There are barriers preventing employers from making use of the levy or engaging more widely with the system and these need to be removed in order to increase apprenticeship numbers and ensure that businesses have the skills they need. The Government needs to work with both employers and educators to review the system and to make the levy work more effectively for all employers and industries.



What are the issues?



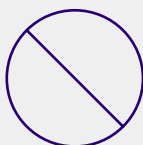
Bureaucracy

Employers are finding it incredibly time-consuming and difficult to access their apprenticeship levy, locate appropriate programmes and train apprentices. A lack of flexibility or options that suit business' needs means that the effort required to access funding far outweighs the benefits, particularly for overstretched employers in the current economic climate.



Recruitment

The tight recruitment market and increasing salaries are making it hard for employers to hire in the skills they need, and even to find apprentices they could train to fit within available roles.



Exclusion

The Government's focus on higher level apprenticeships is excluding under-19s and those from less advantaged backgrounds from work-based training, which could impact the UK's overall workforce needs, ongoing social mobility challenges and the increasing worry around the growing numbers of economically inactive in the UK population.



SME support

Apprenticeship standards have been developed predominantly by larger employers due to time availability, and are often not fit for SMEs. Coupled with this, SMEs often do not have the infrastructure needed to deliver apprenticeships successfully.



Awareness and understanding

It is clear from the data that employers are unaware of all of the skills and training interventions already available to them, as well as how they can fit together to meet their expectations, leaving them without the skills they need.



Qualification quality and availability

Apprenticeships do not currently meet the skills requirements of many sectors, and the standards are too rigid to allow for a culture of lifelong learning that enables employees to upskill with modules of learning throughout their careers. Further restriction in availability – for example, if some apprenticeship levels were removed or reduced – could also be detrimental to the overall impact of apprenticeships.

The apprenticeship levy must be better aligned to the needs of employers, to ensure the future success of the system. Based on our research and conversations with the employers we work with every day, we have developed a number of recommendations for the government to help make the training and skills system in UK work for everyone.

Recommendations

We believe that these recommendations should be wrapped into a national strategy for skills, designed to level up local communities and SMEs. With more flexibility on funding use, better support for SMEs and more opportunities for younger apprentices from less privileged backgrounds, apprenticeships can be used as a lever for local inclusive growth, that would deliver benefits across the UK.



1. A broader skills levy

By creating a broader skills levy, which ringfences a significant amount of funding for apprenticeships, business leaders will be able to make choices about what skills their organisation needs, and the best qualifications to develop them.

By maintaining ringfenced funding for apprenticeships within the broader levy, there are still opportunities for employees to earn while they learn, but it would offer businesses the flexibility they crave. However, this solution would need to consider ringfencing some budget for use by SMEs to fund younger apprentices in order for the system to serve everyone fairly.



“That more than £3 billion of levy has expired is a pity. This could be spent on many other types of training if it is being regulated and assessed properly and not just being spent on ad hoc training courses. There are a lot of awarding organisations offering great training and assessment, but the standards need to be less rigid for apprenticeships and the levy to be able to work for all.”

– Warren Page, Apprenticeship Manager at Xtrac Ltd



2. Use unspent levy to address labour market shortages

Given the UK’s current labour market shortages and employers’ struggles to hire in the skills they need, the Department for Education and HM Treasury could work together to ensure that unspent apprenticeship levy funding is spent on programmes designed to reduce skills shortages in the sectors that are most affected. This might include additional incentive payments to galvanise employer engagement or additional support with travel or equipment for hard-to-reach learners.

3. More representation for SMEs

SMEs represent the best growth prospects for the UK economy, but they need the right skills in order to meet their ambitious targets. Current apprenticeship standards, which were developed by large enterprises, should be reviewed or updated so that they meet the needs of SMEs – as many are not flexible enough to meet their standards as an underpinning standard for occupations.

Simplifying the system would also benefit SMEs, as the level of bureaucracy, cost outlay and time-consumption make it very difficult for already stretched organisations to engage. Consideration should be given here to review how much flexi-job and portable apprenticeships are helping this situation or whether they need further refinement to be fully effective.



4. Cancel plans to reduce level 2 apprenticeships

Reducing the number of level 2 apprenticeships excludes a number of young people and people from less advantaged backgrounds from workplace training, and opportunities to upskill. As many of these people are not ready for level 3 apprenticeships and not all companies offer level 3 roles as their entry point, it would further restrict opportunities for social mobility if the current policy persists, which aids diversity and productivity.

While there are some concerns about level 2 apprenticeships resulting in low skill/low wage traps, ensuring evidence of employer commitment to ongoing workforce progression pathways where these options are available could help to address these.

5. Introduce modular options

To address issues with quality, the Government could consider introducing standardised, levy-funded bitesize learning. With a modular approach, leaders could pick and choose more compact qualifications and training to meet skills needs, and employees could upskill more easily throughout their careers.

This approach may be particularly valuable to older in-work apprentices, where modular and stackable achievement towards a full apprenticeship could be attractive, but care would be needed to review funding implications, end-point assessments and the degree to which this option would overlap with existing initiatives.

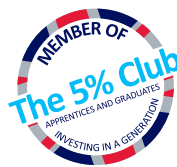


6. Invest in information, advice and guidance

Many businesses are unaware of all the training options and support available to them, which is preventing engagement and uptake. Government should focus on raising awareness amongst employers to help them get the most out of the funding and training options available, such as Skills Bootcamps and local leaders of education (LLE) programmes, and understand how these can be used together to create a programme that delivers the skills they need.



About the report



About The Industry Skills Board (ISB)

Facilitated by City & Guilds, the Industry Skills Board (ISB) is a group of businesses of various sizes and from a range of sectors. Their aim is to give all employers a voice in skills development, qualification and accreditation design and subsequent practicalities of adoption. The group meets quarterly to carry out in-depth analysis and debate into key UK Skills Policy matters, in order to provide practical advice and support to a wider group of employers and Policy makers.

The ISB aims to encourage successful employer adoption of skills policy and reform by using its experience and expertise whilst working collaboratively and constructively with the Institute for Apprenticeships and Technical Education (IfATE), government and other public bodies on policy implementation in relation to skills, training and education, to help develop the workforce of the future.

For more information please visit [our site](#).

About The 5% Club

The 5% Club works with UK employers and key influencers to inspire positive action for increased and accessible workplace learning, focused primarily on the number of apprentices, sponsored students and graduates employed. The goal of The 5% Club is to increase the employment and career prospects of today's youth and equip the UK with the skilled workforce it needs to safeguard Britain's economy. The 5% Club was launched in 2013.

Members sign The 5% Club charter. As a member of The 5% Club, employers state they are: Committed to helping the UK's growth agenda and acknowledge the importance of developing people as both a business and social imperative; Playing their part in addressing youth unemployment and skills shortage; Pledging to work towards having a minimum 5% of their UK workforce enrolled on formalised apprentice, sponsored student and/or graduate development schemes within five years; Measuring and reporting on their progress annually against the above metric in their Corporate Social Responsibility section of the Annual Report and Accounts or equivalent document; Committed to encouraging other employers to participate in the campaign.

Membership of The 5% Club numbers more than 770 organisations from across a broad range of sectors as well as size of company, including large corporations as well as SMEs. The total number of employees represented is now more than 1.6m, with circa 93,500 in "earn & learn" schemes.

For further information please contact: Gill Cronin, Director of Operations, The 5% Club

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About the research

City & Guilds and The 5% Club commissioned Censuswide to undertake a survey amongst 1,000 HR decision makers at organisations that pay the apprenticeship levy. The survey was conducted between 9 and 21 November 2022.

YouGov completed online interviews with a representative sample of 96 MPs;

The survey was completed between 29th November – 22nd December 2022;

All results are based on a sample and are therefore subject to statistical errors normally associated with sample-based information;

Any percentages calculated on bases fewer than 30 unweighted respondents must not be reported as they do not represent a wide enough cross-section of the target population to be considered statistically reliable;

Results for MPs are weighted by party, gender, electoral cohort, and geography to give a sample that is representative of the House of Commons;

Based on a 95% confidence level results are correct to +/- 9%.

Survey data throughout the report is supplemented with data secured from HMRC and the Department for Education via requests under the Freedom of Information Act 2010, and published data.





About City & Guilds

Since 1878 we have worked with people, organisations and economies to help them identify and develop the skills they need to thrive. We understand the life changing link between skills development, social mobility, prosperity and success. Everything we do is focused on developing and delivering high-quality training, qualifications, assessments and credentials that lead to jobs and meet the changing needs of industry.

We work with governments, organisations and industry stakeholders to help shape future skills needs across industries. We are known for setting industry-wide standards for technical, behavioural and commercial skills to improve performance and productivity. We train teams, assure learning, assess cohorts and certify with digital credentials. Our solutions help to build skilled and compliant workforces.

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