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BSA Position Paper: The Apprenticeship Levy One Year On

Background note

Following the introduction of the Apprenticeship Levy on 1 April 2017, the BSA has engaged with members to understand their experiences since its implementation. We have asked members to reflect on: their uptake of the Levy since inception, any trends they are noticing, and whether there are aspects of the levy which could be clarified or improved in future. This summary paper provides both qualitative and quantitative illustrations of members' experiences.

The BSA - Business Services Association - is a policy and research organisation. It brings together all those who are interested in delivering efficient, flexible and cost-effective service and infrastructure projects across the private and public sectors. The sector contributes 9.3% of Gross Value Added to the economy and employs 3.3 million people across the UK. BSA members employ over 17,000 apprentices and work with 250,000 SMEs through their supply chains. 70 per cent of business services are supplied to the private sector, with the remaining 30 per cent being delivered to the public sector.¹ A list of members is included below.

The BSA produced several consultation submissions and papers during the development of the Levy to outline our views, including separate responses to the devolved administrations. While strongly supportive of the government's focus on this issue, we have raised concerns about aspects of the implementation, including that it may risk undermining the aim to increase the number of good quality apprenticeships.²

At a national level there are indications that the Levy is not operating as efficiently as either government or business would like. This is reflected in the lower number of apprenticeship starts compared with previous years and the continued low levels of awareness and understanding of the scheme amongst HR professionals.³ Many of the observations made by BSA members echo the concerns raised by other business groups.⁴ The key points raised from BSA members include:

- Members surveyed report a mixed picture in terms of the number of new apprenticeship starts and there is clearly potential for better use of the levy to increase take-up
- Key factors that are causing drop-offs include: the rigidity of the 20% off-the-job training requirement, the overall time taken for the system to be implemented internally within businesses, and the time being taken to sign off standards
- There is a clear need for government to improve communications with industry about the Levy to counter misconceptions about who they are aimed at and how they can best use the funds

¹ Oxford Economics - The UK market for business services - January 2015. <http://www.bsa-org.com/wp-content/uploads/2017/04/OE-BSA-report.pdf>

² BSA response to Government's Apprenticeships Levy consultation, http://www.bsa-org.com/wp-content/uploads/2017/01/BIS_Apprenticeship_Levy_Consultation_response.pdf. For a collection of all BSA responses on apprenticeships policy see: <http://www.bsa-org.com/publication-type/consultation-responses/>

³ Apprenticeships: Eight things you need to know, BBC News, February 2018. Online: <http://www.bbc.co.uk/news/business-42977824>

⁴ See also: Dame Judith Hackitt Speech EEF National Conference Dinner 20th February 2018, <https://www.eef.org.uk/about-eef/media-news-and-insights/media-releases/2018/feb/dame-judith-speech-eeef-national-conference-dinner-20th-february-2018>; Apprenticeships scheme 'a massive lost opportunity' - CBI, BBC News, February 2018, <http://www.bbc.co.uk/news/uk-wales-43048866>

- Members report a clear and positive trend resulting from the Levy about higher numbers of people taking up advanced or higher level apprenticeships, using this to upskill existing employees and address longstanding skills gaps
- One year on, BSA members have both functional (i.e. improving the digital dashboard) and operational (i.e. reassessment of the 20% requirement) recommendations to improve the implementation of the Levy

Overall, it is clear from members that the system does not require a fundamental overhaul but rather a refining of particular aspects. The BSA continues to be supportive of the government's drive for a greater number of high-quality apprenticeships and looks forward to providing further input to improve the policy for government, businesses and workers.

Uptake of the Apprenticeship Levy since inception

BSA members report a varied picture in terms of their uptake of the levy since it was introduced.

It is clear that for some companies, the levy has negatively impacted the number of apprenticeships they have been expecting to deliver. Prior to the Levy, one BSA member had around 1,000 people doing apprenticeships at any one time but now post-Levy it is just under 500. The drop off in the uptake of new programmes in this case has been mainly due to the enhanced focus on the obligation for apprentices to do 20% off the job time. Although this was in place pre-levy, the time taken to clarify this given the auditable nature of the requirement has resulted in the low uptake.

This experience was echoed by others. Another noted they had seen a *“significant down take of apprenticeships since the reform has taken place”* - from an average of 28 starts each month pre-Levy to just two a month since its inception. They cited the time it has taken to design their programmes, the implementation of procurement processes to select the right providers, and the challenges of understanding how to embed this change across the business.

Others report that the Levy system has required them to change their enrolment processes, which now take longer and as a result the enrolment rate of apprentices for one company is 43% lower than before.

“We are seeing the ability to draw down levy funding significantly below forecast levels and one of the key issues is delays in signing off apprenticeship standards which mean we cannot implement new apprentice pathways or align our current training offer as anticipated [...] The potential gap is in the hundreds of thousands given the volumes involved.”

- *BSA Member*

While these examples align with the reported drop in apprenticeship numbers at a national level, they are not applicable to all businesses. Indeed other BSA members report neutral or increased take up. One member has had an average of 28 starts each month since the inception of the Levy, the same as the previous year. More positively, another has commenced 156 apprenticeships under the new funding rules thus far, accounting for a committed spend (total programme cost) of just over £900k, and they are expecting this number to more or less double by the end of the first year of operation.

Another notes that they currently have approximately 170 apprentices as part of their apprenticeship programme (recruited since 2015 so not all their courses put through levy) and are looking to recruit a further 50-100 over 2018 across a range of different roles. Since the introduction of the levy, this employer has also looked at how it can be utilised to support development of current employees. So far, around 75 current employees (not in apprentice roles) are looking at or have enrolled in apprenticeships, with approx. 250-350 forecasted to start this year.

Trends and observations

A common theme in members' responses is the time it has taken to fully understand the Levy, in terms of in-house HR and management teams but also regarding government's communications about apprenticeships, and what it can be spent on. There is a lack of understanding about what an apprenticeship is, what it involves and who is eligible to participate, with a key problem being the perception that apprenticeships are only for younger people. Government advertising and comment in this space can sometimes reinforce this misconception. As a result employers are taking their time to work out what they want to do with their Levy and how to navigate the process internally.

"It is taking employers a long time to work out what they want to do with their Levy. This is not surprising given the complexity of large organisations and the complexity of the Levy itself. Where businesses have seven-figure levy pots the decision where to spend that money is highly significant and involves multiple departments and stakeholders. It is not at all surprising that apprenticeship numbers have dropped in the short-term - particularly as organisations have been told that they have two years to spend the Levy."

- *BSA Member*

As stated above there is also some concern that the enrolment process for learners is now lengthier. For one member it is taking approximately 3 months to enrol, this has meant they have only converted 60% of interested learners in to signed up learners.

Sign off on standards is felt to have been too slow and complex. The improvement programme the Institute has put in place is welcome and now needs to deliver as there is evidence that delays in sign off of some key qualifications are costing employers hundreds of thousands of pounds. For BSA members with more interest in the construction services space there is a 'double hit' of lack of appropriate standards and, where they are in place, the funding cap being too low so training providers won't deliver without a considerable funding top up.

However members generally feel that while the implementation has been a "slow burn", engagement is improving now that providers and new standards are more established. There is a feeling that it has taken training providers some time to adjust to the new world, particularly colleges etc., which have operated outside of the commercial/private sector previously.

Members welcome the move that recently went live to allow businesses to transfer 10% of their levy funding to other employers and the positive implications this has for supply chains. Businesses would welcome even more flexibility on where and how the funding could be spent on skills.

A trend that numerous members have noticed is the success of, and growing appetite for, higher level and degree apprenticeships to improve professional development as well as core skills. One member states they "had 81 CMDA starts May 17 to Dec 17 where previously we had none at higher level. 26% of starts are at higher level compared to zero pre levy."

Related to this, companies are seeing much more interest from within their business to use apprenticeships to address skills gaps which have persisted for years due to a lack of investment in training, leading to a much higher proportion of management development for existing colleagues than new recruitment supported with learning so far. One member said it was exploring how it can transfer existing training programmes to apprenticeships where appropriate.

Given this trend, BSA members are clear that there should be no further changes to cap the funding levels for higher apprenticeships or prevent employers from claiming funding for existing employees who undertake these qualifications. Such measures would be counterproductive and mitigate against steps towards lifelong learning and employability. Employers are engaging positively in upskilling their existing employees via this route and aligning their development offers where appropriate to the relevant standards.

Areas for improvement and recommendations

BSA members deliver approximately 17,000 apprenticeships. There is a strong desire amongst members to engage with the Levy however there are areas for improvement in how it is being implemented.

Members' experiences of using the Levy and navigating its various elements has been mixed. Some feel that it is simply a matter of allowing the policy time to bed in with employers; others however feel that confusion has been caused by changing a process which worked well prior to its introduction to one that is now perceived as just being there to ensure that funds are difficult to obtain.

“Contrary to some of the press received I have found all of the reforms logical, easy enough to use and supportive of the business need. It simply takes some time and investment/ due diligence to understand the opportunities associated with the levy.”

- *BSA Member*

One area concerns the digital account dashboard, which is described as *“very basic and not very user friendly to see information”*. While improvements are promised these seem to be taking some time to come through and there are several issues to be resolved (i.e. cannot be used to report on actual/committed/forecasted spend, or know when your monthly vouchers are going to expire etc.).

Large employers are struggling to manage their funds and are having to design their own solutions. One BSA member has provided evidence of how, due to the fact deductions are made monthly, more money is being taken from them as a business than they could possibly spend - over the last 3 months their payments to learning providers have been just 2.6% of the value of digital vouchers paid in to the account in those 3 months. In addition, businesses are having to increase resources internally to manage the system and drive awareness through their company.

The requirement for an apprentice to spend at least 20% of their time on off-the-job training remains an issue for members. Concerns included how this rule will be maintained for technical apprenticeships through the 11 weeks of the year when colleges are closed for holidays; how training given through mentoring and coaching is to be accurately measured; the potentially negative impact on productivity of removing the apprentice from their normal work activity for one day a week; and how this rule is to be achieved with higher apprenticeships which have a longer duration. One suggestion for resolving this might be to replace this with a requirement to publish syllabuses and demonstrate that students undertake and complete those syllabuses.

Lack of parity for employees in the devolved nations - i.e. not allowing Welsh and Scottish employees to benefit from Levy funding - is seen as confusing and does not make sense to national employers. This potentially causes mobility issues for members' employees that reside in these countries and significantly reduces the potential to develop through an apprenticeships route.

Lastly, there are some concerns about the 'supply side' of the Levy in terms of the provider market and their behaviour. Contracting rules are described as *“woolly”* and there is little means for employers to gauge how good providers are or if they have the capacity to deliver high quality apprenticeships.