

# CIPD

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## Policy report

June 2016

Employer  
views on the  
*apprenticeship*  
levy



The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

# Employer views on the apprenticeship levy

## Policy report

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# Introduction

*‘This report is the first major study published on the likely implications of the apprenticeship levy and has some important insights and recommendations for policy-makers, which are set out in the conclusions.’*

## **The context for the apprenticeship levy**

The Government has put increasing the quality and quantity of apprenticeships at the heart of its ambition to improve employer investment in skills and help address the UK’s productivity deficit. To help achieve this it has set a target of creating 3 million apprenticeships by 2020, and in summer 2015 George Osborne used his budget speech to unveil the apprenticeship levy as a means to help achieve this. The CIPD has long been a major advocate of apprenticeships and is keen to work with the Government to achieve its aims.

The apprenticeship levy is being introduced against the backdrop of a number of recent reforms, including a requirement for a minimum duration of 12 months, more on- and off-the-job training and a stronger focus on involving employers in the design and delivery of apprenticeships through new employer-owned Trailblazer apprenticeship frameworks.

There is no doubt significant reform of the system is needed. OFTED published a report in 2015 which was highly critical of some apprenticeship provision in the UK (*Apprenticeships; Developing skills for future prosperity*), highlighting significant concerns over the quality of a significant proportion of apprenticeships. Another characteristic of UK apprenticeship provision is that nearly two-thirds of apprenticeships that are created each year are at intermediate level, with comparatively few generated at Level 3 and above, which is

the minimum standard in most European countries.

Unless the education and skills system starts to generate proportionally more Level 3 and above apprenticeships, it will be hard for the Government to achieve another of its policy objectives, which is to achieve parity of esteem between university and apprenticeships and ensure most young people choose one or the other option. Currently just 6% of school-leavers opt for an apprenticeship compared with nearly 50% of young people who go to university.

While Level 2 intermediate apprenticeships have a role to play in providing a way for people to develop employability skills, they typically attract low wage rates, even relative to other Level 2 qualifications. Research published by the Department for Business, Innovation and Skills in 2014 (*Average Earnings after Further Education: 2010 to 2013*, BIS 2014) found that median intermediate apprentices were earning a median salary of £16,600 three years after study compared with a median of £17,100 for employees who had completed other Level 2 qualifications, such as GCSEs. The research also found that apprenticeship starts across both Level 2 and Level 3 apprenticeships were concentrated in frameworks that yield poor earnings.

Such evidence makes the question of whether the apprenticeship levy will drive the right employer behaviours and lead to an increase in the quality of apprenticeships

and not just boost numbers, an absolutely fundamental one for the Government. Just as important, it is crucial that policy-makers understand the impact of the levy on wider employer investment in workforce training and skills development among both levy-paying and non-levy-paying organisations.

The research in this report is designed to shine a light on these issues by exploring the views of employers on their attitudes to the levy, their likely response to it in terms of their investment in apprenticeships as well as its likely impact on their wider learning and development strategies and activity.

It is based on two surveys of employers, one of 1,000 organisations and another of 500 organisations, as well as in-depth interviews with 14 HR leaders and three industry body representatives.

The research is primarily focused on the impact of the levy on organisations in England because so little is yet known about what the funding arrangements will be for the devolved administrations in Scotland, Wales and Northern Ireland and how they will decide to respond in terms of reimbursing employers or enabling employers to access funding allocated to them. However, the two UK-wide surveys do provide some insights into the overall level of awareness and support for the policy.

This report is the first major study published on the likely implications of the apprenticeship levy and has some important insights and recommendations for policy-makers, which are set out in the conclusions.

### **How will the levy work?**

Employers with a pay bill of more than £3 million each year will need to pay the apprenticeship levy from April 2017 through the Pay as You Earn (PAYE) process.

In England, levy-paying employers will be able to use levy funding to invest in apprenticeships via vouchers through the new Digital Apprenticeship Service. They will also receive a 10% top-up to their monthly contributions. Non-levy paying employers will be able to use to choose the training they'd like their apprentices to receive, an approved training provider and an assessment organisation using the registers available on the Digital Apprenticeship Service. Employers will agree a price with the training provider. Employers that do not pay the levy will be asked to make a contribution to the cost of this training and government will pay the rest, up to the maximum amount of funding available for that apprenticeship. Employers will be asked to pay this contribution directly to the provider and can spread it over the life time of the apprenticeship, to an agreed schedule. More details on the proposed rate of government support is expected in Summer 2016 and will be confirmed in October 2016.

Skills policy and the delivery of apprenticeships remain a devolved matter in Scotland, Wales and Northern Ireland. Therefore there will be separate and almost certainly different arrangements in Wales, Scotland and Northern Ireland.

# The role of apprenticeships in addressing recruitment difficulties and skills shortages

This report is based on findings from two surveys, one of more than 1,000 employers and one of 500 employers, as well as in-depth interviews with senior managers in 12 organisations. Its purpose is to provide early insights into employers' views on the apprenticeship levy and the likely effect of the levy on apprenticeship numbers and quality, as well as on wider skills development within both levy-paying and non-levy-paying organisations.

The research is primarily focused on the impact of the levy on organisations in England because so little is yet known about what the funding arrangements will be for the devolved administrations in Scotland, Wales and Northern Ireland and how they will decide to respond in terms of reimbursing employers or enabling employers to access funding allocated to them.

However, the two UK-wide surveys, one of 1,000 employers and one of 500 organisations, do provide some insights into the overall

level of awareness and support for the policy. The surveys show, albeit based on relatively small samples that attitudes to the levy among Scottish employers are broadly consistent to the survey UK average across most questions. There was not enough data from employers in Wales or Northern Ireland to draw conclusions.

In order to understand the wider context against which the apprenticeship levy is being introduced, it is useful to consider why employers use apprenticeships and how they fit in with wider resourcing strategies to address recruitment difficulties and future skills shortages.

The survey shows organisations that offer official apprenticeships are more likely to report having hard-to-fill vacancies, demonstrating many employers already recognise the value of apprenticeships in ensuring that their organisation is developing the skills it needs. Overall, about half of employers report they have hard-to-fill

vacancies; however, this increases to more than six in ten among employers that say they provide official apprenticeships or have recruited anyone on an official apprenticeship in the last two years.

This theme came through in the interviews for this report, with many employers regarding apprenticeships as an important element of how they address skills shortages and as a means of attracting and developing young people.

One construction and facilities management company which is facing recruitment difficulties is using apprenticeships to tackle these. It is struggling to fill a number of higher-skilled roles (Levels 4 and 5), for example in planning and estimating, but also has a number of hard-to-fill vacancies in advertising, where behavioural skills such as a willingness to learn are important qualities. To address these the company is looking to expand its apprenticeship programmes and introduce a 'career changer'

**Table 1: Proportion of organisations that report that they have any hard-to-fill vacancies and provide official apprenticeships/have recruited anyone on an official apprenticeship in the last two years (%)**

	All	Offer official apprenticeship scheme			Recruited anyone on an official apprenticeship scheme in the last two years			Don't offer/NA
		Yes	No	Don't know	Yes	No	Don't know	
Yes	49	61	38	63	65	43	51	41
No	49	36	60	27	33	56	32	57
Don't know	2	3	1	9	2	1	17	2

Base: All: 1,014; Offer official apprenticeships: Yes: 416; No: 547; Don't know: 51; Recruited anyone on an official apprenticeship in the last two years: Yes: 341; No: 50; Don't know: 23; Don't offer/NA: 598

programme to attract candidates from other industries. It currently offers apprenticeships at Levels 2, 3, 4 and 5 in civil engineering, quality surveying and facilities management.

The survey also explored how organisations are planning to combat hard-to-fill vacancies and the extent to which apprenticeship programmes are regarded as part of the solution. It should be noted that the presence of hard-to-fill vacancies and recruitment difficulties does not necessarily equate to skills shortages in the labour market. Hard-to-fill vacancies can also be the result

of a range of factors, including, for example, inadequate pay, anti-social hours or geographically remote locations.

The most common approach to tackling hard-to-fill vacancies is through upskilling the existing workforce, with nearly four in ten employers citing this. The next most frequently cited employer responses are providing pay rises for roles and occupations they are trying to fill (24%) and hiring more apprentices (18%).

The findings show that employers that offer apprenticeships are also

significantly more likely than other employers to be using a wide range of responses to address hard-to-fill vacancies. Employers that offer official apprenticeship schemes are more likely than employers that don't provide apprenticeships to upskill existing staff and hire more EU nationals, UK school-leavers and graduates. This highlights that apprenticeships are not regarded by employers as an alternative to other forms of resourcing and workforce development activities but as one element of a range of responses to recruitment and skills challenges. See Table 2.

**Table 2: How organisations are planning to address the issue of hard-to-fill vacancies and their use of apprenticeships (%)**

	All	Offer official apprenticeship scheme			Recruited anyone on an official apprenticeship scheme in the last two years			
		Yes	No	Don't know	Yes	No	Don't know	Don't offer/NA
Upskill more existing staff	38	41	35	38	42	39	32	35
Hire more EU nationals that are already based in the UK	14	16	13	11	16	13	20	13
Hire more EU nationals that are based in their home countries	13	16	9	11	16	22	8	9
Hire more non-EU nationals that are already based in the UK	8	9	8	5	9	8	8	8
Hire more non-EU nationals that are based in their home countries	8	9	7	6	8	15	12	7
Hire more apprentices	18	31	6	0	31	34	8	5
Hire more UK graduates	14	20	8	6	21	17	20	8
Hire more school-leavers	7	10	5	3	9	9	20	4
Hire more ex-welfare claimants	2	3	1	0	3	0	8	11
Make greater efforts to recruit older workers	10	9	11	15	10	0	8	11
Make more efforts to retain older workers	15	16	13	23	15	18	20	15
Raise wages for existing staff in roles or occupations that we are having difficulty filling or retaining	14	15	16	0	15	11	12	14
Raise wages for all existing staff	10	12	8	6	12	13	24	7
Raise starting salaries for roles or occupations that we are having difficulty filling	24	27	20	14	28	24	16	20
Other	11	8	14	14	8	9	8	14
Nothing	15	12	13	43	13	7	16	17

Base: Employers with hard to fill vacancies: 497; Offer official apprenticeships: Yes: 255; No: 210; Don't know: 32; Recruited anyone on an apprenticeship in the last two years: Yes: 220; No: 21; Don't know: 12; Not applicable - don't offer: 242

*‘While many employers are looking to use apprenticeships as part of their response to trying to fill hard-to-fill vacancies, they are not suitable for the majority of such roles.’*

While many employers are looking to use apprenticeships as part of their response to trying to fill hard-to-fill vacancies, they are not suitable for the majority of such roles. On average, employers estimate that only about 5% of hard-to-fill vacancies are suitable for apprenticeships, with little difference across sectors. About 50% of employers don't think apprenticeships would be suitable to fill any hard-to-fill vacancies, while about a quarter of employers believe apprenticeships could fill up to a quarter of hard-to-fill vacancies. Just 6% of employers think apprenticeships would be suitable for half or more of hard-to-fill vacancies. These findings were underlined by the interviews with employers, which highlight that apprenticeships, where they are used, are part of a broad organisational resourcing strategy which is matched to the skills requirements of the business.

One medium-sized food manufacturer which is experiencing recruitment difficulties is planning as part of its response to increase the number of apprenticeships it offers beyond its current provision of two Level 2 apprenticeships and one Level 3 apprenticeship. However, the firm's HR director said its ability to expand apprenticeship provision significantly is limited because their employer liability insurance restricts their ability to hire under 18s and they find it hard to recruit people aged 20 and above into apprenticeships. In addition, its experience to date of apprentices had not been completely positive. *‘We have had some success [in recruiting apprentices] recently but typically they have come and gone in a year and they have had poor attendance.’* The HR director does not believe that apprenticeships are suitable to address recruitment difficulties in higher-skilled roles that it faces in areas such as engineering and technical programme management.

**Table 3: The proportion of hard-to-fill vacancies employers estimate would be suitable for an apprenticeship (%)**

	All	Private sector	Public sector	No-profit sector
0	50	51	47	55
1-25	24	25	24	15
26-49	2	3	0	0
50+	6	5	8	8
Average (%)	5	5	5	3

Base: All employers with hard-to-fill vacancies: 497; Private sector employers with hard-to-fill vacancies: 334; Public sector organisations with hard-to-fill vacancies: 139; Non-profit organisations with hard-to-fill vacancies: 25



# Current provision of apprenticeships

In all, just over four in ten organisations in the survey of 1,000 employers report they offer official apprenticeships. This is a significantly higher proportion than the national average, with the 2014 UKCES Employer Perspectives survey suggesting that 15% of employers provide apprenticeships.

Most of the case study organisations interviewed for the report already provide official apprenticeship schemes, with the majority regarding apprenticeships as a key part of their skills development mix. Many of the firms regard apprenticeships as an ideal means of preparing young people for the world of work. For example, one manufacturing company in the north-west of England sees apprenticeships as a way of ensuring new recruits develop the soft skills and the work ethic required. The company, which employs 500 people, has recruited 41 apprenticeships over the last five years, mostly at Level 2, for example in furniture-making and upholstery.

One large manufacturer which currently recruits about 150 apprentices a year regards apprenticeships as an ideal means of addressing local skills shortages. According to the general manager at the firm, there is further potential to address the lack of young people with STEM qualifications to tackle hard-to-fill vacancies in these areas through apprenticeships, particularly given that skills shortages are most prevalent among Level 2 and Level 3 roles.

Public sector organisations are most likely to provide official apprenticeship programmes (54%), followed by private sector employers (38%) and those in the non-profit sector (31%). Large employers with 250 or more employees (55%) are much more likely than small employers (21%) to report they offer official apprenticeships.

The survey shows that organisations that expect to pay the levy are much more likely to report they provide

apprenticeships (66%) than employers that don't expect to pay the levy (23%) or those that don't yet know whether they will pay the levy or not (39%).

Among organisations that provide official apprenticeship programmes, eight in ten say they have recruited someone on an official apprenticeship programme in the last two years, with very little difference across the private, public and non-profit sectors. Larger organisations (84%) are more likely than smaller organisations (75%) to have recruited someone on an apprenticeship scheme in the last two years. Organisations that expect to pay the levy are also marginally more likely to say they have recruited someone on an apprenticeship scheme in the last two years than employers that don't expect to pay the levy or those that say they don't know.

**Table 4: Proportion of organisations that offer official apprenticeships (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
Yes	41	38	54	31	21	55	66	23	39
No	54	58	37	69	77	38	76	76	46
Don't know	5	4	9	0	1	7	2	1	15

Base: All: 1,014; Private sector: 737; Public sector: 212; Non-profit sector: 65; SMEs: 416; Large organisations: 598; Expect to pay the levy: Yes: 332; No: 423; Don't know: 259

*‘Overall, it is encouraging that raising productivity is the most common response among employers, with it being among the most popular reactions across industries.’*

In all, 55% of organisations that provide official apprenticeship schemes offer them to new recruits only, with 38% providing apprenticeships to both new recruits and existing employees and 3% providing them to just existing employees. Public sector and non-profit organisations are more likely to provide apprenticeships to new recruits only than private sector employers. Small employers (60%) are also more likely than larger organisations (53%) to provide apprenticeships to new recruits only. Similarly, employers that don’t expect to pay the levy are more likely to provide apprenticeships to new recruits only than organisations that do expect to pay the levy.

Consistent with official statistics (Skills Funding Agency 2016), the share of intermediate apprenticeships in organisations is high (57%), especially among SMEs (65%). A fifth (20%) of apprenticeships are advanced apprenticeships and a similar proportion (17%) are higher apprenticeships. See Table 7.

The most common age group that organisations have recruited apprentices from over the last

two years is 19–24-year-olds, with nearly three-quarters of organisations reporting this is the case. Two-thirds of employers have recruited apprentices aged 16–18, while 27% of organisations have recruited apprentices aged 25 and above. Private sector organisations are most likely to say they have recruited 16–18-year-olds, with nearly seven in ten saying this is the case. Smaller organisations are more likely to recruit apprentices aged 16–18 than larger organisations but much less likely to recruit apprentices aged 25 and over. Employers that don’t expect to pay the levy are more likely to say they have recruited apprentices aged 16–18 in the last two years than organisations that expect to pay the levy but far less likely to say they have recruited apprentices aged 25 and over.

Most of the employers interviewed as part of this research report they most frequently tend to recruit apprentices in the 19–24 age range. One small, premium-quality craft brewer has recently started taking on apprentices and now has four on its books – which, in a business with a headcount of only 22, means they comprise almost a fifth of its total workforce. Three apprentices of the four

**Table 5: Organisations that have recruited anyone on an official apprenticeship in the last two years (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
Yes	82	83	81	82	75	84	86	79	77
No	12	13	11	13	23	9	10	20	10
Don't know	6	4	9	5	2	7	4	1	14

Base: Employers that provide official apprenticeships: 415; Private sector employers: 279; Public sector: 116; Non-profit organisations: 20; SMEs: 89; Large employers: 325; Expect to pay the levy: Yes: 220; No: 95; Don't know: 100

**Table 6: The extent to which organisations' apprenticeships go to new recruits, existing employees or both (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
New recruits only	55	52	60	68	60	53	54	62	50
Existing employees only	3	4	2	0	2	4	4	0	5
Both new recruits and existing employees	38	41	32	24	33	39	39	36	37
Other	0	0	0	0	1	0	0	1	0
Don't know	4	3	5	9	4	4	3	2	8

Base: Employers that provide official apprenticeships: 415; Private sector employers: 279; Public sector: 116; Non-profit organisations: 20; SMEs: 89; Large employers: 325; Expect to pay the levy: Yes: 220; No: 95; Don't know: 100

**Table 7: On average, the proportion of apprenticeships hired by organisations at intermediate level, advanced level and higher level (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
Intermediate (Level 2)	57	55	61	70	65	55	55	60	63
Advanced (Level 3)	20	20	18	25	19	20	21	22	12
Higher (Level 4)	17	19	15	3	11	19	19	16	12
Other	6	6	6	1	4	7	5	2	13

Base: Employers that provide official apprenticeships: 290; Private sector employers: 196; Public sector: 79; Non-profit organisations: 14; SMEs: 65; Large employers: 225; Expect to pay the levy: Yes: 160; No: 74; Don't know: 56

are in the brewing aspect of the business, with one apprentice being taken on in the office side of the business. The three brewing apprentices are each 20 years old, and the apprentice in the office is 18. The apprenticeships have been made available only to new recruits.

When asked why they have chosen to employ apprentices, the employer said that it offers them the opportunity to provide training 'from the bottom up'. In terms of the skills they hope to give the apprentices, the employer said that it wants to give them all the skills, particularly in the technical aspects

of the job, that would allow them to stay at the business for a long time. In this case the impetus to develop apprenticeships came from the managing director, who regards apprenticeships as a means of developing local young people and securing the skills pipeline for the business.

However, the evidence to date suggests that for many employers much more of a close support service will be needed than has been provided by the National Apprenticeship Service in recent years if there is to be a step-change increase in the proportion of non-levy-paying organisations

developing apprenticeship programmes post-April 2017. It remains to be seen how user-friendly the new Digital Apprenticeship Service will be and exactly what role the new Institute for Apprenticeships will play, but it is important that thought is put into how to reach and engage with smaller non-levy-paying employers.

For example, according to a small graphic design firm based in the south of England that no longer employs apprentices, assistance with finding suitable candidates is more important than financial support.

*‘Nearly half of employers that expect to pay the levy but don’t currently provide apprenticeships would consider introducing them if they received more support and guidance.’*

Indeed, among organisations that don’t currently provide apprenticeships, a quarter say they would consider introducing apprenticeships if more support and guidance was offered, with public sector employers most likely to say this. A fifth of SMEs that don’t currently provide apprenticeships say they would consider introducing apprenticeships, as would 32% of larger organisations, if more support and guidance were available. Nearly half of employers that expect to pay the levy but don’t currently provide apprenticeships would consider introducing them if they received more support and guidance.

**Table 8: The age groups organisations have recruited apprentices from in the last two years (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
16-18	66	69	60	50	71	64	66	75	56
19-24	73	72	75	72	65	75	79	76	55
25 and above	27	26	28	29	8	31	33	16	21
Don't know	9	7	15	4	2	11	7	1	23

Base: Employers that provide official apprenticeships: 341; Private sector employers: 232; Public sector: 93; Non-profit organisations: 16; SMEs: 67; Large employers: 274; Expect to pay the levy: Yes: 189; No: 75; Don't know: 77

**Table 9: Proportion of organisations that would consider introducing official apprenticeships if more guidance and support was offered (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
Yes	25	24	35	25	21	32	45	20	22
No	54	57	42	51	60	46	41	63	43
Don't know	20	19	23	24	19	23	14	17	35

Base: All organisations that don't provide official apprenticeships: 547; Private sector employers: 424; Public sector: 78; Non-profit organisations: 45; SMEs: 320; Large employers: 227; Expect to pay the levy: Yes: 103; No: 324; Don't know: 119

# Employer attitudes towards and understanding of the apprenticeship levy

All organisations in the UK with an annual pay bill of £3 million a year or more will have to pay the apprenticeship levy, equivalent to 0.5% of their annual pay bill, from April 2017.

Overall, a third of organisations surveyed say they expect to pay the levy when it is introduced, while 42% don't expect to pay. A quarter of employers don't know whether they will have to pay the levy. Public sector organisations are most likely to report they will have to pay the levy (41%), followed by private sector employers (31%) and those in the non-profit sector (23%). Just 7% of small organisations expect to pay the levy compared with just over half of large employers.

Among employers that expect to pay the levy, 45% oppose the levy compared with 39% that support the principle of the levy.

In all, about a third of organisations support the principle of the levy, with just over a quarter of employers opposing the levy and almost four in ten saying they don't know either way. Non-profit organisations are much more likely to support the apprenticeship levy (43%) than public sector (35%) or private sector organisations (34%). There is little difference in the level of support for the levy between the views of SMEs and larger employers. See Table 11.

However, among organisations that have calculated the cost of the levy, a greater proportion of organisations oppose the levy (47%) than support it (39%). This suggests that once organisations understand the full cost of the levy they are more likely to oppose the levy than support it.

This was reflected among the case study organisations interviewed

*'In all, about a third of organisations support the principle of the levy, with just over a quarter of employers opposing the levy and almost four in ten saying they don't know either way.'*

**Table 10: Proportion of organisations that expect to pay the levy when it is introduced in April 2017 (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Yes	33	31	41	23	7	51	39	45	18
No	42	45	25	63	79	16	44	42	40
Don't know	26	24	34	14	14	33	17	14	42

Base: All: 1,014; Private sector: 737; Public sector: 212; Non-profit sector: 65; SMEs: 416; Large organisations: 598; Expect to pay the levy: Yes: 332; No: 423; Don't know: 259

for the report, with the majority opposed but a significant minority in favour. Overall, whether the employers interviewed support or oppose the levy depended on their existing resourcing workforce development strategies, how disruptive the levy is perceived to be and the extent to which it is envisaged the levy can be meaningfully reclaimed.

The top reason cited by organisations for supporting the apprenticeship levy is that 'it will benefit young people in the UK', with eight out of ten respondents identifying this as a reason for their support. See Table 12.

Reflecting this survey finding, among the case study organisations that support the levy, a common factor is a belief that apprenticeships are an ideal means of helping young people develop the key skills they need and make the transition from education to the workplace. The head of emerging talent at a construction and facilities management firm employing 5,500 people said: *'It is the right thing for industry to focus on providing skilled training for people without creating massive debt. For society it is a good thing. Currently individuals are coming out of university with huge debts and limited skills. It is right that*

*apprenticeships should be available to everybody regardless of age and the sector they work in.'*

He also supports the levy because they will be able to use the levy funding to invest in apprentices aged 25 and above: *'Previously we have really struggled [to bring in the right candidates] because the best candidates have been in the 25 and above category but we have not had funding for them,'* he said.

The next most commonly identified factor behind organisations' support for the levy is that 'it will be a good opportunity to recruit and train new employees', cited

**Table 11: Proportion of organisations that support or oppose the principle of the apprenticeship levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Calculated cost of levy		
							Yes	No	Don't know
Yes	35	34	35	43	35	35	39	40	44
No	27	28	26	21	26	28	47	41	25
Don't know	38	38	39	36	40	37	14	18	30

Base: All: 1,014; Private sector: 737; Public sector: 212; Non-profit sector: 65; SMEs: 416; Large organisations: 598; Expect to pay the levy: Yes: 332; No: 423; Don't know: 259

**Table 12: The reasons that organisations cite for supporting the principle of the apprenticeship levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations
It makes sense to use levy funding to invest in apprenticeship programmes to upskill organisations' existing employees.	49	49	45	56	55	45
It will be a good opportunity to recruit and train new employees.	53	50	61	57	52	54
The Digital Apprenticeship Service will make it easier to access funding.	18	18	16	14	10	23
The system will become less bureaucratic.	10	12	7	4	5	13
It will benefit young people in the UK.	79	78	77	87	78	79
It will have a positive impact on business in our sector.	32	33	26	41	27	35
Other	1	1	1	6	1	1
Don't know	4	0	0	0	2	3

Base: All organisations that support the levy: 352; Private sector employers: 250; Public sector: 74; Non-profit organisations: 28; SMEs: 144; Large employers: 208

by more than half of respondents. A similar proportion of employers (49%) say that 'it makes sense to use levy funding to invest in apprenticeship programmes to upskill organisations' existing employees'.

Just under a third of organisations that support the levy believe it will have a positive impact upon business in their sector. However, only a fifth of employers agree the Digital Apprenticeship Service will make it easier to access funding and just 10% think the system will become less bureaucratic. SMEs are less likely than larger employers to agree that the Digital Apprenticeship Service will make it easier to access funding (10% versus 23%) or that the system will become less bureaucratic (5% versus 13%).

Non-profit organisations (56%) are more likely to agree that 'it makes sense to use levy funding to invest in apprenticeship programmes to upskill organisations' existing employees' than private sector (49%) or public sector employers (45%). Public sector employers are more likely to regard the levy as a good opportunity to recruit and train new employees than those in the private sector (50%).

The HR director of one family-owned manufacturer employing 700 employees – which currently does not provide apprenticeships – sees the levy as an opportunity to invest strategically in workforce skills. *'It will prod the organisation into thinking how it can work. The optimist in me says we are going to have to pay this so we should be utilising this strategically by developing skills where we are not strong.'*

However, even among employers that support the levy, some have concerns and questions about how

it will operate in practice. The HR director of a large engineering company employing 20,000 people across the UK said the organisation is supportive of the principle behind the levy but still has significant concerns. He said: *'It is an employer tax, a National Insurance contribution tax by another name. It is being introduced hastily and not thought through, and the numbers [the 3 million target] appear to be driven from a political imperative around the timing of this Parliament. And the worst bit of all is that when we start asking practical questions as to how it will operate, nobody can give us proper, concrete answers.'*

Indeed, among organisations that oppose the levy, the most commonly identified reason is that 'it is a further tax on business that isn't needed', with more than three-quarters saying that this is the case. Half of respondents opposing the levy say this is because 'the system will be too bureaucratic', while just over four in ten agree that 'many organisations don't need to train new staff through an apprenticeship programme'. A quarter of respondents opposing the levy cite the belief that 'very few businesses will use the new scheme'.

Small employers are more likely than larger ones to agree that 'many organisations do not have a need to train new staff through an apprenticeship programme' and agree that the existing employees of many organisations are fully skilled so don't need to invest in apprenticeships.

From a sector perspective, non-profit employers are most likely to believe the system will be too bureaucratic, with three-quarters agreeing that this is the case. Respondents from this sector

*'Just under a third of organisations that support the levy believe it will have a positive impact upon business in their sector.'*



are also more likely to think that ‘many organisations do not have a need to train new staff through an apprenticeship programme’.

Private sector employers are most likely to oppose the levy on the basis that it is a tax on business, with almost eight in ten agreeing with this.

Most of the case study organisations interviewed as part of this research oppose the principle of the levy for a range of reasons. The head of education and skills at a large international electricity and gas company – which recruits 100–200 apprentices every year in the UK on three- to four-year apprenticeships between Levels 3 and 5 and has an impressive 98% completion rate – commented:

*‘It [the levy] will impose a significant cost on business and will create deadweight activity as all organisations try to recover the cost of the levy. Put simply, the*

*levy is a tax – a way of recycling employers’ money. Even after reclaiming allowable costs through the voucher system, the levy is going to create a further cost burden of around £1 million a year for our business, and it could be higher!’* However, despite these misgivings, he believes that *‘it is with us now and we should play our part to help make it work effectively’.*

Another factor influencing employers that oppose the levy is that it is being introduced on the back of other recent increases in employment costs, for example as a result of pension auto-enrolment and the National Living Wage. One HR director for a medium-sized food manufacturer in Yorkshire said the company opposes the levy in principle. *‘Part of me believes that the Government is passing the buck on to employers in terms of pensions for the future and the National Living Wage. These things are hitting our business quite hard. It means we*

*won’t be investing in more training – the training budget will go down and down.’*

Both the county councils interviewed oppose the levy because of the high cost it imposes well above their need or ability to invest further in apprenticeships. The director of HR and organisational development at one of the councils explained that the council did not support the levy in its current form *‘because it is a one-size-fits-all solution that will not solve the problem [increase investment in skills]. We are already investing £3 million in apprenticeships over five years and this will detract from that because some of the money for the apprenticeship levy will come from my training budget. I am looking to take another 30% out of my business over the next two years and I suspect that my training budget will be the casualty. It will make it harder for us to do training.’*

**Table 13: The reasons that organisations cite for opposing the principle of the apprenticeship levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations
The system will still be too bureaucratic.	50	46	60	77	46	53
Many organisations do not have a need to train new staff through an apprenticeship programme.	42	41	42	51	51	36
Our business has little knowledge about apprenticeship programmes and training providers.	15	16	13	10	16	14
Existing employees of many organisations are fully skilled so don’t need to invest in apprenticeships.	16	17	11	14	21	13
It is a further tax on business that isn’t needed.	77	79	70	70	77	76
Very few businesses will use the new scheme.	26	28	23	18	29	24
Other	8	7	13	10	9	7
Don’t know	3	3	2	0	3	2

Base: All organisations that support the levy: 275; Private sector employers: 207; Public sector: 54; Non-profit organisations: 14; SMEs: 107; Large employers: 168



# The likely impact of the apprenticeship levy

The survey does suggest that the levy will help meet the Government's objective of driving up the overall number of apprenticeships offered by employers.

However, whether enough employers will respond to the levy by increasing the number of apprenticeships they offer to hit the Government's target of 3 million apprenticeship starts by 2020 is debatable.

The proportion of organisations that expect to use levy funding to develop an apprenticeship programme is just under one in ten, while a further one in five respondents said their organisation would use levy funding to enhance their existing programme. Reflecting the high level of uncertainty about the levy, almost four in ten say they don't know, while 28% of employers don't

expect to develop or expand an apprenticeship programme. See Table 14.

Perhaps not surprisingly, smaller employers are less likely than larger employers to report they expect to use apprenticeship funding to develop an apprenticeship programme and much less likely to say they plan to use levy funding to enhance an existing apprenticeship programme. Just 15% of SMEs plan to use levy funding to either develop an apprenticeship programme (8%) or enhance an existing programme (7%). In contrast, over a third of large employers expect to use levy funding to either develop an apprenticeship programme (10%) or enhance an existing programme (27%).

Non-profit organisations are most likely to report they expect to use the levy funding to develop an

apprenticeship programme, while public sector organisations are most likely to say they will enhance their existing programme.

The survey suggests the Government will have to think particularly carefully about how to encourage non-levy-paying organisations, particularly micro and small businesses, to access levy funding via the Digital Apprenticeship Service if it wants to increase the number of apprenticeships offered by these sorts of employers. Only a small proportion of employers that don't expect to pay the levy plan to use levy funding to invest in apprenticeships. Just 6% of employers that don't expect to pay the levy say they will use the levy to develop an apprenticeship programme, while 9% report they will enhance an existing programme. In all, 45% of small employers say they don't expect

**Table 14: The proportion of organisations that expect to use apprenticeship levy funding to develop or expand an apprenticeship programme (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Expect to pay levy		
							Yes	No	Don't know
Yes - we will develop one	9	9	8	13	8	10	16	6	10
Yes - we will enhance our existing programme	18	18	20	14	7	27	38	9	10
No	28	30	17	32	45	16	17	46	11
Don't know	39	38	45	32	34	43	27	30	68
Not applicable - our organisation does not have any operations in England	6	4	10	9	7	4	2	9	6

Base: All: 1,014; Private sector: 737; Public sector: 212; Non-profit sector: 65; SMEs: 416; Large organisations: 598; Expect to pay the levy: Yes: 332; No: 423; Don't know: 259

*‘Overall, a fifth of respondents agree the levy will increase the number of apprenticeships their organisation employs or its overall investment in apprenticeships.’*

to use levy funding to develop or enhance an apprenticeship programme, while 30% say they don't know.

Among organisations that expect to pay the levy, 16% plan to develop an apprenticeship programme, while 38% plan to enhance existing apprenticeship programmes and 27% don't know.

Overall, a fifth of respondents agree the levy will increase the number of apprenticeships their organisation employs or its overall investment in apprenticeships. A further 8% of employers say the levy is likely to result in their organisation introducing an apprenticeship programme. However, more than four in ten respondents say the levy will make little or no difference to their organisation's investment in apprenticeships and 26% don't know. See Table 15.

Not surprisingly, public sector organisations which are being set targets by government over how many apprenticeships they need to take on are most likely to believe the

levy will result in them increasing the number of apprenticeships they employ and increasing their overall level of investment in apprenticeships. Almost a third of public sector organisations agree this will be the case.

Overall, a quarter of organisations agree that access to apprenticeship levy funding will mean they will increase the number of apprenticeships they offer. See Table 16. However, almost half say no and a further three in ten say they don't know. A third of large organisations report they expect access to levy funding will mean they increase the number of apprenticeships they offer, with a further 31% saying no and 36% not knowing.

In contrast, just over one in ten (13%) SMEs report they expect to increase the amount of apprenticeships that they offer as a result of the levy, with two-thirds saying no and a fifth not knowing.

The survey suggests that the Government will have to provide additional support and

**Table 15: Proportion of respondents that agree with the below statements on the impact of the levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Encourage your organisation to increase its number of/ investment in apprentices	21	18	32	16	11	28	35	13	13
Encourage your organisation to decrease its number of/ investment in apprentices	4	5	2	3	3	5	1	12	1
Encourage your organisation to introduce an apprenticeship programme	8	8	6	10	8	8	13	7	3
Make little or no difference	42	45	30	49	60	29	38	53	36
Don't know	26	24	31	22	18	31	12	15	47

Base: All employers: 897; Private sector: 659; Public sector: 182; Non-profit sector: 57; SMEs: 372; Large organisations: 525; Support or oppose the levy: Yes: 322; No: 251; Don't know: 324

**Table 16: Proportion of organisations that agree access to apprenticeship levy funding will increase the number of apprenticeships that they offer (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Yes	25	25	28	19	13	33	42	18	14
No	45	47	37	51	66	31	31	72	39
Don't know	30	29	35	30	21	36	27	10	47

Base: All employers: 956; Private sector: 705; Public sector: 192; Non-profit sector: 59; SMEs: 386; Large organisations: 570; Support or oppose the levy: Yes: 335; No: 261; Don't know: 360

**Table 17: Proportion of organisations that agree access to apprenticeship levy funding will increase the number of apprenticeships that they offer (%)**

	Offer official apprenticeships			
	All	Yes	No	Don't know
Yes	25	37	16	15
No	45	33	58	12
Don't know	30	30	26	73

Base: All employers that offer official apprenticeships: Yes: 409; No: 502; Don't know: 45

encouragement if it wants to persuade more organisations that don't currently provide apprenticeships to use levy funding to invest in apprenticeship programmes.

Only a relatively small minority of organisations (16%) that don't currently provide apprenticeships expect to use levy funding to increase the number of apprenticeships they offer. In contrast, almost four in ten organisations that already offer apprenticeships expect to access levy funding to increase the number of apprenticeships they offer. See Table 17.

In all, a third (31%) of employers that expect to pay the levy have calculated how much the levy will cost them each year, with one in three saying no and four in ten reporting that they don't know. There is little difference

in the proportion of small and large employers that have already calculated how much the levy will cost them. See Table 18.

Non-profit organisations are by some way most likely to have already calculated how much the levy will cost them, with 63% saying this is the case compared with 28% of public sector organisations and 33% of those in the private sector.

The survey shows that employers that have calculated the cost of the levy are significantly more likely to oppose rather than support the principle of the levy. This suggests that as more organisations understand how much the levy will cost them, the proportion that oppose the levy will increase.

In all, just 14% of organisations believe that the levy will have the effect of increasing the amount

of training they offer in terms of number of staff receiving training, while 9% believe paying the levy will actually reduce the overall number of staff receiving training. However, more than half think the levy will make no difference and a quarter don't know. See Table 19.

There is little difference in the views of private and public sector organisations on the impact of the levy on the amount of training offered; however, just 3% of non-profit organisations believe the levy will have the effect of increasing the amount of training offered to staff overall, with 6% saying the opposite.

Opinions on the impact of the levy are fairly polarised between organisations that support the principle of the levy and those that oppose it. In all, 26% of employers that oppose the levy believe it will have the effect of increasing

*‘Overall, most employers agree that the levy will have no or little impact on the quality of training that they provide to staff, with 55% saying this is the case.’*

the amount of training overall their organisation provides in terms of number of staff receiving training, while just 5% of this cohort believe the levy will have the opposite effect. In contrast, 21% of organisations that oppose the levy think it will reduce the overall amount of staff that receive training, with only 4% saying it will increase training.

However, by far the most common response among levy supporters and those that oppose it is that the levy will make little difference to the number of staff that receive training, with 57% of organisations that support the levy saying this as well as 62% of those that oppose the levy.

Overall, most employers agree that the levy will have no or little impact on the quality of training that they provide to staff, with 55% saying this is the case. A total of 15% of employers believe the levy will increase the quality of training offered to employees, while 6% think it will have the opposite effect and a further quarter say they don't know. See Table 20.

SMEs (10%) are less likely than larger employers (18%) to believe the levy will increase the quality of training provided to staff; however, larger employers (8%) are more likely to think the levy will have the effect of reducing training quality than smaller employers (4%).

**Table 18: The proportion of organisations that have calculated how much the apprenticeship levy will cost them each year (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Yes	31	31	27	60	34	31	31	40	20
No	30	30	28	33	54	28	29	33	26
Don't know	39	39	45	7	12	41	41	27	55

Base: Organisations that expect to pay the levy: 309; Private sector: 211; Public sector: 83; Non-profit sector: 65; SMEs: 416; Large organisations: 598; Support or oppose the levy: Yes: 332; No: 423; Don't know: 259

**Table 19: Proportion of respondents that agree with the below statements on the impact of the levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Increase the amount of training your organisation offers overall in terms of number of staff receiving training	14	15	14	3	9	17	26	4	9
Reduce the amount of training your organisation offers overall in terms of number of staff receiving training	9	9	10	6	6	12	5	21	5
Make little or no difference	53	54	47	67	69	43	57	62	42
Don't know	24	22	29	24	16	29	10	11	45

Base: All employers: 953; Private sector: 702; Public sector: 192; Non-profit sector: 59; SMEs: 386; Large organisations: 587; Support or oppose the levy: Yes: 335; No: 261; Don't know: 357

**Table 20: Proportion of respondents that agree with the below statements on the impact of the levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Increase the quality of training overall your organisation offers to staff	15	15	16	10	10	18	30	3	9
Decrease the quality of training overall your organisation offers to staff	6	6	7	5	4	8	2	16	2
Make little or no difference	55	55	49	62	70	45	57	69	43
Don't know	24	22	28	23	16	29	10	11	45

Base: All employers: 953; Private sector: 702; Public sector: 192; Non-profit sector: 59; SMEs: 386; Large organisations: 587; Support or oppose the levy: Yes: 335; No: 261; Don't know: 357

For most SMEs the levy will make little or no difference to the quality of training offered to employees, with seven in ten saying this is the case and a further 16% reporting they don't know if the levy will have an impact. Almost half of large employers anticipate little effect on quality from the levy and a further three in ten don't know.

However, there is a very significant contrast in views on the impact of the levy on the quality of training between those employers that oppose the levy and those that support it. In all, 30% of organisations that support the levy believe it will increase the overall quality of training, with just 2% thinking it will decrease it and nearly six in ten saying it will have no effect. In contrast, among organisations that oppose the levy, 16% believe the levy will have the effect of decreasing the quality of training offered to staff, with 3% thinking the opposite and nearly seven in ten saying it will have no impact on the quality of training offered to staff.

A key concern about the negative impact of the levy on the quality of training highlighted by a number of employers interviewed

for this report was that it risked organisations increasing the number of apprenticeships they provide without having the capacity to manage and mentor them.

The HR and organisational development director of a county council explained: *'You need to manage apprentices carefully; you need some pastoral care around them. In some organisations you will find youngsters going on badly run, badly set up apprenticeships and it could be a dreadful experience.'*

This same point was made by the HR manager of a family-owned global manufacturer that employs 700 people in the UK: *'It's not just a case of getting an apprentice and putting them in a team; the manager needs some support, the person needs a proper induction, there needs to be some formal support and network around this. There are going to be some young people mixed in with managers who have not managed people this young before so they need to be educated. I can see that probably some managers will ask "what is the minimum we can get away with?"'*

One of the concerns highlighted in many of the case study organisations interviewed for this report was that paying the levy would result in investment being taken away from other non-apprenticeship forms of workforce training and development and this was also reflected in the survey results. See Table 22. In all, 15% of employers believe the levy would have the effect of reducing investment in other forms of workforce training, with 7% of respondents saying the opposite. A further 53% don't believe the levy will make much difference in this respect and a quarter don't know.

Public sector organisations (18%) are most likely to believe the levy will lead to less investment in other forms of workforce development, followed by those in the private sector (14%) and non-profit organisations (11%).

Again, there is a big difference in views between organisations that support the levy and those that don't. Almost three in ten employers that oppose the levy believe paying the levy will mean there will be less money available on other non-apprenticeship training and development

**Table 21: Proportion of respondents that agree with the below statements on the impact of the levy (%)**

	All	Private	Public	Not-for-profit	SMEs	Large organisations	Support or oppose the levy		
							Support	Oppose	Don't know
Mean your organisation reduces investment in other areas of workforce training	15	14	18	11	10	19	12	27	9
Mean your organisation increases investment in other areas of workforce development	7	8	8	1	3	11	15	4	3
Make little or no difference	53	55	42	66	71	41	59	57	45
Don't know	25	23	32	22	17	30	14	12	44

Base: All employers: 953; Private sector: 702; Public sector: 192; Non-profit sector: 59; SMEs: 386; Large organisations: 587; Support or oppose the levy: Yes: 335; No: 261; Don't know: 357

programmes and activity, with 4% saying the opposite. In contrast, 12% of organisations that support the levy think the levy will reduce investment in other areas of workforce development, with 15% thinking the levy will have the opposite effect.

Organisations that have calculated how much the apprenticeship levy will cost them are much more likely to say this will lead them to reduce other forms of workforce training and development. This is likely to include leadership and management training, as in most organisations where this is provided such development tends to be short, targeted bursts of learning and development activity with follow-up coaching and on-the-

job learning over a period of time rather than the type of formal on- and off-the-job training over a year or more that characterises apprenticeships. Of course some organisations will invest in management apprenticeships as a means of using levy funding to develop management capability; however, the relatively high cost of such apprenticeships – particularly at Level 3 and above – will mean that these are likely to be offered to relatively small cohorts of staff in relation to the size of the workforce. Views on the value of management apprenticeships were mixed among the employers interviewed for this report. Some employers believe a level of management development should be embedded in any high-quality apprenticeships regardless

of discipline or occupation and questioned the need for stand-alone management apprenticeships. However, there was some support for management apprenticeships among a few employers, who saw them as a good means of providing progression and accreditation for staff on a management pathway.

There is no doubt from the survey findings that the levy will have an impact on employer behaviour among organisations that will have to pay the levy. However, whether this will drive positive overall outcomes in terms of investment in skills and training is highly questionable. On the upside, the levy will encourage a proportion of employers to invest more in apprenticeships and increase the

**Table 22: Proportion of respondents that agree with the below statements on the impact of the levy, which have calculated the cost of the levy (%)**

	Organisation has calculated the cost of the levy			
	All	Yes	No	Don't know
Mean your organisation reduces investment in other areas of workforce training	15	36	26	22
Mean your organisation increases investment in other areas of workforce development	7	17	11	9
Make little or no difference	53	38	52	42
Don't know	25	9	11	28

Base: All employers which have calculated the cost of the levy: 335; Yes: 100; No: 97; Don't know: 124.



number of apprenticeships they offer. However, on the downside, a very significant proportion of levy-paying employers believe they will have to reduce wider workforce training and development activity. In addition, the survey and employer interviews also show that many organisations are planning to adapt existing training courses and programmes so they can be accredited as apprenticeships. As one senior manager commented, *'If we can call two flies walking up a wall an apprenticeship, we will.'*

The Recruitment and Employment Confederation is opposed to the apprenticeship levy because apprenticeships are not usually an appropriate vehicle for developing the temporary agency workforce. Kate Shoosmith, the Recruitment and Employment Confederation (REC) Head of Policy and Public Affairs, commented: *'We have got to do something about the whole mechanism of it [the levy] because saying that you have to be trained x number of days off-the-job, as it is mandated, is an anti-employer-responsive system. There are big concerns around the future of our Trailblazer for recruitment because some of the standards may not be fit for purpose in the new levy world. As a policy, everything we talk about, how we improve productivity, how we are going to improve our education and standards, this is the way not to do it.'*

The British Retail Consortium, which is the leading trade association for the UK retail sector and represents about 70% of the retail industry by turnover, has significant concerns about the apprenticeship levy.

Tom Ironside, Business and Regulation Director at the British Retail Consortium, said: *'We totally understand the underpinning concept of the levy; however, we see some very significant challenges that have to be addressed if the levy is to have a positive effect on the retail industry.'*

Ironside said that it was far from clear how much scope there is for retail employers to significantly increase their investment in apprenticeships under the apprenticeship levy as currently framed.

He said: *'There is an awful lot of in-house training delivered through effective internal training academies, which retailers invest in very heavily. The big questions for us is the extent to which this is really compatible with the definition and requirements for apprenticeships.'*

About a fifth of employers agree the levy would either encourage them to start recruiting apprentices or recruit more apprentices so they can reclaim from the apprenticeship levy fund or develop an apprenticeship programme to build key skills. See Table 23. Just under one in five organisations say the levy would encourage them to increase investment in apprenticeships for current employees so they can reclaim from the apprenticeship levy fund.

*'The levy will encourage a proportion of employers to invest more in apprenticeships and increase the number of apprenticeships they offer.'*

**Table 23: Employers' views on the impact of the levy on workforce investment, training and apprenticeships (%)**

	All	Support/oppose apprenticeship levy			Calculated the cost of the levy		
		Yes	No	Don't know	Yes	No	Don't know
It would cause us to reduce investment in other areas of workforce development.	27	16	47	18	36	37	28
It would encourage us to start recruiting apprentices or recruit more apprentices so we can reclaim from the apprenticeship levy fund.	22	33	14	14	39	23	21
It would encourage us to develop an apprenticeship programme to help build key skills.	19	31	9	10	34	22	20
We will write off the cost of the levy as a tax.	18	16	26	9	18	26	22
It would encourage us to increase investment in apprenticeships for current employees so we can reclaim from the apprenticeship levy fund.	17	24	13	9	32	21	22
It would encourage us to adapt existing training courses so that they become accredited apprenticeship programmes.	14	21	11	8	29	16	12
Other	3	3	3	1	3	1	2
None of these - it would not have any effect	14	15	13	15	8	10	6
Don't know	18	11	10	41	2	7	3

Base: All employers: 554; Support the levy: 236; Oppose the levy: 138; Don't know: 73; Calculated the cost of the levy: Yes: 73; No: 58; Don't know: 98

The HR director of a large engineering company employing over 20,000 people across the UK said that in order to maximise its ability to reclaim the cost of the levy, it is going to seek to convert existing new entrant training schemes into apprenticeships to help it boost its overall investment in apprenticeships from 200 to 800 per year. He said: *'We will be looking at all areas where we might need people and possibly broaden the range of occupations that we develop apprenticeships for.'*

This was a common theme among the case study organisations, which raises concerns that the levy will lead employers to think about how best to recover the cost of the levy and not how best to invest in skills.

In addition, over a quarter of organisations agree the levy would lead them to reduce investment in other areas of

workforce development, while 14% of employers would look to adapt existing training courses so they can be accredited as apprenticeships.

A further fifth of organisations will simply seek to write off the cost of the levy as a tax.

There is again a considerable contrast in views between organisations that support the principle of the levy and those that oppose it. For example, just 16% of organisations that support the levy believe paying the levy will mean they will have to reduce investment in other areas of workforce development, compared with 47% of those that oppose the levy. Likewise, while a third of levy-supporting organisations agree the levy will encourage them to start recruiting more apprentices or recruit more apprentices so they can reclaim from the levy fund, just 14% of

organisations that oppose the levy say the levy will have this effect.

The survey suggests that among many organisations that expect to pay the levy, there is high expectation that the levy will mean they will have to reduce investment in wider workforce development to compensate. Almost four in ten organisations that have already calculated the cost of the levy and those that expect to pay the levy but have not yet calculated how much, agree the levy will cause them to reduce investment in other areas of workforce development.

Employers that have calculated the cost of the levy are significantly more likely to say the levy will cause them to start recruiting apprentices or recruit more apprentices than organisations that expect to pay the levy but have not yet calculated how much this will cost them.



Many organisations that know the cost of the levy are also looking to create more apprenticeships for existing employees as a way of recovering the cost. Three in ten organisations that have calculated the cost of the levy agree this is the case, compared with just 16% of organisations that have not calculated the cost of the levy.

The survey suggests many employers don't yet understand the size of the levy contribution that they will have to make, with organisations that have not yet calculated how much the levy will cost them much more likely to say they will write the cost of the levy off as a tax. A quarter of organisations that have not yet calculated how much the levy will cost say they will write it off as a tax, compared with just 18% of organisations that have made that calculation.

The Government has consistently stressed that it wants to increase the quality of apprenticeships, as well as the quantity, in order to achieve parity of esteem

between apprenticeships and higher education, with the stated aspiration that almost all young people will take one option or the other at 18.

However, currently six in ten apprenticeships generated each year are at Level 2, equivalent to just five passes at GCSE. Unless more organisations start providing more Level 3 and above apprenticeships, apprenticeships will not be regarded as a meaningful alternative to university and the apprenticeship route will continue to be regarded as a second-class option for non-academic students.

Unfortunately the survey findings suggest that the apprenticeship levy is likely to reinforce the current status quo, with employers that know the cost of the levy twice as likely to increase the quantity of Level 2 apprenticeships they provide and reduce the proportion of Level 3 apprenticeships than vice versa. Among employers that have calculated the cost

of the levy, over a fifth say they will increase the proportion of Level 2 apprenticeships and decrease the proportion of Level 3 apprenticeships, while just 11% say the levy will have the opposite effect. See Table 24

One of the employers interviewed articulated their concerns that the levy will generate more Level 2 apprenticeships: *'If you are in an organisation that is a survivor, you will reduce the amount of training you provide because of the tax obligations you face [the apprenticeship levy]. What you will get are a lot of training programmes that get branded as apprenticeships, with the minimum duration of one year. It could encourage less scrupulous employers to take people on regardless of age and to train them at a low level via a low-quality apprenticeship to recover the cost. There may be moves to pile them high and sell them cheap – an approach that gives the title of apprenticeship a bad name.'*

**Table 24: Employers' views on whether the levy will lead them to increase the proportion of Level 2 apprenticeships they offer and decrease the proportion of Level 3 and above apprenticeships, or vice versa (%)**

	All	Support/oppose apprenticeship levy			Calculated the cost of the levy		
		Yes	No	Don't know	Yes	No	Don't know
We will increase the overall proportion of Level 2 apprenticeships and decrease the overall proportion of Level 3 and above apprenticeships.	7	10	5	6	21	15	4
We will increase the overall proportion of Level 3 and above apprenticeships and decrease the overall proportion of Level 2 apprenticeships.	5	8	5	2	11	15	3
There will be no change in the proportion of Level 2 apprenticeships versus Level 3 and above apprenticeships.	49	46	64	35	48	43	37
Don't know	39	37	27	57	21	27	56

Base: All employers: 554; Support the levy: 236; Oppose the levy: 138; Don't know: 73; Calculated the cost of the levy: Yes: 73; No: 58; Don't know: 98

# Conclusions and recommendations

The purpose of this research is to consider the likely impact of the apprenticeship levy on the quality and quantity of apprenticeships and just as importantly on broader investment in workforce skills development and training. It is also designed to assess the levy in terms of its ability to achieve the public policy objectives set out for it by government.

In its original consultation on the apprenticeship levy, the Government made clear that it believes the apprenticeship levy can help address some major obstacles to UK competitiveness. These include increasing both the quality and quantity of apprenticeships, boosting the level of employer investment in skills, and helping to close the productivity gap.

Finally, the Government believes the levy will enable employers to take greater ownership of skills. The foreword to the government consultation on the levy states: *'Nobody understands the skills employers need better than the employers themselves, so they must be placed in the driving seat.'*

This research provides some early indications of the likelihood that the levy will achieve these objectives and makes some recommendations based on the evidence.

## **Policy objective: Increase the quantity of apprenticeships**

The findings from the two employer surveys and the interviews with HR leaders suggest that the introduction of

the apprenticeship levy will drive an increase in the provision of apprenticeships among employers, a central aim of the policy.

Overall, a quarter of employers report they expect the levy to lead them to increase the number of apprenticeships they offer. Just under one in ten employers say they will develop an apprenticeship programme as a result of the levy, while a further 18% say they will enhance their existing programmes. This increases significantly among employers that expect to pay the levy, with 16% of this cohort reporting they expect to use levy funding to develop an apprenticeship programme and nearly four in ten saying they will enhance an existing programme.

However, a large majority of small and medium-sized non-levy-paying employers have no plans to use levy funding to develop apprenticeship programmes. Only 8% of organisations with 250 employees or fewer expect to use levy funding to develop an apprenticeship programme, while just 7% say they will use levy funding to enhance an existing programme.

Overall these findings suggest that while there will be a significant increase in the proportion of employers that invest in apprenticeships among those organisations that have to pay the levy, a majority of non-levy-paying organisations will fail to utilise levy funding. This is perhaps not surprising given that even fully subsidised apprenticeships have previously failed to create a step-

change in employer provision of apprenticeships.

To address this, the CIPD believes there needs to be a much greater focus on providing support at a local level for small businesses to highlight the benefits of investing in skills, particularly in apprenticeships, and to hand-hold them through the process. In France a significant proportion of apprenticeship levy funding goes to the regions to help them to work with smaller employers and promote the provision of apprenticeships. The Government should consider using a proportion of funding generated by the levy to enable Business Growth Hubs to support and encourage SMEs to utilise levy funding to develop apprenticeships.

## **Recommendation**

A proportion of apprenticeship levy funding should be allocated to Local Enterprise Partnerships/Business Growth Hubs to enable them to encourage and support smaller non-levy-paying employers to use levy funding to invest in apprenticeships.

## **Policy objective: Increase the quality of apprenticeships**

A key objective of the Government's policy on apprenticeships is to raise the overall quality of provision as well as increase numbers; however, the survey suggests that while the levy will drive the creation of more apprenticeships, it could have the opposite effect on the overall quality of provision. The Government has stated that it wants parity of esteem between

apprenticeships and higher education, with the aspiration that almost all young people will take either one option or the other at 18. However, currently six in ten apprenticeships generated each year are at Level 2, equivalent to just five passes at GCSE. The findings from this research suggest that, if anything, the levy will have the effect of increasing the overall proportion of Level 2 apprenticeships at the expense of Level 3 and above apprenticeships. Among employers that have calculated the cost of the levy to their organisation, 21% agree they will increase the overall proportion of Level 2 apprenticeships and decrease the overall proportion of Level 3 and above apprenticeships. This compares with just 11% of employers that agree they will increase the proportion of Level 3 and above apprenticeships and decrease the proportion of Level 2 apprenticeships they offer.

As one of the employers interviewed commented, *'What you will get are a lot of training programmes that get branded as apprenticeships with the minimum duration of one year. There may be moves to pile them [apprenticeships] high and sell them cheap, an approach that gives the title of apprenticeship a bad name.'*

Of course, Level 2 apprenticeships have an important role to play in providing low-level accredited training, which can also be used as a stepping stone into higher-level apprenticeships. Nonetheless, unless there is a rebalancing over time, with the education and skills system generating proportionally more Level 3 and above apprenticeships and fewer Level 2 apprenticeships, it is hard to see how parity of esteem will be achieved. The summer of 2015 saw record numbers of young people going to university, with only about

8% of young people opting for an apprenticeship at 18. Unless there are more advanced and higher-level apprenticeships available to young people, this picture is unlikely to change.

In response, the CIPD has suggested that apprenticeship levy funding could be weighted to encourage more employers to invest in Level 3 and above apprenticeships. This would not mean that employers could not use levy funding for Level 2 apprenticeships but would require that an agreed proportion of levy funding that organisations are eligible for is reserved for Level 3 and above apprenticeships.

There also needs to be more strategic partnerships between higher and further education providers and employers at a local level to act as catalysts for the creation of more advanced and higher-level apprenticeships.

In addition, there needs to be a much stronger promotion of apprenticeships at school through better career advice and guidance so young people are much more aware of the benefits of apprenticeships and that they can provide a meaningful alternative to university.

Education and school leaders are only likely to ensure this happens if the OFSTED inspection regime is amended to place more emphasis on destination measures and transitions into employment through routes such as apprenticeships as well as academic achievement.

Finally, the CIPD believes that, following the introduction of the National Living Wage rate of £7.20 for workers aged over 25, there is a strong case for a review of the National Minimum Wage for

apprentices, which currently stands at £3.30 an hour for apprentices aged under 19 or in the first year of their apprenticeship.

There is a case for apprentices to be paid at a discounted rate while they develop the skills required to do the job, but there is a risk that the current very low wage floor might encourage some employers to take on an apprentice simply because they are a cheap alternative to an older worker. The very low legal minimum wage for apprentices also risks reinforcing the perception that apprenticeships are a low-quality form of training and employment and deter young people from considering them as an alternative to university.

### Recommendations

- Weight access to levy funding to encourage employers to place a greater emphasis on developing Level 3 and above apprenticeships.
- Highlight best practice examples of strategic partnerships between education providers and employers and encourage Local Enterprise Partnerships and Business Growth Hubs to support and develop these.
- Ensure there are minimum standards around the quality of career advice and guidance for young people while they are at school to ensure they have better information about the value of vocational routes into employment such as apprenticeships.
- Amend the OFSTED inspection regime to ensure schools are not just assessed on simple measures of academic achievement and university entrances but also on broader measures on transitions into employment and labour market outcomes for students, including apprenticeships.

- Review the National Minimum Wage for apprentices, which currently stands at £3.30 an hour for apprentices aged under 19 or in the first year of their apprenticeship.

**Policy objective: Support investment in skills and put employers in the driving seat**

As well as the objective of increasing the quality and quantity of apprenticeships, the Government believes the apprenticeship levy will help address a longstanding decline in employer investment in skills. The government consultation document on the levy highlighted evidence suggesting employer investment in training has been in a general decline for the past 20 years and set out the role of apprenticeships and the levy in helping to address this.

However, evidence from the employer surveys and interviews in this report suggest the apprenticeship levy is highly unlikely to have this overall effect and could have a negative impact on skills investment among a significant proportion of employers.

In all, just 14% of employers believe the levy will have the effect of increasing the amount of training their organisation offers in terms of the number of staff receiving training, while 9% believe the levy will have the opposite effect. However, more than half of respondents believe the levy will make little difference, while a quarter don't know.

Employers that expect to pay the levy are split in their views on the impact of the levy on training and wider skills development depending on whether they support or oppose the principle of the levy. Among organisations

that support the levy, a quarter think the levy will increase the number of staff receiving training, with 5% saying the opposite. This perspective is reversed among employers that oppose the levy, with a fifth believing the levy will reduce the amount of training they offer staff, and 4% thinking the opposite. A similar picture emerges when employers are asked about the impact of the levy on the quality of training.

The interviews with employers suggest that this difference in views depends on the extent to which organisations believe they can reclaim levy funding and usefully invest in apprenticeships on a significantly larger scale.

Another commonly cited concern among the employers interviewed that oppose the levy is that it will have the effect of reducing wider investment in workforce training and development activity. In all, 15% of respondents say the levy will mean they reduce investment in other forms of workforce training, with just 7% saying it will have the opposite effect. However, among organisations that have calculated how much the apprenticeship levy will cost them, nearly four in ten employers say this will lead them to reduce other forms of workforce training and development, compared with 17% reporting the opposite. Such an outcome is likely to mean that for many employers the levy will have the exact opposite effect to its original purpose.

An additional unintended negative consequence of the apprenticeship levy highlighted by the research is that it will encourage employers to look to simply rebadge existing training courses so that they can be accredited as apprenticeships and enable the organisation to draw down levy funding. Almost a

third of employers that expect to pay the levy and have calculated the cost to their organisation report the levy will encourage them to adapt existing training courses so they become accredited apprenticeship programmes. By any measure this is not productive activity and, as noted above, could further devalue the apprenticeship brand.

Employers interviewed for this report highlight the importance of being able to invest in skills in a way to suit their business, with the organisations that oppose the levy regarding this as a rigid government-imposed one-size-fits-all approach that is at odds with the flexible skills development requirements they face. The levy will encourage employers to focus more on how they can recover the cost of the levy to the organisation rather than how to best invest in their people's skills. As one HR director interviewed for this report commented: *'To be asked to pay a levy which can be only used for one type of qualification is extremely restrictive and in a lot of circumstances it could encourage the wrong behaviours.'*

To address these concerns, the CIPD believes there is strong case for the apprenticeship levy to be reframed as a training levy, which would allow much greater flexibility in the type of training activities employers can draw down funding for and ensure the system is genuinely demand-led. This would prevent employers having to make a choice between investing in apprenticeships and other forms of training and development. It would also stop employers gaming the system and effectively simply rebadging existing training programmes as apprenticeships, while still generating funding for employer investment in apprenticeships.

Finally, the survey highlights the lack of awareness among many employers of the forthcoming levy and the likely implication for their organisation. A quarter of employers don't know if they will have to pay the levy when it is introduced in April 2017, while just a third of those organisations that do expect to pay the levy have calculated how much the levy will cost them. This suggests Government will need to significantly enhance its communication and marketing activity for the levy to ensure that employers have the information they need well in advance of implementation so they can ensure their budgeting and workforce development activities and strategies take account of the policy change.

It is also crucial that the funding arrangements for the devolved administrations in Scotland, Wales and Northern Ireland are confirmed as soon as possible so employers in these parts of the UK know what the arrangements will be for them to reclaim and utilise their levy funding.

The apprenticeship levy is a key element in the Government's productivity plan. Announcing the introduction of the levy, the Skills Minister Nick Boles stated: *'The apprenticeship levy will ensure that businesses invest in skills and training, and will act as a much needed shot in the arm for the country's productivity.'* The CIPD is a keen advocate of apprenticeships and supports the Government's ambition of encouraging more employers to invest in them to increase their numbers and quality. However, the evidence in this report suggests an apprenticeship levy as currently framed is the wrong way to achieve the Government's policy objectives and could actually prove

counterproductive. Evaluations of training levy systems introduced in other countries suggest that employer buy-in is essential if they are to be effective. Employers need to be consulted at an early stage and involved in the design, implementation and evaluation of such funds for them to have positive outcomes. There is a good opportunity now for the Government to pause to consult more fully with employers to ensure the levy is more flexible and genuinely puts employers in the driving seat.

### Recommendations

- Delay the introduction of the apprenticeship levy to consult more meaningfully with employers over the design of the levy to address concerns and ensure it delivers on its policy objectives.
- Reframe the apprenticeship levy as a training levy to increase flexibility and ensure the system is genuinely employer-owned and demand-led.
- Ensure that there is an effective communication and marketing strategy well ahead of the introduction of the levy to ensure employers understand its impact on them and can plan their workforce training and development and how best to utilise levy funding through the Digital Apprenticeship Service.
- Provide urgent clarity over the funding arrangements for the devolved administrations in Scotland, Wales and Northern Ireland.



# Appendix: Employer case studies

## A large international electricity and gas company which employs nearly 9,000 people in the UK

### Background

The company recruits between 100 and 200 apprentices every year on three- to four-year apprenticeships between Levels 3 and 5 and has an impressive 98% completion rate. Its apprenticeship programme has been developed as part of a strategic workforce plan which anticipates the skills requirements of the business ten years ahead.

This has led to the company investing £16 million over the last five years in its training academy, which provides world-class training facilities that have been classified as outstanding by OFSTED.

*'We are deadly serious about training and development of our workforce. We invest about £10 million every year in workforce training and development,'* said the organisation's head of education and skills.

### Attitude to the apprenticeship levy

It is against this backdrop that the company does not believe the apprenticeship levy is the best approach. *'It will impose a significant cost on business and will create deadweight activity as all organisations try to recover the cost of the levy. However, it's with us now and we should play our part to help make it work effectively,'* the firm's head of skills and education said.

*'Put simply, the levy is a tax – a way of recycling employers' money. Even after reclaiming allowable costs through the voucher system, the levy is going to create a further cost burden of around £1 million a year for our business, and it could be higher! All apprenticeships will have to meet standards overseen by the new Institute for Apprenticeships.'*

The head of skills and education said there is also a concern that the Government has been preoccupied with the notion that training is something you buy, a commodity, a procured event. He said: *'However, contemporary learning and development practice places a strong emphasis on experiential learning, where most learning is gained on the job. Good apprenticeships are built on this and incorporate formal instructor-led training within a supported learning framework.'*

### Apprenticeship provision

Most of the company's apprenticeships go to 18–24-year-olds, with about 70% of apprentices recruited from this age group and the remainder split between 16–18-year-olds and those aged 25 and above. The firm's head of skills and education regards apprenticeships as fundamentally a means of helping young people transition into work by *'creating bridges between education and industry'*. Most apprenticeships are offered across nine engineering disciplines and the company is considering degree apprenticeships in IT and customer services.

He said: *'Similar to other organisations, we have found it difficult to attract 16–18-year-olds into apprenticeships, partly because apprenticeships are not discussed widely in schools and primarily because youngsters are still encouraged to pursue A-levels and university.'* He believes the school system needs to be incentivised through the OFSTED inspection regime, where destination measures and the transition into all forms of employment are seen as one of the primary outcomes along with academic achievements. Combining this with strong education/business partnerships will drive up participation in apprenticeships and sustain them.

## Medium-sized not-for-profit organisation that employs 400 people across the UK

### Background

This charity operates up and down the country. Its head office is in London but it has staff placed in facilities across the whole of the UK. It receives the majority of its funding from government sources – levels of funding have been reduced in recent years due to the Government's austerity cuts and the impact of those on the commissioning of the charity's services – and most of its money goes on staffing costs. In total it employs around 400 people.

### Recruitment difficulties and skills

The charity works in facilities throughout the country with vulnerable people, which means that certain skills and competencies are required of specialist staff. It requires, for instance, trained nurses and psychologists, which can often be hard to attract as they have to want to work in the particular field and with vulnerable people. Furthermore, being a charity, they are unable to compete salary-wise with other providers – particularly in the private sector – and so nurses in particular are the hardest-to-fill vacancies. However, it reports that it finds a number of positions difficult to fill, including those in its headquarters in London. Again, being a charity that has seen a decline in funding in recent years, it perhaps struggles to attract recruits against competition in the capital.

A significant number of recruits into the organisation are people who the charity has worked with and assisted as service users. An important mantra for the charity is that everyone deserves a second chance, and its recruitment policy

reflects this. The interviewee reported that the better candidates for the job are often people who have gone through similar experiences to the people they then work with, as they are more empathetic towards, and more relatable to, their clientele. However, the interviewee said that they often struggle to fill roles with diverse candidates that reflect the local population.

The main skills sought after in candidates tend to be behavioural-based competencies. Given that they frequently work with vulnerable people, often in counselling roles, employees need to show resilience and respect for boundaries. Most other skills needed in the roles can be trained, but the behavioural-based competencies are the most important.

The organisation has an annual training budget of £50,000. This has remained largely unchanged in recent years, despite the changes in funding. This budget is used primarily on continuous professional development (CPD) for existing staff. Staff submit applications for funding from the budget, which is then approved or not approved.

### Current apprenticeship provision

This charity has an apprenticeship scheme that is constantly running, and it always has 10–20 apprentices on its scheme at any time. It is privately funded – although it is not entirely clear how long this will continue for – and all the training is done 'in-house'. All apprentices are expected to gain a Level 3 qualification, although some start at Level 2 depending on their previous educational background.

The scheme is only open to new recruits, all of whom are people who have been through similar experiences to the service users the charity works with and some of whom, as mentioned before, the charity has worked with and helped as service users. As a result, almost all the new apprentices are over the age of 25, meaning that the charity is unable to apply for funding from the Government for delivering them. The charity would like to have the scheme accredited but there is no vehicle for doing this at the moment because of the age profile of the scheme.

The apprenticeship programme aims to deliver a number of key skills to the apprentices. Given the background of the majority of the apprentices, it designs its apprenticeships to get them 'work ready'. Skills can be as basic as the discipline of turning up to work every day and on time, but other employable skills such as IT and communication are also included. The majority of apprentices end up working in roles in institutions with vulnerable people, and so their apprenticeships are geared towards case management and counselling. However, other apprentices do end up in other roles, such as in the charity's headquarters – the current receptionist in its London office started out as an apprentice. The completion rate for the organisation is approximately 85–90%.

### Potential impact of the levy

*'I don't think charities should have to pay.'*

This charity is very concerned about the potential financial impact that the apprenticeship levy will have on it, describing the fact that charities have to pay the levy as being 'grossly unfair'. As

an organisation that receives the majority of its funding from the Government and does not make a profit, the interviewee claimed that it is wrong for the Government to, in effect, be taking part of its funding straight back again. The amount it has calculated it will have to pay will be £31,000 per annum. Regarding the size of organisations that will have to pay the levy – those with a pay bill of over £3 million per annum, estimated to be about 2% of all of businesses in the UK – the interviewee replied:

*'The £3 million figure gives the impression we are a large and prosperous employer ... we're not.'*

Furthermore, the respondent spoke about there being a lot of confusion about how the levy will work, saying they didn't quite understand the whole purpose. It also fears that the process will be overly complex and bureaucratic, and is unsure what process it will have to go through in order to recoup its money. This lack of knowledge amongst businesses about how it will work in practice provides an obstacle, perhaps, to support for the scheme. The interviewee did say that in principle the charity would be in favour of supporting increased apprenticeships – and in particular is in favour of supporting the increase in the age range for apprentices. They are, however, unconvinced that this scheme is the most equitable and effective way to achieve the goal. However, they did say:

*'If charities were exempt and we knew we could get money towards our apprenticeship scheme, and other similar initiatives [to get vulnerable people back to work], we would support it.'*

One way this charity has considered recouping money it stands to have to pay through the levy is by selling its own apprenticeship scheme to other organisations, although at this stage this only seems to be an initial idea. The charity would like to 'rebadge' existing recruitment or training as apprenticeships in order to claim back some of the money paid as part of the levy. They are, however, uncertain as to whether this will be feasible and are waiting to hear how the system will work and how best they will be able to recoup as much of the money as they can. They will continue to explore opportunities as they present themselves and as the processes become clearer, as one of their own strategic goals of providing more opportunities for people to get into work is very much aligned with the broad purpose of the government scheme.

Despite opposition to the scheme, at least until more clarity is provided on its detail, one aspect the charity does welcome is the fact that apprentices over the age of 25 will be eligible for funding from the scheme. Given that the vast majority of its apprentices are over 25, they will be able to pay for these through the levy. Other than this, however, it considers itself in the dark on the policy and would benefit from further information.



## Large UK-based manufacturer

### Background

This large manufacturer is based across the UK and employs 15,000 permanent employees, including 560 apprentices. According to the general manager at the firm, who is responsible for apprenticeships and entry-level talent in the UK and Ireland, the firm is performing strongly relative to its peers. The organisation has a premium-quality strategy that is underpinned by a people-focused mindset, regardless of the economic climate.

### Recruitment difficulties and skills

The vast majority of the €10million annual training budget is spent on upskilling staff to improve the technical skills of the workforce and to offset recruitment difficulties. Underlining the firm's commitment to in-work progression, the firm only recruits from within the organisation for senior roles in the organisation.

The hiring difficulties are the result of an insufficient number of young people entering STEM-related careers, especially in electronic and electrical engineering. According to the general manager at the firm, there is potential to address these hard-to-fill vacancies by attracting entry-level talent. These apprentices will close the skills gap at Level 4 and 5, where the skills shortage is most acute in the medium term. The firm has already introduced an apprenticeship in project management to ease its difficulties, which it sees *'as a long-term investment that will go some way towards filling the gap, but it will not be a panacea'*.

### Current apprenticeship provision

The company currently takes on 150 apprentices every year at a cost of more than £120,000 per

apprentice over the duration of the apprenticeship. The vast majority of apprenticeships are accounted for by engineering and project management. Apprenticeships are also provided in finance and commerce.

Seventy per cent of apprentices are currently on Level 3 courses, with the remainder on Level 4 courses and above. Looking ahead, the share of degree apprenticeships will rise alongside a fall in the demand for graduates. Around 70% of apprentices are aged 16–18, with the remainder aged 19–23. All the apprenticeships are new recruits.

The company runs its own apprenticeship programme through a contract with the Skills Funding Agency. Underlining its commitment to offering employment at the end of the three-and-a-half-year apprenticeship, the conversion rate from apprenticeships to permanent roles is almost 100%. In addition, apprentices typically get promoted within two to three years of completing their apprenticeship. It is perhaps no surprise that the average length of service for an apprentice is 26 years at the firm.

Reflecting its demand-based approach to apprenticeships, the firm does not see any potential in broadening its apprenticeship provision to include administration and management. This is because there is currently an adequate supply of suitable administrative staff in the labour market. At the same time, the current progression routes into management are more effective than offering a management apprenticeship. As the general manager of the company points out:

*'When you become a manager, you already have a number of skills.'*

*Why would you want to go through an apprenticeship, why would you do a Level 3 apprenticeship if you can get it in an existing way? I can only see a limited use for people to get promoted [through apprenticeships]. I cannot see how that would benefit a young person. You wouldn't have the appropriate skills. You need experience.'*

### Potential impact of the apprenticeship levy

Overall, the company believes that the new apprenticeship levy is only addressing the issue of financing apprenticeships, but does not address the qualitative challenges associated with some apprenticeships. The firm will not attract any apprentices above the demand identified by its divisions.

The firm is recommending that the criteria for recovering the levy should include apprentice trainer salaries and the cost of running apprenticeship training schools.

## Medium-sized manufacturer

### Background

This family-owned global manufacturer has 700 employees in the UK. The business is performing very well, driven by a premium-quality strategy. In addition, the senior HR manager at the company says that the mindset at the firm has a *'paternalistic ethos and is more focused on our people and the consumer rather than profit and loss and our shareholders'*. It is therefore involved in various corporate social responsibility initiatives, including a programme for disadvantaged children and the development of a green footprint.

The organisation has a relatively small proportion of hard-to-fill vacancies in finance, logistics, e-commerce and creative roles. The organisation does not have difficulty attracting applicants for these roles, but it faces the challenge of attracting good candidates to fill these roles at the prevailing wage rates. The firm does not currently use apprenticeships to ease their recruitment difficulties, but it is considering whether to introduce them for some of these roles.

### Current training provision

The company has a limited training budget because a large proportion of the training is done on-the-job. It is estimated that 70% of the training is done on-the-job, 20% is spent on coaching and guidance and 10% is spent on formal training. As the HR manager comments:

*'There isn't really a pot of money – if somebody wants to learn how to do somebody else's job, then the idea is that they shadow that person and get involved in those sorts of activities. Then we can have a look at some formal qualification*

*and how much that will cost. But even then there is an expectation the employee will pick up a certain amount of the cost. My personal experience is that I have to fight really hard to get some training budget.'*

Looking ahead, the firm does not anticipate any changes to the informal learning culture or any increases to overall training spend.

### Current apprenticeship provision

The organisation does not currently provide apprenticeships. As previously discussed, the firm is 'in the early stages' of looking for apprenticeship opportunities – especially where the organisation has recruitment difficulties. In large part, this is driven by growth in apprenticeships in the company's home country in mainland Europe.

As the HR manager at the firm explains, apprenticeships are being actively considered for a number of hard-to-fill vacancies, but the range of occupations may be limited:

*'We often have opportunities for somebody to come in and do a piece of work. I am in dialogue with one of the managers in logistics. We are looking to firm up work for somebody who can come in and do some activities, such as co-ordinating certain elements of the supply chain with the hiring manager. There are also some potential quick wins in the call centre. Both these apprenticeships would be Level 3 courses.'*

In addition, the firm is looking to develop Level 4 apprenticeships in e-commerce and creative design:

*'From a creative design perspective, the history is to get a contractor in to do a piece of work and then see them leave. But the*

*reality is that the contractors are increasingly coming in and staying because we don't have the skills in-house. So there is an opportunity there for somebody to do an apprenticeship and playing a part in a very important and dynamic team.'*

The firm is not considering apprenticeships in finance because they are senior roles and would not be suitable.

### Apprenticeship levy impact

The apprenticeship levy is estimated to cost the company around £70,000 a year. Perhaps reflecting its tentative conclusions about the potential impact of the levy, it has not looked into ways of recovering wage costs. As a result, the HR manager at the firm is unsure whether the apprenticeship levy will increase the number of apprenticeships provided by the organisation.

On the upside, it believes that the apprenticeship levy is a good idea because *'it will prod organisations into thinking how it can work. The optimistic individual in me says we are going to have to pay this, so we should be utilising it strategically by developing skills where we are not very strong.'*

However, the firm faces two key challenges with the levy relating to resources and labour costs.

As the HR manager explains: *'Convincing and educating managers that apprentices will be paid a salary and be included as headcount will be a challenge. It's not just a case of getting an apprentice and putting them in a team; the manager needs some support, the person needs a proper induction, there needs to be some formal support and network around this. There are going to be some young people mixed in with*

*managers who have not managed people this young before so they need to be educated. ... I can see that probably some managers will ask "what is the minimum we can get away with?"*

According to the firm, this could be addressed if the levy funding criteria could be widened to include salaries and education. If the funding were restricted to training, the company warns that it *'can see that our company would consider just paying it and not necessarily using it'*.

However, consistent with other employers, there are concerns about the apprenticeship levy adding to the series of higher labour costs that will have a negative impact on the firm:

*'The fact is that you have a National Living Wage that keeps on going up. It is not a massive issue for us, but the wages of some of our retail employees are close to the National Minimum Wage in order to stay competitive with their margins. We have also seen changes to pensions, which is forcing us to look at how we retain our top talent because suddenly we are being hit by the new annual allowance. Pensions are no longer much of a benefit. ... In addition, the problem with auto-enrolment is that if we want to be competitive in that area, we would have to offer more and that costs more. What the Government is doing by imposing these sorts of initiatives could become a problem later on.'*

## Large construction firm

### Background

This large construction firm has 7,000 employees, the vast majority of whom are employed under permanent contracts. Reflecting the strong performance at the firm over the recent past, the firm has tripled its profits during the past three years through its premium-quality strategy.

### Recruitment and skills

According to the group HR director of the firm, the competition for finding suitable candidates has increased because of the improvement in labour market conditions. As a result, it has recruitment difficulties for many roles, including quantifiers, team leaders, plant managers, site managers, marketing and engineers.

The firm continues to ease these difficulties through a variety of initiatives, including a new leadership academy, a gender diversity initiative and a recruitment strategy that seeks to recruit applicants from other industries. This has helped boost the intake of female graduates and apprentices to around 50%, compared with the current share of 15%.

### Current training and apprenticeship provision

Reflecting the firm's commitment to training, the budget continues to increase year-on-year. Key initiatives include a series of academies, an accredited large line management capability programme and an apprenticeship programme that requires a heavy investment in terms of time and money. According to the company: *'Hiring apprentices is hard work because we listen to them, and based on their feedback we always look to improve them. ... We know*

*that young people are less loyal to their company than they used to be. However, we also know that if people are happy, even if they do leave, they might come back. We have such examples.'*

The vast majority of apprenticeships are Levels 2 and 3. However, looking ahead, this may change as the company looks to increase the number of apprenticeships it provides, especially higher apprenticeships, and the breadth of occupations it provides apprenticeships in, including management:

*'For engineers, we could develop great people who could hire apprentices for us. In a plant, the technical knowledge is key, so you need people who are stable. Higher apprenticeships tend to be people who can become part of the leadership team, and for them it will be a successful career. So higher apprentices is something I have pushed to recruit more of.'*

Overall, the firm recruits 120 graduates and apprentices every year.

### Impact of apprenticeship levy

It is estimated that the apprenticeship levy will cost the firm £2 million a year. It does not have a definitive view about the levy because it is still waiting for information and guidance from the Government. On the one hand, it believes that the levy could have a positive impact on the economy based on its experience of apprenticeship levies in other European countries, especially from the perspective of giving SMEs access to apprenticeship funding. In addition, it is supportive of the drive to improve the apprenticeship framework because 'it is not very professional in some sectors.' On the other hand, it is concerned about the amount of

money it stands to recover from the Government, which it describes as an 'urgent priority' to find out.

Whatever the final outcome, it does not envisage any negative impact on training investment or the number of apprenticeships it provides.

## Medium-sized manufacturer

### Background

This bed manufacturer, based in the north-west of England, employs around 800 people. Around 500 people are employed in the manufacturing, 100 in the warehouse and around 200 staff in office-based roles. The organisation is reported to be performing very well. It positions itself between premium and basic quality and describes itself as a people-focused investor.

### Recruitment difficulties and skills

The firm's training budget has increased fairly sharply during the past two years. According to the people and development co-ordinator, the firm invests in a wide range of training activities:

*'The budget could be individuals studying qualifications, it could be a group training so we run one-to-one coaching sessions, and then anything that fits into the apprenticeship that we cannot get funding for. We also run a targeted leadership and development programme, which is the area that requires most development.'*

Additionally, the firm places a particular emphasis on soft skills and technical skills of young people because *'they are not where we want them to be'*. The firm says that the minority of roles require technical skills, but the majority can be learned on the job. For example, a lot of the employees that are based in the warehouse are trained on the job. As a result, the firm says that *'as a result, we look for people who can show determination and determination to do the job'* in job applicants.

The company reports few hard-to-fill vacancies, which is perhaps due to the gradual increase in the

number of apprenticeships in the organisation in recent years.

### Current apprenticeship provision

The organisation has trained 41 apprentices over the past five years. Only two of the learners are on Level 4 apprenticeships, with the remainder split between Level 2 and 3 apprenticeships. Looking ahead, the firm does not anticipate recruiting more people on to Level 4 apprenticeships. However, it expects the share of Level 4 apprenticeships to increase because of the way in which the firm provides progression routes for existing participants.

The majority of apprenticeship starters are on Level 2 apprenticeships in manufacturing roles, including furniture-making and upholstery. The remainder are employed in warehouse and office-based roles. These include junior management schemes in business administration and specialist areas such as customer service, finance and supply management. Looking ahead, the company anticipates a growth in the number of office-based apprenticeships.

The apprenticeship scheme has a very high employment rate, with all 41 of the participants offered employment at the end of the scheme. Only three employees have turned down the offer of employment at the company.

### Apprenticeship levy impact

The firm says that it is accepting the apprenticeship levy with 'reluctance'. As the people and development co-ordinator puts it: *'One of the difficulties is that we have an established apprenticeship scheme. We already pay our apprentices salaries in line with the National Minimum Wage rate, so we are well above the minimum apprenticeship*

*one. So we already see ourselves investing in apprenticeships. That is balanced out by the fact that we get public funding, so to then be told that we have to pay for it [potentially] is a bit of a blow.'*

The company is unable to make an informed assessment of the impact the apprenticeship levy will have on training and the wider workforce development. However, the company warns that: *'If there is enough in that pot to maintain the number of apprentices we have, that is what we will do. If it isn't, we would have to seriously consider whether we can afford to put more [money] in.'* One potential upside of the levy is that the firm expects to shop around and devote more scrutiny to quality because of the cost implications of the levy. The firm also plans to bring more training activities, such as NVQ assessors, in-house.



## Medium-sized food manufacturer

### Background

This food manufacturer is based in Yorkshire and employs around 450 people, including around 250 employees and 200 agency workers.

The high proportion of agency staff is due to seasonal demand, although the firm says that a relatively high proportion of temporary workers go on to secure permanent contracts. Looking ahead, the company plans to reduce the proportion of agency workers to 10% of the workforce *'now that the businesses are getting more settled'*. In addition, the firm has been historically determined to employ fewer than 250 employees in order to access government funding for equipment and new software to invest in the business. However, it no longer relies on this funding because it has its own funding in place.

Business performance in recent years at the firm has been very strong and is reported to be superior to its competitors. Looking ahead, the firm plans to triple its turnover to £100 million in the next few years by adopting a capital-focused investment strategy to boost use of automation and technology.

### Recruitment and skills

Recruitment agencies and job referrals are the two key recruitment methods used by the firm. The firm employs recruitment agencies extensively, especially for highly skilled roles such as management and finance staff. At the same time, the prevalence of job referrals partly explains why more than four-fifths (80–85%) of employees are immigrants that are largely drawn from Eastern Europe, Western Asia and Pakistan.

Network hiring is used because *'it aids our working environment and reduces turnover because people prefer to work with their friends and relatives'*.

Recruitment difficulties are one of the greatest challenges the firm faces. As the HR director of the firm puts it: *'What we are finding is that there are fewer and fewer skills out there to help our business because there are fewer people that have had experience of the fresh produce industry. And we need people who can react quickly – one of our USPs is that we can react more quickly than anybody else in the industry.'* The HR director of the firm points to low levels of awareness of the food industry among schools as an additional challenge for the firm – which it is trying to address.

However, much of the hiring difficulty can be explained by high rates of labour turnover at the firm, especially among young people and apprentices:

*'We have taken on apprentices in the past, but they tend to leave after a year because they come to us not knowing what they want to do. They realise that they don't want to work in the food industry because the food industry is not for everybody. We have had some success recently, but typically they have come and gone in a year and they have poor attendance because their work ethic is not very strong. The industry is fast-paced, and some people cannot keep up with the pace of the business. It is very turbulent.'*

As a result, the firm places more emphasis on attitude than technical skills: *'In terms of skills, what we are looking for is team fit, a good sense of humour, and then it is your food industry qualifications and experience of the*

*produce industry.'* In addition, the firm is trying to raise the current low levels of awareness of and interest in the food industry in schools and colleges.

The HR director at the firm also reports hiring difficulties for higher-skilled roles, such as engineers and technical managers, where the interim contract market is said to be lucrative. However, apprenticeships are reported to be inappropriate for these occupations.

### Current training activity

A large proportion of the training is compliance-led and provided by in-house trainers. Key activities include coaching, stress awareness, leadership and management and food hygiene, which are all described as *'essential to run a food business'*. Overall, this training typically costs £150,000 a year (excluding staff time off work and the re-induction process) and £300,000 a year (including time off work to study). However, the cost of the training will increase sharply in the next couple of years because of a wider range of standard operating procedures.

In addition, the firm is increasingly funding people to study qualifications through various relevant accrediting bodies, such as the Chartered Institute of Purchasing and Supply (CIPS) and the Chartered Institute of Payroll Professionals (CIPP); that often costs several thousand pounds per individual. Overall, there are 17 employees who are currently studying NVQ qualifications.

### Apprenticeship provision

The firm's experience of employing apprentices is limited to two apprentices on a Level 2 course and one on a Level 3 course. Only one of the three apprentices found employment at the firm on completion of the apprenticeship.

Looking ahead, there are plans and scope to offer more advanced apprenticeships in the next few years in various roles – such as engineering assistant and business administration. However, their expansion plans are restricted because they cannot hire apprentices that are aged below 18 in the factory because of employers' liability insurance. In addition, they have difficulty attracting people aged 20 and above to apprenticeships.

### **Attitude to the apprenticeship levy**

In principle, the firm opposes the levy, partly because the firm sees the apprenticeship levy as an added cost pressure. The firm will not have to pay the levy when it is introduced in April 2017, but will have to pay it in future years if the growth projections for the firm prove accurate.

The HR director said: *'Part of me believes that the Government is passing the buck on to employers in terms of pensions in the future, the National Living Wage and now the apprenticeship levy; these things are hitting our business quite hard.'*

Other reasons for opposing the levy include the need to invest in other areas of workforce development. Indeed, the firm envisages less investment in other areas of workforce development as a result of the apprenticeship levy, which could partly exacerbate the skills gap in the industry: *'It means we won't be investing in more training; the training budget will go down and down.'*

To help offset the impact of the levy, the food manufacturer would like to see the Government provide more interest-free loans for qualifications, which could be matched by giving employees time

off to study. They would also like to see the April 2017 timescale be put back, unless the details of the new scheme become available very soon.

## Large construction and facilities management company

### Background

This construction and development company employs around five and half thousand employees across the UK. According to its head of emerging talent, the company's profitability is in the upper quartile range compared with its competitors. The organisation's strategy is premium quality that is underpinned by a people-focused mind-set.

### Recruitment and skills

Reflecting the high proportion of skilled employees at the firm, two thirds of the workforce are white-collar employees. This is reflected in the recruitment difficulties the company is currently experiencing, the majority of which are among higher-skilled occupations such as planning and estimating. In addition, a small proportion of the hard-to-fill vacancies are at Level 2 in operative roles, where behavioural skills such as a willingness to learn are the most important attributes. To address this, the company is looking to expand its apprenticeship and NEETS pre-employment programmes, and introduce a 'Career Changer' programme to attract more candidates from other industries. A return-to-work programme has also been introduced.

### Existing training and apprenticeship provision

A large proportion of the training budget is spent on compliance, often delivered by internal trainers. Additionally, the company's leadership training team plays a key role in delivering leadership and behavioural training programmes, including team-building exercises.

The company hires 50 apprentices on levels 2 and 3 and around 30 apprentices on levels 4 and 5 every year. These will become higher apprentices in the next 24 months. Apprenticeships are offered in various roles such as civil engineering, quantity surveying, highways and facilities. Management apprenticeships are reported to be inappropriate for the organisation at the moment. Looking ahead, the total number of recruits will remain broadly the same, but are likely to include fewer graduates and more apprentices.

As the head of emerging talent explains: *'We have always taken level 4/5 trainees and I think we are getting better value of money in terms of alignment with the business values than we are with graduates. The apprenticeship levy is driving the review of our intake to ensure we have the best balance possible ... And we are a low margin business. So it [the apprenticeship levy] is going to have a massive impact on our bottom line. We are working to minimise that impact as much as possible.'*

### Attitude to the apprenticeship levy

On balance, the firm supports the levy, which it is estimated, will cost just over £1 million every year. The levy will be an additional charge to the firm as it already pays a training levy to the Construction Industry Training Board.

One of the key reasons for the support is that the new system will allow it to get funding for apprentices of all ages, not just younger applicants. Or as the head of emerging talent puts it:

*'Previously we have struggled because the best candidates have been in the 25 and above category, but we get limited funding to train*

*them. The business is driving us to take the younger individuals, but when we go through the recruitment process we end up with a lot of older candidates. The recruitment laws tell us we cannot discriminate on the basis of age, but the funding of the apprentice scheme was geared up by age ... What we anticipate is that the new system will enable us to get funding for training the right candidate, regardless of age, which is going to be beneficial for us.'*

The business also supports the levy because it thinks *'it's a good thing for society. Currently individuals are coming out of university with huge debts and limited skills. It is right that it skills training should be available for anybody regardless of age, sector, age and I think apprenticeships, done well, can enable that.'*

However, the firm has concerns that the Trailblazer frameworks will not be operational for all of the roles it recruits apprentices for in 2017. As a result, the organisation's current strategy is to focus on skills shortage areas, such as quantity surveying, where high-quality Trailblazer frameworks are already in place.

Trailblazer consortia are struggling to get all the standards signed off and there is a feeling the assessment goalposts are misunderstood, leading to delays in sign off. As a result, the recruitment process for some new recruits is being held up because the respective Trailblazers are not ready.

The firm is supportive of the Institute of Apprenticeships which it says is key in getting the Trailblazer standards agreed. As the head of emerging talent puts it: *'the institute is a sound concept because it makes absolute sense for people in industry to be signing*



*off industry qualifications. However, we are concerned that it has been introduced relatively late in the process.'*

The company also believes that BIS and the Department of Education need to work together to ensure the apprenticeship standards and the technical education reform programme are fully aligned so that students understand their options in a clear and concise way

Overall, given the concerns around the Trailblazer sign-off, it believes that there is a strong argument for delaying the introduction of the apprenticeship levy. Additionally, the head of emerging talent warns that leadership and management development will not be affected in his company as a result of the levy, he fears investment in these areas may fall across other sectors as a consequence of the levy.

## University

### Background

This London university has around 5,000 employees, including 3,000 academics and administration staff. Reflecting the strong performance of the university, it recently became a member of the Russell Group of universities, primarily through its research excellence. The university reports that it has a premium-quality strategy with a cost-cutting mindset that is supported by an aspiration to 'run a tight ship' and to be 'lean and mean'.

### Recruitment and skills

The university has hard-to-fill vacancies in many professional service occupations, largely due to the challenges the organisation faces from richer London employers, including some richer London universities.

The university is currently assessing whether to develop an apprenticeship programme for its workforce in professional services – including IT – in response. The university already provides 'lab technician' apprenticeships and has just introduced apprenticeships in the estates department.

### According to the HR director of the university:

*'We are providing apprenticeships because these can be difficult positions to fill, so we are trying to grow our own expertise in that area and I would think in terms of particular skills, none other than those that are inherent in the job.'*

Looking ahead, the university plans to expand its apprenticeship provision, but this is *'not just because of the levy, although that gives us a certain push to do something about it'*.

As the HR director continues:

*'It makes sense in terms of where we are in London and trying to develop our professional services staff. One of our USPs as a university is being rooted in the community, so there is something for us around how we can use apprenticeship schemes to develop relationships with our schools. We have got an academy school, so for those who don't see university as a route, they see apprenticeships as a potential route for them with us.'*

In addition, the university offers degree apprenticeships to students in IT, law and in partnership with firms such as IBM. The organisation says that it does not see the potential to introduce management apprenticeships.

Additionally, the university says that there are a large number of people who are overqualified. This is largely driven by people who have completed degrees and moved into administrative roles that do not require a degree, even if the advertisement sometimes stipulates that it does.

Overall, training spend has fallen very modestly over the past couple of years because *'we have had a couple of years where the budgets have been held very tight, and training is obviously one of the first things to go when that happens.'* In addition, the HR director cites *'issues around the internal development team'* which have put a brake on various training initiatives.

### Apprenticeship levy impact

The cost of the apprenticeship levy is estimated to be £800,000 per annum. As the HR director explains, an inability to recover costs is the key reason for the university's opposition to the levy:

*'It is hard to see how we can really drill down from the levy fund very much. ... What we would like to see is that we could drill down from the levy funds for the development that we have to do, including researchers or academic staff that we have to train them to teach. But at the moment, that would not be eligible. ... It is hard to know how much of that will be recovered.'*

*'It will have implications for us because it is an overhead that we are going to have to soak up and, given the increases for us in terms of NI [National Insurance] and defined salary pension schemes, we have just had a big hit there. And our apprenticeship schemes have gone up. The increase in employment costs, this will become part of that. ... It will become a factor in our thinking about what money we have available to do things. Eight hundred thousand is a lot of student bursaries – it is ten academics that we wouldn't be able to employ. The impact will be significant.'*

*'We are generally as a sector supportive of people, but you cannot see anything in this other than it becoming a large overhead at a time when things are getting more tricky.'*

Additionally, the university is part of the current sectoral discussion about ways of recovering costs. A key question is the qualification level at which universities can get funding for apprentices. To mitigate the future impact of the levy, it is keen to draw down on levy funds for researchers and new academic staff so that the university can train them to teach.

## Academy trust representing 17 schools

### Background

This academy trust, based in the south-east of England, has 550 employees across 17 schools. Apprenticeships are currently restricted to teaching assistant posts and administrative roles in just one of its member schools. Three of the learners are participating on Level 2 courses and four are on Level 3 courses. The apprentices are aged 18–24.

### Degree apprenticeships

The trust has hard-to-fill teaching vacancies, but it has not considered degree apprenticeships to address these. The HR manager of the trust is unsure how current teaching qualifications could be converted into degree-level apprenticeships.

*'I struggle to see how a degree-based apprenticeship would be appealing to employers in the sector [apprentices would be unqualified teachers] or to potential apprentices.'*

### Apprenticeship levy impact

The apprenticeship levy is estimated to cost £35,000 per year. Consistent with other interviews, the trust is opposed to the levy because it is one of a series of additional employment costs the organisation is having to bear. As the HR manager of the trust puts it:

*'The significant jump in pension contributions and National Insurance contributions will heighten that impact even more. There was a 3.4% increase in National Insurance contributions in April, and there was a 2.4% increase in employer pension contributions last year. We have not been hit by auto-enrolment costs, but will do in May next year. Inherent in*

*education are further costs such as annual increments, so the danger of additional costs is that you will eventually end up affecting the level of service to the pupils.'*

It also opposes the levy because of the 'blanket approach' that is being adopted by the Government:

*'We have talked about apprenticeships in schools, which is a great idea in principle. However, the additional mentoring that would be required to provide an apprenticeship would be something they would be stretched to deliver in practice. ... I have got a number of schools where there is nobody that does 30 hours a week to fulfil the 30-hour requirement to handle an apprenticeship. It is simply impractical.'*

Additionally, it says that the intervention is unwelcome because the new digital vouchers system restricts flexibility in how it trains its workforce.

## Large engineering company employing more than 20,000 people across the UK

### Background

This major engineering company employs over 20,000 across the UK. The organisation is a people-focused investor, investing heavily in training and educational initiatives in order to secure the organisation's future talent pipeline. The financial performance of the firm is also strong.

The company has a small proportion of hard-to-fill vacancies, primarily in engineering and digital production, which is largely driven by a lack of skills, qualifications and experience among applicants. Looking ahead, vacancies in digital production will become a bigger challenge for the organisation because *'digital has a massive future, and there is a dearth of suitably qualified people'*.

The organisation is involved in a range of initiatives to address these difficulties. It has an outreach programme with secondary schools to promote STEM subjects in schools. In addition, it provides financial support to university technical colleges (UTCs) and is a key member of the industry skills strategy group. However, the organisation says that the apprenticeship levy will 'do nothing' to address their hiring difficulties.

### Current apprenticeship provision

The company recruits 200 apprentices every year. The apprenticeship scheme is very successful, according to the HR director of the firm, because *'it is high quality and does a really good job at recruiting and retaining people because it is based on job need'*.

### The number of learners participating on a Level 2 course

Currently, a small proportion of the apprentices are on a Level 2 apprenticeship course. The majority are on a Level 3 course, with the remainder on Level 4, although the share of Level 4 apprentices is increasing because of the number of apprentices that are progressing in their roles. This trend looks set to continue as the number of Level 4 and 5 schemes increases to match the requirement to operate in a digital environment.

### Apprenticeship levy impact

The company is supportive of the principle behind the apprenticeship levy; however, it still is very concerned about the impact of the levy. It has concerns about the timetable, the lack of information to date and the estimated cost of millions of pounds every year. As the HR director of the organisation puts it:

*'It is an employee tax, a National Insurance contributions tax by another name. ... It is being introduced hastily and not thought through, and the numbers appear to be driven from a political imperative around the timing of this Parliament. And the worst bit of all is that when we start asking practical questions as to how it will operate, nobody can give us proper, concrete answers.'*

As a result, the firm believes that their apprenticeship targets for this Parliament are already behind schedule:

*'We have recruited apprentices to start in September, and we are going to have to run the scheme based on a mix of the current rules and new standards. This means we will go another year before we will be able to make adaptations based on any new requirements.'*

*So if we are going to meet the deadlines in the current Parliament, it is going to put a lot of pressure on us in the last two years. It is just not very smart in terms of the implementation.'*

The company reports that it has not received answers to the following questions in particular:

- Will existing employees be eligible for levy funding?
- Which levels of apprenticeships are applicable for the various targets and the various funding arrangements?
- Which parts of the business activity are considered in and out of scope?
- Will supply chain customers pass their cost [apprenticeship levy] on to us?

### Apprenticeship levy implementation

The organisation estimates that it will significantly increase the intake of new apprentices from 200 per year to 800 in order to maximise the recovery of training costs. The firm plans to do this by converting existing activity into new apprenticeship programmes, as the HR director of the firm explains:

*'I see no value in giving apprenticeships to people unless it is going to lead to a meaningful job at the end. Our 200 figure is based on the natural run-rate of how many people we can absorb into the business that is based on a traditional skill assessment. We don't need 800 new entrants at that level a year. So we are going to have to be quite clever about taking some of the existing new entrant schemes that currently aren't apprenticeships and convert them into apprenticeship programmes to meet the requirement. We will therefore be looking at all areas where we might need people and possibly broadening the range*

*of occupations that we develop apprenticeships for.'*

Additionally, it is not yet known what impact the levy will have on other areas of workforce development at the organisation. However, the levy is likely to have a negative impact across the broader economy, according to the firm:

*'There is a real danger that some organisations will dumb down schemes to meet targets - they will be driven to make cheaper, simpler apprenticeships, which - incidentally - is not something we would do. ... If it is a pure numbers game, people might go for the lowest, cheapest, shortest training; whereas the genuine skills need is at the higher, more expensive end which can take a number of years to deliver.'*

## Small craft brewing company

### Background

This small, premium-quality craft brewer is based in Hackney Wick in East London and employs a total of 22 staff, which includes 4 apprentices. The company is currently expanding its operation with investment in both capital and people, though this has most recently been into new staff – headcount has apparently increased 120% over the past two years.

### Recruitment difficulties and skills

As mentioned, the employer is currently undergoing a time of expansion. It doesn't have a bespoke training budget set aside each year; however, it does invest heavily in its staff to aid their professional development. This training has primarily been in the technical skills of the brewing staff – the main outlay for its training expenditure has been for its brewers to upskill through taking courses and exams in the technical aspects of brewing. However, office staff also have the opportunity to go on training courses, for example on courses relating to finance. The employer pays all these costs themselves. The amount spent on training does not seem to correlate with turnover or profit, as training is continuing at a time when profits are not as high because of increased investment back into the company in order to fund further expansion.

As part of the business's recent expansion, the cost of recruitment into the company has increased as the employer has recognised that they have had to pay competitive salaries in order to attract skilled brewers, and has then been prepared to invest in those staff to upskill them further. The most important skills sought

by this employer, therefore, are the technical and practical skills of brewing staff, which they are prepared to pay higher salaries for in order to recruit and retain them. For staff working in the office, skills such as computer literacy and communication are important.

Given the willingness of the employer to pay competitive salaries and offer the chance for further development for the technical and practical expertise, that is, the brewers, it does not report that these jobs are particularly hard to fill. The hardest-to-fill vacancies within this employer's operation are drivers. It has a number of permanent drivers employed, but does also use a number of agency drivers to cope with times of increased demand. Despite this, skilled drivers are reported as being the hardest jobs to fill in the business. At present, however, the employer doesn't see apprenticeships as a viable way to address this particular shortage.

### Current apprentice provision

The company currently has four apprentices on its books – in a business with a headcount of only 22, this means they comprise almost a fifth of its total workforce. Taking on apprentices has been a relatively recent venture, as the first of these is now just finishing their first year. Three apprentices of the four are in the brewing aspect of the business, with one apprentice being taken on in the office side of the business. The three brewing apprentices are each 20 years old, and the apprentice in the office is 18 years old. The apprenticeships have only been made available to new recruits, and are all being offered at Level 2.

When asked why they have chosen to employ apprentices, the employer said that it offered them the chance to train someone

'from the bottom up'. In terms of the skills they hope to give the apprentices, the employer answered that it wants to give them all the skills, particularly in the technical aspects, that would allow them to stay at the business for a long time – naturally the preferred option – but if the apprentice was to decide to go elsewhere upon completion of their apprenticeship, the employer hopes that they would stay in the same field and move onto a successful career with another employer.

At present the brewery does not see itself providing apprenticeships in management – perhaps because of the relatively small scale of the operation and therefore not having a management 'layer'. The apprenticeships currently offered are with the local college, which are involved in the co-design of the programme; this means the apprentices are required to attend some classroom-based courses in addition to the on-site learning.

### Potential impact of the apprenticeship levy

Interestingly, when asked about the impact of the apprenticeship levy, this employer answered that it was the first time that they had heard about it and had to ask how it would work. This suggests perhaps that the Government needs to do more in order to make SMEs aware of the funding that will be made available to them to help them invest in apprenticeships through the levy. The brewery's recent investment in apprenticeships was driven by the business's expansion, and further plans for growth in the future may therefore be more of an incentive for offering future apprenticeships, as may be the 'progress' made by the current crop of apprentices. However, the employer did seem open to using funding from the

levy for programmes in the future, but would have to be much better informed of how they would access the funding.

As a final point, the employer did say that they support the principle of the apprenticeship levy. However, when it was explained how the levy would be funded (that is, as a legal obligation at 0.5% of a company's payroll bill for those with a pay bill over £3 million), they did raise concerns about how 'fair' this is. Perhaps surprising for an employer who would not have to pay the levy but would be eligible to access funding, they did think this was a rather unfair imposition for companies that may have an annual pay bill over £3 million but that may not offer apprenticeship schemes themselves.



## Large transport and retail hub

### Background

This large transport and retail hub employs about 6,000 people, the majority in security, operations, and customer services. It also employs 750 people in its corporate centre, which includes HR, finance, IT, innovation and digital. It already makes a considerable investment in apprentices, employing 150 as a direct employer and additionally a further 200 to 300 that are employed through its training academy that supports the business and the wider local retail business environment.

The academy plays a key role in helping local young people build employability skills and progress, providing pre-employment training, and then the chance to do an apprenticeship from Level 2 right up to degree level. Currently most of the apprenticeships offered are at Level 2, with a small proportion doing Level 3 and 4 apprenticeships. Most of the apprenticeships are in security roles, customer services and team leadership roles.

### Attitude to the apprenticeship levy

The company's HR director is a big supporter of apprenticeships and she supports the principle behind the apprenticeship levy.

*'In my view apprenticeships can provide a really useful means of providing progression as long as you have the right training provider and that you work with that provider to make sure the apprenticeship individuals end up with really adds value for the business,' she said.*

*'We support the levy as long as we can draw down levy funding to provide support for SMEs or a business partner, otherwise we won't be able to use levy funding to support*

*apprenticeships provided by our training academy. I understand we will be able to draw down funds for this after the first year.'*

The HR director estimates the levy will cost the company about £1.5 million a year, which she thinks it will be able to recover to fund its existing and projected investment in apprenticeships.

### Investment in training

She does not think the firm's training budget will be affected unduly by the levy and, while continuing to focus on addressing the skills needs of the business, is planning to invest more in developing further apprenticeships for existing employees.

*She commented: 'We've actually increased our investment in training over the last few years so we now spend half again of what we used to spend on training because we see a huge value in having highly skilled, highly trained people because they stay with you when they know you invest in them.'*

### Support for apprentices

The company invests a significant amount of resource in ensuring its apprentices receive appropriate support. The HR director explained: *'A lot of our apprentices would not have got the qualification if they hadn't had someone really help them and listen to them along the way. Some of them have got difficult home situations so they are working while doing lots of caring outside work and they don't all get the time to do the presentations or the work they need to do. It is someone helping them re-prioritise and giving them extra support that gets them over the line. Consequently we invest in training our managers on what they need to commit to as well before we sign up an agreement with them to find an apprenticeship for them.'*

Consequently, while the firm's HR director supports the levy in principle for her organisation, she has some concerns on how it might affect some smaller employers that have to pay the levy. She commented: *'For smaller employers I imagine this [paying the levy and seeking to reclaim the cost] will be seen as being forced to do something that's actually going to take up a lot of time and cost and not give value back. If you've only got a limited number of positions that need to develop people for or towards then developing an apprenticeship in team leadership or whatever isn't necessarily going to be helpful or what the business needs. You may need to spend your training budget on mandatory, or innovation training or specific technical skills training.'*

### Case for reframing apprenticeship levy as a training levy

*'I actually think a training levy would be much better [than an apprenticeship levy] because I think any good organisation should invest in training for its people because otherwise you're not going to have the talent pipeline for the future and the skills you need to run your business. To be asked to pay a levy which can be only used for one type of qualification is extremely restrictive and in a lot of circumstances it could encourage the wrong behaviours.'*

*'A training levy would be much more strategic because there are different times in a company's growth path where you need to invest in different types of skills. Jobs are also changing so much that you need to start training people towards different types of automation technology earlier so you need a lot of flexibility in how you invest in skills as a business.'*

## County Council

### Background

This county council, based in the Midlands, employs around 5,600 staff and an additional 11,000 staff in schools. The council describes itself as a people-focused investor that places a large emphasis on leadership and management capability. At the same time, the organisation's recruitment strategy seeks to attract and retain more younger workers to address the age imbalance of the current workforce.

### Recruitment and skills

The council looks at a wide range of personal attributes and skills when assessing job applicants. As the HR director comments, *'We are more concerned these days with a can-do, positive attitude, a willingness and a good work ethic – people who get stuck in. In terms of core skills, we are looking for people with good communication skills and who can deal with people.'* This shift is reported to be part of a broader move towards a greater focus on competency as opposed to qualifications 'because one does not guarantee the other', which is another reason behind the drive to increase apprenticeships at the council, as explained below. Underlining the importance of competency, the HR director adds, *'Our competency framework is the bedrock of our recruitment and performance practice now.'*

The organisation has difficulties in attracting and retaining experienced social workers and in recruiting planning officers and project managers. The organisation says that it has difficulty recruiting for planning officers and project managers because it cannot compete with the salaries offered in the private sector. However, the organisation is using apprenticeships to help fill

the shortage of planning officers and project managers. In addition, there are plans to extend the social care apprenticeship it currently provides to include social work, alongside a progression route for social workers that now includes more flexible working options.

The organisation is currently reviewing job design. In particular, the review will include how jobs at the new National Living Wage rates can be changed to improve output along with an assessment of whether certain roles require a graduate qualification.

### Training and apprenticeships

The council currently spends 1–2% of the overall wage bill on training, which has been consistent since 2010 when the learning and development budgets were centralised. The majority of the budget is spent on individual and team development, leadership and management development and diversity. Additionally, reflecting the acute recruitment difficulties facing all councils, a relatively large proportion of the budget is spent on social workers and the social care workforce.

### Apprenticeship provision

The council currently provides over 100 apprenticeships. An additional 40 apprenticeships will be rolled out over the next year in a wide range of roles that include HR, highways, country parks, ICT, legal and accounts. However, management apprenticeships *'do not have a particular appeal'*.

Around two-thirds of the apprenticeships are intermediate apprenticeships, with the remainder employed in advanced (10%) or higher apprenticeships (25%). The vast majority of apprenticeships are currently given to new recruits that are aged between 18 and 25, including an

increasing proportion of 18- and 19-year-olds who are choosing not to go to university. Nevertheless, the council has considerable difficulty attracting existing employees to apprenticeships because the pay is relatively low.

The retention rate is currently 90%. Almost all apprentices that complete their apprenticeship find employment at the council. The remainder have been offered employment elsewhere and others have gone on to university.

### Potential impact of apprenticeship levy

The county council estimates that the apprenticeship levy will cost the organisation £2 million when it is introduced in April 2017. It does not support the levy *'because it is a one-size-fits-all solution that will not solve the problem. ... We are already investing £3 million in apprenticeships over five years, and this will detract from that because some of the money for the apprenticeship levy will come from my training budget ... and I am looking to take another 30% out of my business over the next two years and I suspect that my training budget will be affected significantly. Overall, it will make it harder for us to do learning and development.'*

On the upside, the council believes that the levy may have a positive impact on organisations that do not currently provide apprenticeships or adequate levels of training. However, the overall quality and value of apprenticeships will be undermined in her view by the ambition to increase numbers – especially in organisations that do not provide apprenticeships.

Or, as the HR and OD director puts it: *'It is like having a school. You need to manage these young*

*people carefully, you need some pastoral care around them and to bring them together on a regular basis. ... In some organisations you will find youngsters going on badly run, badly set up apprenticeships and it could be a dreadful experience. ... There is a worry about mass numbers and encouraging more people to do apprenticeships in areas such as business administration. We have tried to steer away from that. We may also see more providers of dubious quality.'*

Overall, the council is proud of the high quality and effectiveness of its apprenticeship programme, adding, *'Delivering a programme like this is not easy but it is definitely worth the effort.'*

## The British Retail Consortium

The British Retail Consortium, which is the leading trade association for the UK retail sector and represents about 70% of the retail industry by turnover, has significant concerns about the apprenticeship levy.

Tom Ironside, Business and Regulation Director at the British Retail Consortium, said: *'We totally understand and support the underpinning concept of the levy; however, we see some very significant challenges that have to be addressed if the levy is to have a positive effect on the retail industry.'*

Ironside said that it was far from clear how much scope there is for retail employers to significantly increase their investment in apprenticeships under the apprenticeship levy as currently framed.

He said: *'There is an awful lot of in-house training delivered through effective internal training academies, which retailers invest in very heavily. The big question for us is the extent to which this is really compatible with the definition and requirements for apprenticeships.'*

*'There is a significant challenge around the requirement for training away from the workplace [as required in an apprenticeship]. That's not to say that all the training retailers do is informal; there is a significant proportion in some specialised roles, for example butchers, fish mongers, bakers, and optician and pharmacy assistants. But there is quite a lot of formal training that can take place in a shop floor environment.'*

Another challenge is around the duration of training. Ironside said that a typical internally delivered retail course will last up to six months, whereas currently the minimum requirement for an apprenticeship is 12 months. Requirements in relation to maths and English provision in a workplace environment are also difficult for retail employers.

He commented: *'We think we [retail employers] have some very effective ways of training our workforce. How far is it productive for us to modify our approach to staff training and development to fit in with the Government's view on apprenticeship provision?'*

*'We are told productivity is very important by the Government – and of course it is – but the risk*

*is that if employers are forced to pursue a much more rigid structured approach it will end up being a less efficient way of training. There is a significant risk of a lot of deadweight activity.'*

The BRC believes the levy should focus more on outcomes. Ironside explained: *'If you make this investment in person x, what happens to them as a result in terms of the jobs they do, the money they earn and skills they have? This would be more challenging to do but is preferable to the current approach, which is based on assessing process.'*

The BRC also believes the funding should be able to be used for set-up and administrative costs and that the requirement that levy funds should be spent within 18 months should also be relaxed.

It is also concerned about a lack of information about some of the key requirements associated with the levy and highlights the need for more clarity about the role of the Institute for Apprenticeships. Consequently significant modifications are likely to be needed rapidly if retailers are to be able to play a full part in the new initiative from the outset.

### Recruitment industry body

The Recruitment and Employment Confederation has concerns about the apprenticeship levy. In part, this is because the payroll of recruitment agencies includes the wages they pay to temporary agency workers, who do not work in the recruitment industry. As a result, its agency workers are unlikely to ever qualify for a quality apprenticeship because of the average length of their assignments. Less than 5% of all assignments last for 52 weeks or more.

Overall, the industry is opposed to the apprenticeship levy because apprenticeships are not usually an appropriate vehicle for developing the temporary agency workforce.

As Kate Shoemsmith, the Recruitment and Employment Confederation (REC) Head of Policy and Public Affairs, comments:

*'You take the medium-sized agencies: you can have hundreds of people on your books, but you will have a really small internal team; so your payroll is your only income. These people will not be able to do apprenticeships because it will be very difficult to manage them. ... They [recruitment agencies] are agitated about paying another tax. They are not agitated about paying for a levy that goes towards training agency workers, who could get most benefit from training if you think about some of the issues we have about moving people from low-skilled to higher-skilled jobs. However, they cannot see*

*how to fulfil this [training need] with apprenticeships.*

*So what you could end up with is clever accountancy procedures where people are paid off-payroll, something HMRC is trying hard to end.'*

Shoemsmith continues: *'We have got to do something about the whole mechanism of it, because saying that you have to be trained x number of days off-the-job, as it is mandated, is an anti-employer-responsive system. There are big concerns around the future of our Trailblazer for recruitment because some of the standards may not be fit for purpose in the new levy world. As a policy, everything we talk about – how we improve productivity, how we are going to improve our education and standards – this is the way not to do it.'*

### Industry body case study

An industry body in the built environment sector cited concerns about the apprenticeship levy's impact on the quality of apprenticeships. As the head of policy and public affairs for the organisation comments:

*'The apprenticeship target does not seem to be based on employer demand. Industry analysis is currently carried out via demand-based forecasting whereas the target seems to be more of a general ambition.'*

The organisation also reports that the sector faces considerable challenges in establishing parity of esteem

between vocational training and full-time education in the industry. As the head of policy and public affairs adds:

*'It is often difficult for us to get the right candidates at the right quality. Around 20% of our candidates are committed to working in the industry. However, there is a problem with the other 80%, who may be applying to a whole range of sectors. There is also a lingering perception that if a school-leaver is not academic or is a problem child, apprenticeships are sometimes seen as the obvious route.'*

Reflecting the challenges some employers in the industry face in

attracting suitable candidates, some are looking at rebadging apprenticeships, particularly for older candidates or for degree/higher apprentices.

On the upside, the organisation reports that some companies are reviewing their graduate schemes and looking to replace them with degree apprenticeships. In addition, it believes that the apprenticeship levy could lead to an increase in the number of apprenticeships among SMEs if employers are allowed to spend apprenticeship funding on training for apprentices within their supply chain.



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