**Reforming apprenticeships for the recovery**

London’s economy has been disproportionately impacted by COVID-19:

* Between March 2020 and April 2021, the number of people in London claiming unemployment-related benefits increased by 172 percent, compared to 98 percent for the rest of the UK.[[1]](#footnote-1)
* At the end of February 2021 there were 722,000 Londoners on the furlough scheme, a take-up rate of 18% against a UK average of 16%.[[2]](#footnote-2)
* Research carried out by Volterra Partners for London Councils forecasts that London’s unemployment rate will peak at 9.4% (464,000 people) in December 2021 (core scenario).[[3]](#footnote-3)
* The same research found that London’s youth unemployment rate (16-24 year olds) could hit 31.9% by the end of 2021 (core scenario).

It is also important to note that different sectors of London’s economy have been unevenly hit by the pandemic. As GLA Economics’ analysis of GVA data from the first months of the pandemic has shown, industries such as real estate and financial and insurance continued to grow, while industries such as accommodation and food services, transport and storage, arts and entertainment/recreation and construction experienced considerable decline in output.[[4]](#footnote-4) While we are now seeing the start of a recovery in some of these sectors, some continue to face challenges and will have seen permanent changes in skills needs. As a consequence, many people may be forced to change sectors and acquire new skills.

In this context, it is essential that training opportunities are made widely available to equip people with the skills they need to enter or re-enter the labour market. The measures contained in both the Government’s Plan for Jobs and the Skills for Jobs White Paper are therefore welcome. These include reforms to the apprenticeship system, such as measures to make it easier for employers to transfer levy funds and for apprentices to move between placements over the lifetime of the apprenticeship. The announcement in the Budget on 3 March 2021 that employers will receive a £3,000 payment for each new apprentice until September 2021 is also welcome. However, these changes do not go far enough in incentivising employers to take on more apprentices and ensure apprenticeships can play a full role in powering London’s recovery. A survey of London’s businesses, carried out at the end of 2020, has found that over half (53%) of apprenticeship levy-paying firms plan to use less than half of their apprenticeship levy funds over the next year.[[5]](#footnote-5)

Apprenticeships should be fundamental to the recovery from the economic impact of COVID-19. As employer-led programmes that offer both on-the-job and off-the-job training, apprenticeships are uniquely placed to support employer needs and provide a pathway into work. Apprenticeships can help build the skills employers require for the recovery, particularly in those sectors experiencing skills shortages following the end of Freedom of Movement. The apprenticeship levy system means that there is already funding available to support apprenticeships, which should be harnessed to support the recovery.

There has been a substantial drop-off in apprenticeship starts since the beginning of the pandemic. In between August and October 2020, apprenticeship starts in London were 17 percent lower than in the same period in the previous year.[[6]](#footnote-6) It is possible that this decline will prove to be temporary, however it must be noted that even before the outbreak of Covid-19, there were a number of problems with the apprenticeship system.

**Pre-existing problems with the apprenticeship system**

* **Overall apprenticeship numbers have fallen since the introduction of the apprenticeship levy.** In 2019/20, the number of apprenticeship starts in London was 24% lower than in the year before the levy was introduced.[[7]](#footnote-7) A survey of London’s businesses in 2020 found that 92% of firms do not employ any apprentices at all.[[8]](#footnote-8)
* **A lack of flexibility in the system has prevented levy-paying employers from maximising use of their funds to recruit apprentices.** In 2017-18, levy-paying employers nationally used just 9% of the funds available to them to pay for new apprenticeships.[[9]](#footnote-9) Between 2018 and 2020, London’s boroughs spent just 26% of their levy funds, citing various barriers which have prevented them from making full use of the levy.[[10]](#footnote-10)
* **There has been a welcome growth of higher level apprenticeships for people aged 25 and over, but this has been at the expense of entry level apprenticeships for younger people.** There was a 109% reduction in level 2 starts across the country In between 2015/16 and 2018/19.[[11]](#footnote-11) This is a worrying trend, given that Level 2 apprenticeships provide a vital career pathway for younger people and those furthest from the labour market. In 2019/20, 67% of apprentices created by London’s boroughs were aged 25 or over, which is more than double the proportion from two years previously.[[12]](#footnote-12)

This fall in apprenticeship numbers can be explained by the various barriers preventing employers from taking on apprentices, especially around the lack of flexibility in how the levy can be spent. These barriers have only been exacerbated by COVID-19. This is at a time when apprenticeships should be used as a lever to alleviate the risk of long-term unemployment and employment scarring.

The London Recovery Programme, which is led jointly by the Mayor of London and London Councils, contains several cross-cutting principles including addressing inequalities and prioritising sustainability. One of the Programme’s nine missions is ‘Helping Londoners into Good Work’ which commits to supporting Londoners into good jobs with a focus on sectors key to London’s recovery, including digital, health, social care, green economy, and creative and cultural industries. Increasing the take-up of apprenticeships should be central to these aims and to powering London’s recovery. Therefore, the Government should take urgent measures to incentive employers to take on apprentices to support the recovery.

**Increase the flexibility of the apprenticeship levy**

One of the major barriers to employers making full use of the apprenticeship levy has been the lack of flexibility in how the levy can be spent. At present the levy can only be spent on training costs, not on an apprentice’s wages or the administrative costs involved in hiring and supporting an apprentice. Whilst the temporary £3,000 payments for employers taking on apprentices are welcome, the levy should be reformed further to really incentivise employers to increase apprenticeship opportunities as part of the recovery.

The Government should therefore consider introducing the following flexibilities:

* Temporarily extend the amount of time employers have to spend their levy from two years to three years. The low rate of apprenticeship starts means that many employers are now losing funds they had planned to spend before the outbreak of Covid-19. This measure could be introduced on a temporary basis as part of the recovery from the pandemic.
* Extend the availability of the current employer incentives and increase them to reflect the higher cost of living, working and training in London
* Allow levy-paying employers to use some of their levy to contribute towards the wage costs of new apprentices from priority groups; and ensure that the equivalent funding is made available to non-levy payers. Priority groups should include care leavers and young people under the age of 25, but also other groups that have been disproportionately affected by the pandemic, including older people (aged 50+) who are out of work and need to retrain. Allow some funding (for both levy-paying employers and non-levy-paying employers) to be spent on the wages of Level 2 apprentices, in order to reverse the worrying decline in the number of apprenticeships created at this level. This funding could also be targeted at certain sectors that are key to the recovery and could be piloted in one of the key growth sectors identified in the Helping Londoners into Good Work mission.
* Provide additional government support to SMEs looking to take on apprentices, including through the funding of administration costs. This could cover initial start-up costs, in a similar way to the Kickstart scheme. One of the most significant barriers SMEs face is the challenge of navigating the complexity of the landscape related to providers, standards and funding. The government should consider funding a brokerage service to support SMEs to navigate the system.
* Allow some levy funding to be used for pre-employment training to get people ready for an apprenticeship. This could also be used to support continued wrap-around support to sustain people in apprenticeships, especially those from vulnerable groups, in a similar manner to the Kickstart scheme.
* Explore the possibility of introducing an incentive for employers who convert Kickstart placements into apprenticeships.
* Increase the proportion of apprenticeship levy that levy payers can transfer to SMEs from 25 percent to 50 percent. This will help unlock more apprenticeships for SMEs.

**A recovery deal for London**

We would welcome a conversation with government about broader support for London’s recovery. The disproportionate impact of the pandemic on London is largely due to the dominance of sectors such as the creative and cultural industries, tourism, aviation and hospitality. Some of these sectors will take time to recover and Londoners will need to gain the skills to compete in a very different economy and labour market, including through the apprenticeship route. London’s skills system must be able to adapt and respond to these challenges. This should include maximising the use of the apprenticeship levy, but it is also vital that London’s allocation of the AEB is sufficient to address these skills challenges and that it receives its fair share of the UK Shared Prosperity Fund.

1. [Nomis, Labour Market Profile - London](https://www.nomisweb.co.uk/reports/lmp/gor/2013265927/report.aspx%23tabwab) [↑](#footnote-ref-1)
2. [Coronavirus Job Retention Scheme statistics: May 2021](https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-6-may-2021/coronavirus-job-retention-scheme-statistics-6-may-2021) [↑](#footnote-ref-2)
3. [A detailed study of unemployment in London](https://www.londoncouncils.gov.uk/our-key-themes/economic-development/employment-support/detailed-study-unemployment-london) [↑](#footnote-ref-3)
4. [GLA Economics, London's Economic Outlook: Autumn 2020](https://www.london.gov.uk/sites/default/files/leo-autumn-2020.pdf). [↑](#footnote-ref-4)
5. [London Business 1000 Survey](https://www.londoncouncils.gov.uk/our-key-themes/economic-development/2020-london-business-1000-year-4) [↑](#footnote-ref-5)
6. GLA Datastore. 9,700 starts in London, Aug-Oct 2020 compared to 11,700 the previous year [↑](#footnote-ref-6)
7. [ESFA data.](https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships) In 2016/17 there were 44,380 starts in London, compared to [33,900 in 2019/20](https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2019-20). [↑](#footnote-ref-7)
8. [London Business 1000 Survey](https://www.londoncouncils.gov.uk/our-key-themes/economic-development/2020-london-business-1000-year-4) [↑](#footnote-ref-8)
9. National Audit Office, [The apprenticeships programme](https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf), March 2019 [↑](#footnote-ref-9)
10. Data collected by London Councils [↑](#footnote-ref-10)
11. [ESFA data](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/848534/FE_and_Skills_commentary_November_2019.pdf). In 2015/16 there were 273,330 starts at level 2, compared to 130,980 in 2018/19. [↑](#footnote-ref-11)
12. Data collected by London Councils [↑](#footnote-ref-12)