

## Improving apprenticeship delivery in London: a submission by London local government and business

### Introduction

In April 2017 the government introduced the Apprenticeship Levy, putting skills development in the hands of employers to address skills shortages within their business and to help achieve the government's target of 3 million apprenticeship starts by 2020. Over a year later, apprenticeship delivery in England is 25% lower than it was before the levy was introduced.<sup>1</sup>

It is vital that the apprenticeship levy works well in London because:

- Many employers in London are facing significant skills gaps. Almost a quarter (23 per cent) of all vacancies in London are due to a lack of applicants with the right skills, while almost half of firms (42 per cent) are not confident they will be able to recruit people with the higher-level skills their organisation needs over the next five years.<sup>2</sup> Leaving the EU is likely to exacerbate skills shortages in the capital.
- Effective investment in training is an important element in addressing the productivity puzzle within the UK and to achieve the aims of the government's Industrial Strategy. London's productivity is substantially higher than other UK regions, but London's productivity growth has lagged behind the rest of the country since 2010<sup>3</sup>.
- A significant proportion of the levy nationally is likely to be raised by London based businesses. OBR estimates show HMT collected around £2.27 billion via the Apprenticeship Levy in 2017/18.<sup>4</sup> Assuming all levy payers across the UK contribute equally to the levy pot, GLA Economics estimate London businesses contributed about £570 million to the levy in 2017/18 and that £334 million of this is underspent.
- Yet London has historically had fewer apprenticeship starts than other regions. On a per capita basis, London performed worse than any other region, with 7 in every 1,000 Londoners starting an apprenticeship in that year. The national average was 15 starts per 1,000 adults<sup>5</sup>.

<sup>1</sup> There have been 369,700 apprenticeship starts [reported](#) to date in England between August 2017 and July 2018. This compares to 491,300 and 503,700 reported in the equivalent period in 2016/17 and 2015/16 respectively.

<sup>2</sup> [Bridging the Skills Gap](#)- APPG for London. July 2017

<sup>3</sup> <https://www.resolutionfoundation.org/app/uploads/2018/06/London-Stalling.pdf>; [Solving the United Kingdom's productivity puzzle in a digital age](#) McKinsey Global Institute, September 2018

<sup>4</sup> HM Revenue and Customs- [Tax and NIC receipts](#). April 2018.

<sup>5</sup> FE Data Library, data for 2015/16

In London, many businesses are not fully utilising their apprenticeship levy funds. A London Councils and LCCI survey of 1000 employers found that of levy-paying businesses, 42% did not expect to use any of their levy funds in the next year, with a further 40% of employers expecting to spend less than half of the funds.<sup>6</sup> This suggests there will be significant levels of underspend in London and a loss of investment in training.

London government (the Mayor and London Councils) and employers want to fully use the apprenticeship levy in London to deliver relevant skills and upskilling to improve London's productivity and economic output. We also view apprenticeships as having an important role in increasing social mobility, widening opportunities for all Londoners, including the most disadvantaged.

We welcome the recent government announcements of additional funding and flexibility to allow employers to transfer up to 25 percent of their levy to suppliers and to support the Institute for Apprenticeships (IFA) to introduce more apprentice standards. We also welcome the government's forthcoming consultation on the operation of the levy after 2020. This review should be conducted speedily and should consider changes to the levy prior to 2020, as there is an urgent need for the levy to operate more effectively in London.

This paper sets out proposals from London government and key employer representative organisations to reform the levy and should be considered as part of the government's review. These are short term changes that should be implemented quickly. It also sets out with some longer term changes to the levy so that it works effectively in the capital, addressing London's skills shortages and productivity challenges.

## Short term changes to the Apprenticeship Levy

There are short term changes the government should make to the operational framework of the apprenticeship levy that will allow London's businesses to deliver more high-quality apprenticeships. A principle underpinning all these changes should be that none of them increase the administrative burden for businesses.

### Increase the flexibility of the levy

Employers require more flexibility in how they spend their levy funds. These include:

- **Allowing for pooling and joint purchasing of transferred apprenticeships.** This would allow employers to collaborate and play a strategic commissioning role and could reduce the administrative burden on businesses considering using the levy transfer. This would be particularly beneficial to those businesses with only a small amount of levy funding. It would require the removal of ESFA funding rule E185.
- **Allowing some levy funding to be used for pre-employment training to get people ready for an apprenticeship.** In 2016/17, around a third of apprentices did not complete their apprenticeship.<sup>7</sup> In the London Business 1000 survey, just under half (48%) of London businesses

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<sup>6</sup> [https://www.londonchamber.co.uk/getattachment/f5f144c3-f18a-4fe1-925f-e0dffca8a53/London-Business-1000-\(July-2018\)-Assessing-the-capital-s-skills-challenge.pdf?lang=en-GB&ext=.pdf](https://www.londonchamber.co.uk/getattachment/f5f144c3-f18a-4fe1-925f-e0dffca8a53/London-Business-1000-(July-2018)-Assessing-the-capital-s-skills-challenge.pdf?lang=en-GB&ext=.pdf)

<sup>7</sup> [DfE learner achievement rates](#) in 2016/17 for apprenticeships were 64.7% in London and 68% nationally.

stated that they would be encouraged to increase the number of apprentices employed if candidates were better prepared for the world of work. The government's social mobility strategy recognises the need to enable those furthest from the job market to make use of the opportunities available. Using the levy in this way would enable quality apprenticeships in which apprentices are well supported. We want to explore with government the most effective way of delivering this – through individual businesses and across London using pooled funding.

- **Allowing up to 10% of levy funding to cover administration costs.** The introduction of the apprenticeship levy has moved some of the administrative burden from providers to employers, compared to the previous system. This should be reflected in the use of levy funds. It would also encourage businesses to make full use of the option to transfer the levy to other employers, if appropriate. To avoid deadweight we suggest banding this according to the amount of levy paid by businesses – the smaller the amount, the greater proportion of levy funds available for administering the scheme. The government should work with employers and local government to agree appropriate banding for support with administration costs. The government should also recognise that the loss of core funding to public sector employers, such as local authorities, schools and health trusts, has significantly reduced their capacity to administer apprenticeship schemes.
- **The government should also provide additional support to SMEs including administration costs.** SMEs are likely to have very little capacity to support apprenticeships and this is often a barrier to employing apprentices. The government should explore how it can provide additional localised support to SMEs around employing apprentices. This will increase use of the levy, as well as facilitating transfer of the levy to smaller employers.
- **Work with employers and providers to explore ways to increase the number of more flexible or part time apprenticeships.** This could help to support underrepresented groups into apprenticeships. A full-time programme and full working week is not always suitable for the individual. The Learning and Work Institute have found that the barriers to implementing part-time apprenticeships mirror the operational barriers to creating more quality part-time work in the labour market.<sup>8</sup> Access to childcare should also be considered and offered as part of a package, wherever possible.

### **Increase and speed up the supply of Apprenticeship Standards and future proof them**

17 months into the apprenticeship levy, 41% of apprenticeship standards remain in development. For the construction sector, there are a host of standards not available for delivery that address chronic skills shortages, including; design and site management, quantity surveying and engineering construction. In local government, acute skills shortages in town planning, social work and surveying are yet to be addressed by the new system. Whilst the additional funding for the IFA to increase the number of standards is very welcome, the timescale for developing standards should also be reduced, resulting in a quicker, more agile system that is more responsive to employer needs.

End point assessment approvals have also created concern. For example, the Royal Town Planning Institute's<sup>9</sup> assessment plan was rejected for the Chartered Town Planner Apprenticeship shortly before the new apprenticeship was ready for delivery. There is a lack of assessors/assessing

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<sup>8</sup> Learning and Work Institute. [Exploring models for flexible and part-time apprenticeships](#). February 2018.

<sup>9</sup> <http://www.rtpi.org.uk/briefing-room/news-releases/2018/july/degree-apprenticeship-gets-government-funding-promise-despite-ifa-rejection/>

organisations for some more specialist apprenticeships. Concern remains regarding the IFA's ability to assess and approve end-point assessments for such a large range of professions and a lack of sector specific expertise at the IFA. The additional resources for the IFA should be targeted at these areas.

All apprenticeships should have at their core transferable skills like digital and enterprise – a key issue raised by business as part of London First's evidence gathering for its Employment and Skills Action Plan for London.

***We want to work with government and the IFA to identify ways for speedier development of current and future Apprenticeship Standards, to prioritise the development of standards that are in high demand from London's employers and to ensure that core transferable skills are embedded in all Standards.***

### **Make the system simpler and more user-friendly for employers and learners**

Many businesses believe the system needs to be made simpler. Business is facing difficulty with bureaucracy at several points in the process: pulling together and managing the 10 employers required to form a Trailblazer; sourcing quality training providers to work with; and the regulation and accreditation of provision once on stream. A survey by the Institute of Directors in March 2018 found that 14% of employers do not employ an apprentice as a direct result of the administrative burden.<sup>10</sup> Just over three quarters of levy payers in London (76%) said that making the system simpler would be effective in improving the levy for their business.

Many employers are finding it difficult managing the 20% off-the-job training element of apprenticeships. ***There should be a more flexible definition of what constitutes off-the-job training, so that it suits the job the apprentice is doing and builds on existing skills and qualifications, whilst still providing high quality training.*** The IFA should consider and tailor this definition to different standards, particularly for apprenticeships that include other qualifications and/or are developed with professional bodies.

***Establish a better data system for apprenticeships, underpinned by accessible provider and course information.*** This would improve the historically poor uptake in London<sup>11</sup> and the experience for learners and employers. The system is not as straightforward or as user friendly as the UCAS system is for applying for university courses and needs to be improved.

We want to explore all of these proposals with government as part of the government's review apprenticeship levy and discuss opportunities for piloting some of these changes in London, so that these can be fully tested prior to 2020.

## **Longer term changes to apprenticeships**

In the longer term, we want to discuss with government how the levy can best respond to London's particular challenges in generating apprenticeships. Given the concentration of levy paying

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<sup>10</sup> Institute of Directors- [New Business Survey shows need for reform](#). 29 March 2018.

<sup>11</sup> London has the [second lowest number of apprenticeship starts](#) across all English regions (44,000 in 2015/16 compared to 80,000 in the North West). When normalised by population, London is in last place with 7 apprenticeship starts per 1,000 population (compared to 20 in the North East).

employers in London, if London employers do not effectively and fully use their levy funds, this will have a significant impact on the overall national policy, progress towards the government's national target for apprenticeships and the drive to increase productivity.

London government should have a strategic oversight role for the apprenticeship levy in the capital. We can be more responsive to employer needs, using our direct relationships with employers in the capital in a way that cannot be replicated at a national level.

### **Ring fence unspent levy funds in London after April 2019**

London is concerned that significant levy funds will be lost to the capital at the end of the first two year period. We want to discuss how London government, working with business and providers, could retain these funds and use them to support levy payers and SMEs to increase the number of apprentices and effectively support them. Support for non-levy payers is important. An annual survey of London businesses found that whilst the proportion of businesses employing an apprentice had increased by 8 percentage points, it had only done so by two percentage points among non-levy payers between 2017 and 2018<sup>12</sup>. Some of these funds could be used to support the pilots suggested above.

### **Full devolution of the apprenticeship levy**

We want to work with the government to create a modern Local Industrial Strategy, with a highly productive workforce at its core. An effective apprenticeship levy is crucial to achieving this. London's apprenticeship start rate is comparatively low in part because of the city's sectoral composition, lower levels of employer demand for apprenticeships, and the higher likelihood of Londoners to pursue Higher Education. A national system cannot respond fully to these specific challenges. If the apprenticeship levy is not reformed in the ways set out in this paper, it should be devolved to London government, as it is to the Scottish and Welsh administrations. We will be working to develop a business case for this over the next six months.

To help us achieve this, we will need better access to data on the apprenticeship levy from government. Apprenticeship levy data, held by government, should be available at a regional and local level so that we can use this data to improve performance in generating apprenticeships locally. There should be greater openness and transparency about how and where the levy is spent.

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<sup>12</sup> [https://www.londonchamber.co.uk/getattachment/f5f144c3-f18a-4fe1-925f-e0dffca8a53/London-Business-1000-\(July-2018\)-Assessing-the-capital-s-skills-challenge.pdf?lang=en-GB&ext=.pdf](https://www.londonchamber.co.uk/getattachment/f5f144c3-f18a-4fe1-925f-e0dffca8a53/London-Business-1000-(July-2018)-Assessing-the-capital-s-skills-challenge.pdf?lang=en-GB&ext=.pdf)