MAKE uk
The Manufacturers' Organisation

AN UNLEVY PLAYING FIELD FOR MANUFACTURERS

MakeUK.org

OVERVIEW

Apprenticeships have for decades have been seen by our industry as an unrivalled form of training that secures the skills manufacturers need now and in the future. An impressive 65% of manufacturers have recruited an engineering apprentice in the past 12 months and 73% plan to in year ahead. This is why Make UK has and continues to be so vocal on the reforms needed to make the Apprenticeship Levy work for manufacturers.

It was never going to be plain sailing. This was a fundamental change: the introduction of a new tax in the form of the Levy itself; a co-investment requirement for those companies out of the scope of the Levy; and a move from old frameworks to new, employer-led apprenticeship standards. Introducing just one of these changes would have been challenging enough, but to introduce a wide range of reforms was always going to be difficult for all those involved in the apprenticeship landscape, including employers.

Make UK has continued to work closely with the Government as these changes have been introduced and have evolved, and, when needed, has called for greater and faster changes to the reforms. We have done so through various means, including two reports based on surveys of our members: one prior to the introduction of the Levy and the second the following year.

This third report is written two years on from the Levy's introduction. We take stock of trends of apprentice recruitment among manufacturers and look at the impact the Levy has had on these trends. We explore the barriers manufacturers face in recruiting more apprentices and find that some of these barriers, such as a lack of relevant standards, are consequences of the reforms. Others, such as a lack of quality candidates, are reflective of longer-standing challenges with the UK's education system.

Despite having been embedded for more than two years, the reforms are still not working for manufacturers.

An overwhelming 95% of manufacturers want to see the Apprenticeship Levy changed in some way, with an increasing number wanting it to move towards a skills levy. Such a move would require close and collaborative working between industry, providers and the Government. One in five manufacturing employers wants to see the Levy scrapped completely as frustrations with the system deepen.

There is a clearly a huge amount of disillusionment among Levy-payers and their inability to spend what they had at first assumed was "their money", and getting to grips with the complex rules on spend has been hard for many. But it is not just Levy-paying companies that have voiced their concerns around the changes. Smaller businesses, who do not pay into the Levy, have often remarked that there is an uneven playing field, with the training market now serving the big Levy-payers and leaving smaller businesses as little more than an afterthought.

There is no denying that employers need to up their game when it comes to training their new and existing employees. As an industry, we desperately need a continual pipeline of fresh young talent, as well as to up-skill and re-skill the current workforce to keep pace with advancements in digital technology. And, of course, the Brexit effect will undoubtedly further shrink the talent pool that is available to employers by restricting access to skills across Europe.

It is for these reasons that Make UK makes its final pitch to the Government in this report, ahead of the Spending Review. The aims of the Apprentice Levy were and remain laudable. But its implementation has let those aims down. It is time to think again about some of the reforms, to give employers the flexibility they have been calling for and to set out a real blueprint for apprenticeship and wider training funding that is fit not just for now but also for the future.

1. RECAP: TIMELINE OF THE APPRENTICESHIP LEVY

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2010

MAY 2015
3 million apprenticeship starts
Government set a target of 3 million apprenticeship starts by 2020. The Enterprise Act 2016 empowers the Education Secretary to set targets for apprenticeships in the public sector to help meet national targets.

JULY 2015
Apprenticeship Levy announced
The Apprenticeship Levy was announced at Summer Budget 2015, as a means to increase the quantity and quality of apprenticeships in England.

AUGUST–OCTOBER 2015
Apprenticeship Levy: Employer-owned training consultation
Government launched a consultation on how the levy would operate, including key principles.

NOVEMBER 2015
Spending review
During the Government's autumn spending review it was announced that employers with a pay bill of more than £3 million would pay 0.5% towards the levy. Simultaneously, the Government published its response to the consultation on employer-owner training.

DECEMBER 2015
Apprenticeships: 2020 vision
This report set out how the Government planned to:

- increase the quality and quantity of apprenticeships; and
- achieve 3 million starts by 2020.

2016

MAY 2016
The Institute for Apprenticeships (IFA) is established
Under the Enterprise Act 2016 and sponsored by DfE, the IFA aims to ensure high-quality apprenticeship standards and advises the Government of the funding required for each apprenticeship standard.

AUGUST 2016
DfE and Education Skills Funding Agency (ESFA) publish proposals for changes to apprenticeship funding

- Each apprenticeship framework or standard will be associated with a funding band.
- Employers and training providers will negotiate a price for training and assessment.
- Apprenticeship Levy funds will be used to pay for the training and assessment for employers paying the Levy (up to the upper limit of the funding band).
- Employers who do not pay the Levy will pay 10% of the cost of training and assessment, with the Government contributing the remaining 90% (up to the upper limit of the funding band).
- Training and assessment costs above the upper limit of the funding band will be paid for separately by the employer (Levy-paying employers will not be able to use levy funds).
- Additional payments may be made to the employer and training provider depending on the characteristics of the apprentice and the type of the apprenticeship.

OCTOBER 2016
Funding rules changed
The ESFA announced changes to the funding rules, including an extension in expiration date of funds from 18 to 24 months.

2017

JANUARY 2017
Government response to apprenticeship funding consultation
Changes to funding would start in March 2017. The consultation stated that companies in the public sector with 250 or more employees in England, from March 2017 to 2020, would be obliged to meet the apprenticeship targets of a minimum of 2.3% apprenticeship starts each year, based on size of company.

FEBRUARY 2017
Levy-paying employers can open digital accounts
Accounts show Levy payments from May 2017 onwards and a 10% top-up.

APRIL 2019
The Levy and the IFA come into effect.
The Levy requires all UK employers with a pay bill of more than £3 million a year to pay 0.5% in tax.

MAY 2017
All new apprenticeships are paid for
Either from the digital accounts of Levy payers or via co-investment by non-levy payers. Apprenticeship funding is allocated according to 15 funding bands.

2018

MAY 2018
Transfer of funds
Levy-paying employers are able to transfer up to 10% of their unused funds to other employers, subject to requirements.

AUGUST 2018
Number of funding bands increase from 15 to 30.

2019

APRIL 2019
Co-investment rate is reduced
Payable by non-levy payers, towards the cost of training and assessment, the rate was reduced to 5% for new apprenticeship starts.

Transfer of funds limit raised
Levy payers can transfer 25% of unspent annual apprenticeship funds to other employers, up from 10%.

2. THE APPRENTICESHIP LEVY AND REFORMS

LEARNING ABOUT THE LEVY: THE KEY FACTS

SINCE APRIL 2017
EMPLOYERS HAD TO PAY
0.5% OF THEIR PAY BILL TOWARDS A NEW APPRENTICESHIP LEVY

PAYBILL
IS BASED ON TOTAL EMPLOYEE EARNINGS
SUBJECT TO CLASS 1 SECONDARY NICs

EMPLOYERS HAVE AN ALLOWANCE OF
£15,000 PER YEAR
WHICH MEANS SINGLE EMPLOYERS WITH A PAY BILL OF OVER
£3M PAY THE LEVY

EMPLOYERS HAVE BEEN RECEIVING FUNDS IN THEIR
NEW DIGITAL ACCOUNTS SINCE
MAY 2017

EMPLOYERS HAVE 24 MONTHS
TO SPEND THEIR LEVY FUNDS. AFTER THEN, **FUNDS WILL EXPIRE**

EMPLOYERS ONLY RECEIVE
FUNDS FOR THE PROPORTION OF THEIR PAY BILL
THAT EQUATES TO EMPLOYEES WITH
AN ENGLISH HOME POSTCODE

THESE DIGITAL FUNDS CAN BE USED TO BUY
APPRENTICESHIP TRAINING

LEVY PAYING EMPLOYERS
RECEIVE A
10% TOP-UP
ON THEIR DIGITAL FUNDS

THE FUND CAN ONLY BE SPENT ON TRAINING
FOR AN APPROVED APPRENTICESHIP STANDARD
OR FRAMEWORK WITH AN APPROVED TRAINING PROVIDER

THE FUNDS CAN ONLY BE SPENT ON AN APPRENTICE WHOSE MAIN PLACE OF
WORK IS IN ENGLAND

AN APPRENTICESHIP
THAT STARTED
ON OR AFTER
1ST MAY 2017
HAS BEEN FUNDED UNDER THE LEVY

THERE IS A MAXIMUM PRICE AN EMPLOYER CAN SPEND ON AN APPRENTICESHIP FROM THE LEVY. THIS RANGE FROM
£1,500 TO £27,000

20% OF FUNDS ARE
HELD BACK UNTIL THE
APPRENTICESHIP HAS BEEN COMPLETED

PAYMENTS FOR TRAINING
LEAVE
DIGITAL ACCOUNTS ON A
MONTHLY BASIS

NON-LEVY PAYERS ARE REQUIRED TO **CO-INVEST** **5%** TOWARDS THE COST OF TRAINING

THERE ARE **INCENTIVE PAYMENTS** TO ENCOURAGE EMPLOYERS TO **RECRUIT YOUNGER APPRENTICES**

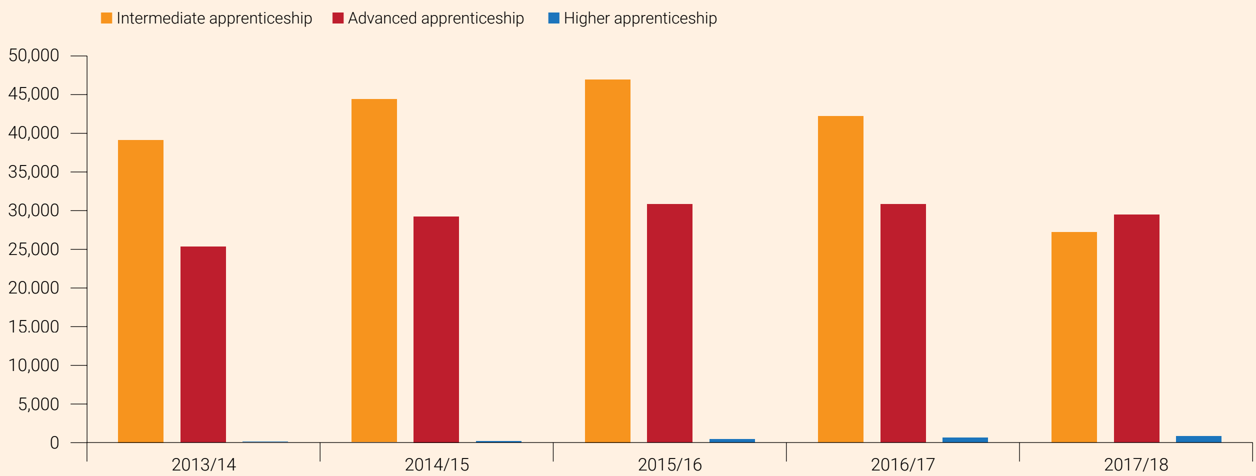
3. ARE MANUFACTURERS CONTINUING TO RECRUIT APPRENTICES?

GOVERNMENT STATISTICS: ENGINEERING AND MANUFACTURING APPRENTICESHIPS

Starts in engineering and manufacturing have fallen year on year since 2015/16 – in fact, between 2015/16 and 2017/18 total apprenticeship starts in the engineering and manufacturing sector fell by 26%.

Despite manufacturers ploughing through the changes and taking on apprentices, it is clear that the introduction of the Apprenticeship Levy has had an impact.

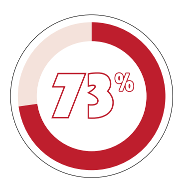
Chart 1: Engineering and manufacturing, number of starts by level and year



Source: Statistical First Release data, gov.uk

Manufacturers continue to recruit apprentices

Apprentices are the lifeblood of many manufacturing businesses. Apprenticeships have for decades been used by the industry as an unrivalled form of training. It would take a lot more than a new tax to stop manufacturing businesses training the next generation of innovators, creators and makers needed by our industry.



OF MANUFACTURERS PLAN TO RECRUIT AN ENGINEERING APPRENTICE IN THE NEXT 12 MONTHS

This year, we see the passion in our industry for apprenticeships continue, with 65% of manufacturers having recruited an engineering apprentice in the last 12 months and 44% having taken on an apprentice in another part of the business. Faced with continued skills shortages and an uncertain outcome of Brexit, manufacturers are set to pick up the pace in the year ahead, with 73% planning to recruit an engineering apprentice in the next 12 months and 48% putting apprentices in other parts of their business.

The focus remains on younger apprentices

The focus for manufacturers remains on the younger generation, with 58% of manufacturers typically recruiting apprentices aged 16 to 18. This is often to balance out the ageing workforce of the manufacturing industry. This figure is lower than in our 2012 survey when it stood at 76%. We expect this falling trend to continue in the coming years as more employers adopt higher-level apprenticeships which require higher entry requirements. In addition, as T Levels are rolled out, we anticipate that more young people will choose this vocational pathway over apprenticeships.

Lower-level apprenticeships seen as stepping stone to higher levels

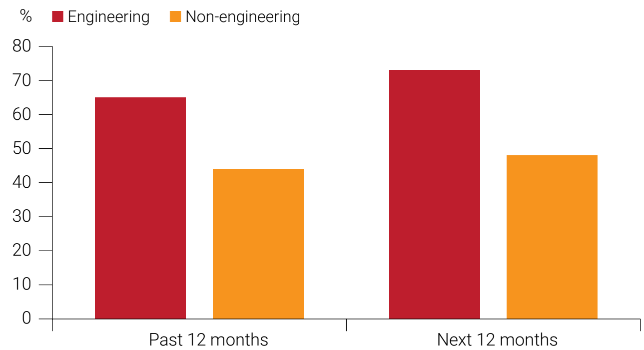
With an increasing shortfall in Level 3 engineering skills[1], our survey reported good news in that two-thirds (66%) of manufacturers have recruited an apprentice at advanced level (Level 3) in the past 12 months and 58% are planning to recruit apprentices at this level in the next 12 months.

Level 2 (intermediate) apprenticeships are still being used by manufacturers, with 54% having recruited apprentices at this level in the past 12 months and 60% planning to recruit at this level in the next 12 months. Apprenticeships at this level have come under criticism, as they are often viewed as lower quality. However, they are a particularly valuable stepping stone to higher-level training in manufacturing. This type of apprenticeship is rarely used as an end point.

Plans to recruit higher- and degree-level apprenticeships are picking up in the year ahead (20% and 13% respectively), although such recruitment tends to be dominated by the larger firms. This could be a result of larger firms being directly involved in the development

Chart 2: Manufacturers continue to recruit apprentices

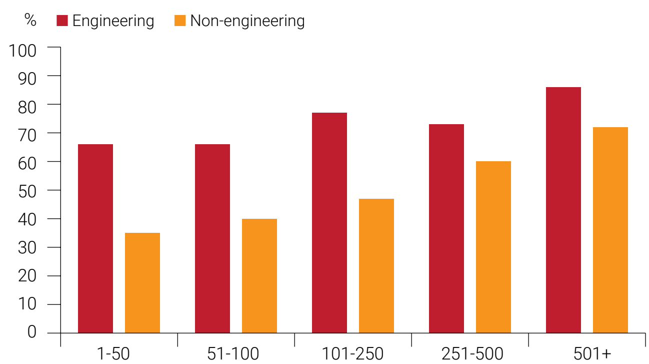
% of companies citing past and future recruitment of apprentices



Source: Make UK, Education and Skills Survey (2019)

Chart 3: Manufacturers of all sizes are recruiting apprentices

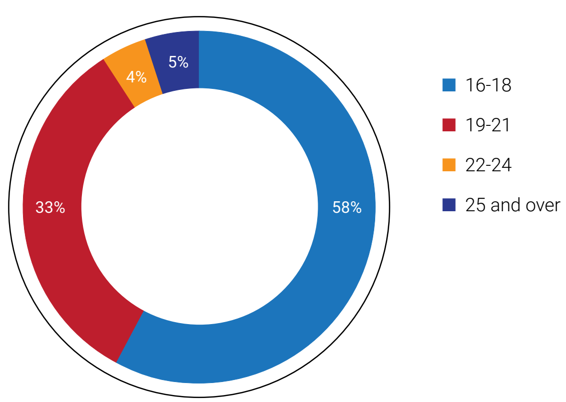
% of companies planning to recruit apprentices in next 12 months by size (number of employees)



Source: Make UK, Education and Skills Survey (2019)

Chart 4: Younger apprentices remain the focus

% of manufacturers citing the age at which apprentices generally start in their company



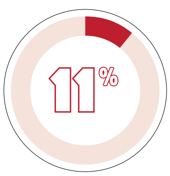
Source: Make UK, Education and Skills Survey (2019)

[1]Engineering UK forecasts that the UK will need 203,000 people with Level 3 and above engineering skills every year to meet demand.

of these apprenticeships. Or it could be because some providers (including many universities that are more likely to deliver degree apprenticeships) are locked out from delivering provision to non-Levy-payers because of the non-Levy procurement process. In a number of cases it is a result of both.

The Levy could have added value and created more apprenticeship opportunities

We reported last year that there had been missed opportunities from the Levy, and the story is the same again this year. A handful of manufacturers continue to report that they have either delayed or cancelled one or more apprenticeship because of the Apprenticeship Levy. Some have not even tried because they have simply been perplexed by the Levy and the funding rules around its use.

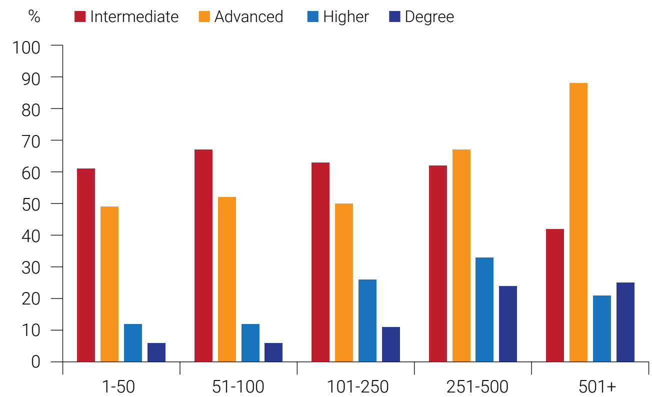


OF MANUFACTURERS HAVE DELAYED, CANCELLED OR NOT STARTED A NEW ENGINEERING APPRENTICESHIP BECAUSE OF THE LEVY

That said, these issues are not all down to the introduction of the Levy itself. Nearly two in five (38%) of manufacturers say they have not started a new apprenticeship because of other business reasons. Later, we look in more detail at the internal and external barriers that are preventing the creation of more apprenticeships.

Chart 5: Lower-level apprenticeships are often used as a stepping stone to higher-level apprenticeships

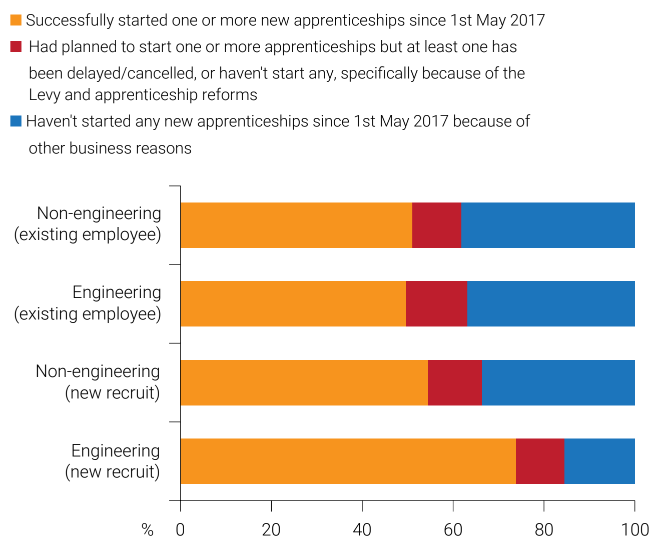
% of manufacturers planning to recruit apprentices in the next 12 months by level and by company size (number of employees)



Source: Make UK, Education and Skills Survey (2019)

Chart 6: Missed opportunities from the Levy

% of manufacturers citing whether they have been successful or not in starting apprenticeships since the Levy



Source: Make UK, Education and Skills Survey (2019)

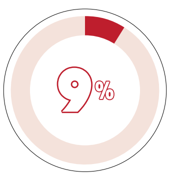
4. HAVE POLICY CHANGES TO THE SYSTEM HAD AN IMPACT?

Last year, 52% of manufacturers said they wanted to see changes made to the Apprenticeship Levy as a way forward; others wanted it to be scrapped or to be evolved into something more resembling a training levy.[2] The previous year, an overwhelming 75% of manufacturers were concerned about their ability to spend the Levy.[3]

So did the Government listen, and if so, what has been the result? And have manufacturers been spending their Levy funds?

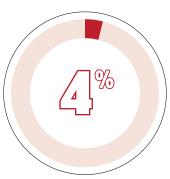
Levy spend is somewhat limited

Less than one in five (19%) of manufacturers spent all their Levy money last year, and around the same percentage (18%) have not yet crunched the numbers. In general, companies are spending around 26–50% of their Levy.



OF MANUFACTURERS DID NOT SPEND ANY OF THEIR LEVY FUNDS LAST YEAR

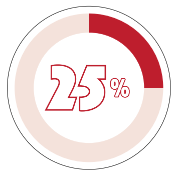
Looking ahead, plans to spend are picking up, with 29% estimating that they will spend all their Levy money in the next financial year. This reflects the increase in recruitment mentioned earlier, and the system becoming embedded while employers have been familiarising themselves with it at the same time.



OF FIRMS DO NOT EXPECT TO SPEND ANY OF THEIR LEVY NEXT YEAR

Manufacturers want to spend more of their Levy and believe that the way to achieve this is through greater flexibilities on who, on what, when and where their Levy funds could be spent. When asking about what the Government's top priority should be for apprenticeship policy in the future, more than two in five (42%) said giving businesses greater flexibility on spending money on training apprentices.

However, the only additional "flexibility" the Government has introduced has been to allow employers to transfer part of their unused Levy funds to other employers.



IS THE AMOUNT OF UNUSED LEVY FUNDS A LEVY-PAYING COMPANY CAN TRANSFER TO OTHER BUSINESSES

With only 24 months to spend funds, if a business is unable to spend the Levy itself, it can "gift" it to another employer. Of course, that assumes there is an employer wanting to take that money – this is mostly like to be a company that does not pay the Levy, so the transferred funds would cover their co-investment.

We asked manufacturers about transfers and what they thought of the policy.

Transferring Levy funds – a mismatch of supply and demand

An overwhelming majority (83%) of Levy-paying manufacturers have not transferred funds and have no plans to do so. Some companies we spoke to view the process as complex, requiring excessive internal due diligence. A large number said they want to spend the funds in their own business – if the funding rules were to be relaxed and would allow for it. A handful (13%) have not yet transferred but are planning to, and a small 4% have transferred funds.

These figures chime with those from smaller businesses not paying into the Levy, with just 2% saying they have been recipients of Levy funds. There is a slight mismatch in supply and demand here, however, with 60% of companies saying that they have not received funds but would like to. That said, 38% have not and would not want to. For those wishing to receive funds, there are models evolving to help make this happen, including that from the West Midlands Combined Authority (WMCA).[4]

[2] Make UK (formerly EEF), A Levy Price to Pay (2018).
[3] Make UK (formerly EEF), Lifting the Lid on the Levy (2017).
[4] More information at: https://www.wmca.org.uk/news/big-banks-are-first-to-contribute-to-the-wmca-s-apprenticeship-levy-transfer-fund/

Overall, the introduction of transfers has not fundamentally changed employer behaviour or driven the numbers up.

Co-investment

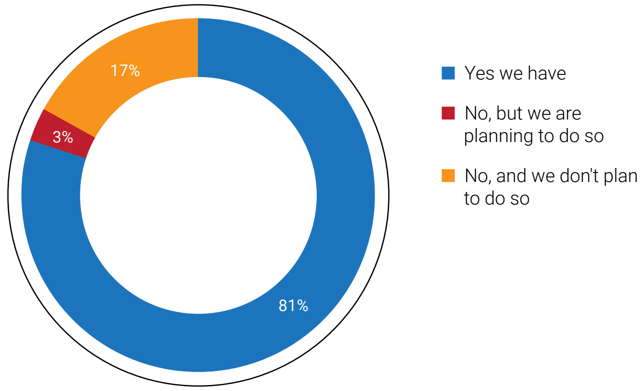
The other big headline this year was the announcement to reduce the co-investment rate from 10% to 5% for apprenticeships starting on or after 1 April 2019. This is the amount that a company, which is not in scope of the Levy, has to pay towards the cost of apprenticeship training (up to a maximum funding band).

For manufacturers, we questioned whether this policy would be much of a game changer. Many small businesses have been investing heavily from their own pockets in apprenticeships for a long time. Such companies have always been more likely to cite barriers such as a lack of quality candidates or a lack of relevant training provision as barriers.

ALMOST HALF (48%) of manufacturers not paying the Levy said that the reduction in co-investment would not encourage them to recruit more apprentices

Chart 7: Transferring funds is not a priority for Levy-payers

% of companies citing plans to transfer unused funds



Source: Make UK, Education and Skills Survey 2019

More than a quarter (28%) said the reduction would encourage them to recruit more apprentices, and just under a quarter (24%) said they do not know. The picture, then, is somewhat unclear, and we are unlikely to see any of the benefits from this policy until the start of the next academic year (September/October 2019), when apprenticeships tend to start.

5. WHAT ARE THE BARRIERS TO RECRUITING APPRENTICES?

For the majority of manufacturers recruiting apprentices, the barriers cited are generally to the expanding of existing apprenticeship schemes rather than to companies starting from scratch. There is appetite to increase volume, but there are factors holding companies back. Some are internal and can't be fixed by government policy but others are external and can.

The top barriers for non-Levy-payers do not differ much from those for Levy-payers, which gives us some priorities to focus on when calling for reform.

Barriers to apprentice recruitment

INTERNAL

- 20% OFF-THE-JOB REQUIREMENT
- COST OF SETTING UP AN APPRENTICESHIP
- TIME/STAFF CONSTRAINTS (E.G. NEEDING MENTORS FOR THE APPRENTICE)

EXTERNAL

- LACK OF APPRENTICESHIP STANDARDS THAT MEET THE NEEDS OF THE BUSINESS
- LACK OF ACCESSIBLE TRAINING PROVISION IN MY LOCAL AREA
- LACK OF QUALITY CANDIDATES IN MY LOCAL AREA
- CAN'T FIND END POINT ASSESSMENT (EPA) PROVIDER IN MY AREA

For both Levy-payers and non-Levy-payers, the biggest barrier to recruiting more apprentices is time/staff constraints – for example, needing employees to mentor and train the apprentices during their on-the-job training. This was also a major barrier for employers in delivering T Level placements, as we found in our recent report, *T Levels: Make or Break for Manufacturers?*[5]

This is more of an internal challenge and there is little that the Government can do to help employers. It is ultimately up to manufacturers to decide whether it is worth the potential reorganisation of staff to allow for more apprentices in their business.

53% OF COMPANIES THAT DO NOT PAY THE LEVY SAY TIME AND STAFF CONSTRAINTS ARE BARRIERS TO RECRUITING APPRENTICES

In a similar manner, the requirement for apprentices to spend 20% off the job is a barrier, again driven by the need for employers to ring fence employees to potentially cover work that the employee apprentice would otherwise be doing. While we have cited this as an internal factor, it is driven by Government policy, as it is the funding rules that dictate this requirement.

39% OF LEVY-PAYING MANUFACTURERS SAY THE 20% OFF-THE-JOB REQUIREMENT IS A BARRIER TO TAKING ON MORE APPRENTICES

A longstanding and major external barrier is a lack of accessible training provision. Manufacturers often require niche training in smalll numbers; this is not always an attractive offer for providers who benefit more from economies of scale. Government should undertake work to identify cold spots in provision. It is not uncommon for

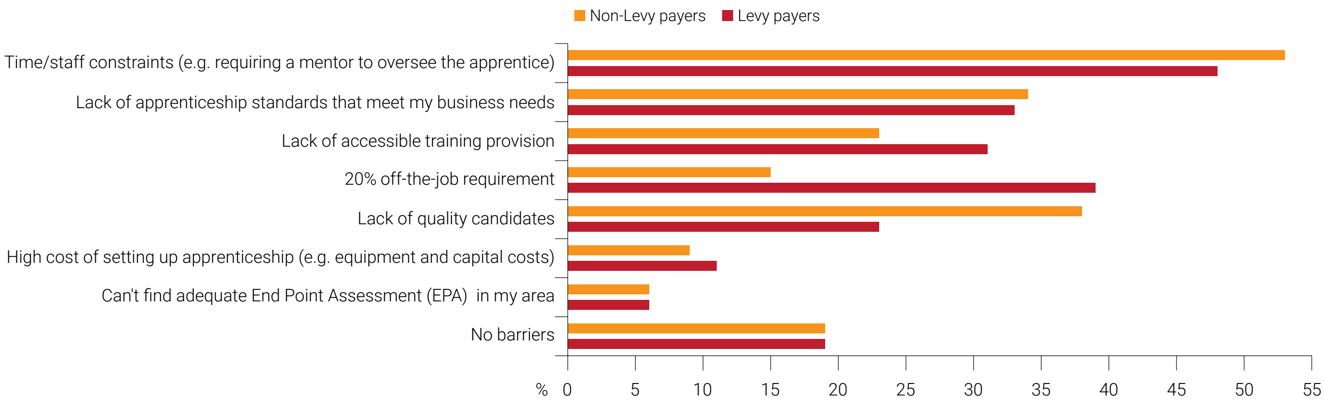
[5] Make UK, T Levels: Make or Break for Manufacturers? (2019).

manufacturers to tell us that the only provider willing and able to deliver what they require is some hundreds of miles away.

In particular, companies that do not pay the Levy have struggled to find the provision they need. The complicated non-Levy procurement process has meant that many providers have been "locked out" from delivering apprenticeships to non-Levy-payers, leaving smaller businesses with fewer options when it comes to buying the training they want.

Chart 8: External and internal barriers manufacturers face in recruiting more apprentices

% of companies citing barriers to recruiting/more apprentices



Source: Make UK, Education and Skills Survey (2019)

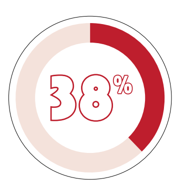
In a similar vein, a lack of apprenticeship standards remains a barrier for both Levy-payers and non-Levy-payers. The move from apprenticeship frameworks towards new standards has been painful for some employers involved. Frustrations around the pace of sign-off of standards and conflicting views around funding bands has driven many of these. That is not to say that frameworks have delivered what employers wanted either, however. Time could potentially shift this barrier as more-relevant standards are developed. However, the future challenge will be to ensure that they remain relevant and up to date. The Institute for Apprenticeships and Technical Education (IfATE) should be working with employers to scope out the standards needed for the future, not just for today.

FRAMEWORKS TO STANDARDS

Since 2016/17, the percentage of starts on new apprenticeship standards has increased, from 5% to 66% in 2018/19 (to date). To date in 2018/19, 191,500 apprenticeship starts have been on the new standard. As the government stops funding frameworks in 31 July 2020, we expect this to increase eventually to 100%.

	2014/15	2015/16	2016/17	2017/18	2018/19 (reported to date)
All apprenticeships	499,900	509,400	494,900	375,800	311,200
Of which apprenticeship standards	400	4,300	24,600	163,700	191,500
	0%	1%	5%	44%	62%

A lack of quality candidates is proving to be particularly challenging for non-Levy-payers. These businesses tend to be smaller and do not have the advantage of a big brand sell to young people.



OF COMPANIES THAT DO NOT PAY THE LEVY SAY THAT A LACK OF QUALITY CANDIDATES IS A BARRIER TO RECRUITING APPRENTICES

But it is not just about competition from the larger firms. Increasingly, employers are telling us that young people do not have the skills and qualifications needed to succesfully complete the apprenticeship training and fulfil the role at the end. This longstanding and deep issue is for a separate report.

Why is there a lack of training provision and what are companies doing when they cannot find the standard they want?

We dug a little deeper on this question, asking manufacturers why they cite a lack of training provision, and this is what they told us:[6]

NON-LEVY-PAYING COMPANIES

Training providers/colleges in my area do not offer the apprenticeship standard my business needs **(92%)**

My company is not willing to send apprentices far away for relevant provision **(42%)**

The quality of training is poor **(50%)**

There is no end point assessment (EPA) in my local area **(17%)**

Training providers are charging too high costs **(8%)**

My company is not willing to send apprentices far away for relevant provision **(8%)**

LEVY-PAYING COMPANIES

Training providers/colleges in my area do not offer the standard my business needs **(80%)**

Quality of training is poor in my area **(50%)**

My company is not willing to send apprentices far away for relevant provision **(35%)**

Training providers are charging too high costs **(26%)**

There is no end point assessment (EPA) in my local area **(2%)**

Here is a snapshot of what companies are doing, or not doing, when they cannot find a standard they need:

Cannot find a standard? What do manufacturers do next?

71% of Levy-paying companies have spoken to a local further education (FE) college or training provider about what is on offer. **83%** of non-Levy-paying companies have done this.

24% of Levy-paying companies and **11%** of non-Levy-paying companies have looked to get involved/got involved in a Trailblazer group to design a new standard.

57% of Levy-paying companies have searched on the Institute for Apprenticeships (IfA) website. **33%** of non-Levy-paying companies have done this.

57% of Levy-paying companies have used the search for a provider/ standard tool on gov.uk. **44%** of non-Levy-payers have done this.

8% of Levy-paying companies and **11%** of non-Levy-paying companies have taken no action.

[6] All figures are expressed as a percentage of respondents to the Make UK, Education and Skills Survey (2019) citing the particular barrier

6. WHAT NEXT? THE FUTURE OF THE APPRENTICESHIP LEVY

Manufacturers want more apprenticeships, but do not want the Levy in its current form

We know that manufacturers are passionate about apprenticeships and, from their plans to recruit apprentices, we know they see apprenticeships as a fundamental part of their business. But we also know that manufacturers have been left frustrated by the reforms. Many see the Levy as an opportunity that has been wasted.

OF MANUFACTURERS WANT TO CHANGE OR SCRAP THE LEVY

When we asked last year what manufacturers wanted to see happen next, the majority wanted to see improvements made to the Levy – to keep it for apprenticeships but make changes to the funding rules. This year, it seems that employers' patience is wearing thin. As a result, we see 21% of companies wanting to scrap the Levy entirely and 54% wanting it to evolve into a wider skills levy.

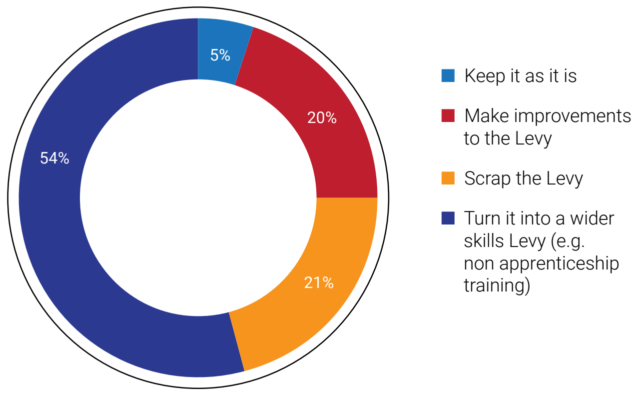
The number wanting it to be a skills levy has increased somewhat since last year (54% this year compared with 26% in 2018). But such a move will not come cheap. Employers would need to ask themselves if they would be willing to pay more. When we asked, an overwhelming 87% said no (a mixture of both Levy-payers and non-Levy-payers). They might be swayed if a new skills levy were to do exactly what employers want, but they will be sceptical given the current reforms.

If this was to be a future plan, it would need careful and close consultation between employers, providers and Government to decide who pays and how much, and what exactly it would fund.

Just 19% of manufacturers want to keep it for apprenticeships but improve it (down from more than half in 2018), citing many of the same needed improvements as last year:

Chart 9: Manufacturers want to see the Levy evolve

% of companies stating what they think should happen to the Apprenticeship Levy in the future



Source: Make UK, Education and Skills Survey (2019)

Levy improvements that manufacturers need

- Provide financial incentives for employers and learners for STEM (science, technology, engineering and maths) apprenticeships.
- Increase lifetime of funds from 24 months.
- Increase the cap that limits the amount an employer can spend from its Levy funds.
- Allow employers to agree bespoke payment schedules with their providers.

With a limited pot, flexibility for all will not be possible

The Levy pot only raises a certain amount, and with an overwhelming 87% of manufacturers not wanting to pay in more, the question is where would any additional money come from? There are two real choices here: to increase spend (employers are currently saying no but may be swayed with the right "Levy", or the Government tops up the pot) or to limit expenditure (which would mean prioritising certain apprenticeships). Another factor to consider is the forecasted overspend (see box below).

The "overspend" problem – NAO report

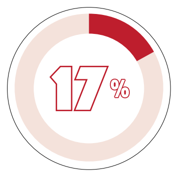
While many headlines, including those from Make UK, highlight the lack of spend among employers, it is estimated that the Levy pot, which funds all apprenticeships, will in fact be overspent in the future. The recent NAO report found that the average cost of training an apprentice on a standard is around double what was expected, making it more likely that the programme will overspend in future. This is because employers are developing and choosing more expensive standards. The report went on to find that financial constraints could inhibit growth in apprenticeship numbers, because the DfE and HMT had expected levy-paying employers to access around half of the funds in their accounts, but in some sectors it is a lot higher.

Source: NAO, The Apprenticeship Programme (2019)

Manufacturers want Government to prioritise flexibility, quality and tackling skills shortages

With an increasing number of manufacturers asking for the Levy to evolve into a wider skills Levy in the future, it is unsurprising that more than two fifths (42%) of manufacturers want greater flexibility when spending money on training apprentices. This is also a final nudge to Government that the flexibilities that industry has called for previously are still being demanded by employers.

Just under one in five (18%) think the Government's focus should be ensuring the quality of apprenticeships – something that has been criticised by a number of stakeholders in recent years – and creating more apprenticeships in skills shortage areas (17%). The latter is unsurprising given the worrying figures from Engineering UK which demonstrate that we need 203,000 people with engineering skills at Level 3 and above every year to meet demand[7] – many of whom could, and should, come through the apprenticeship route.

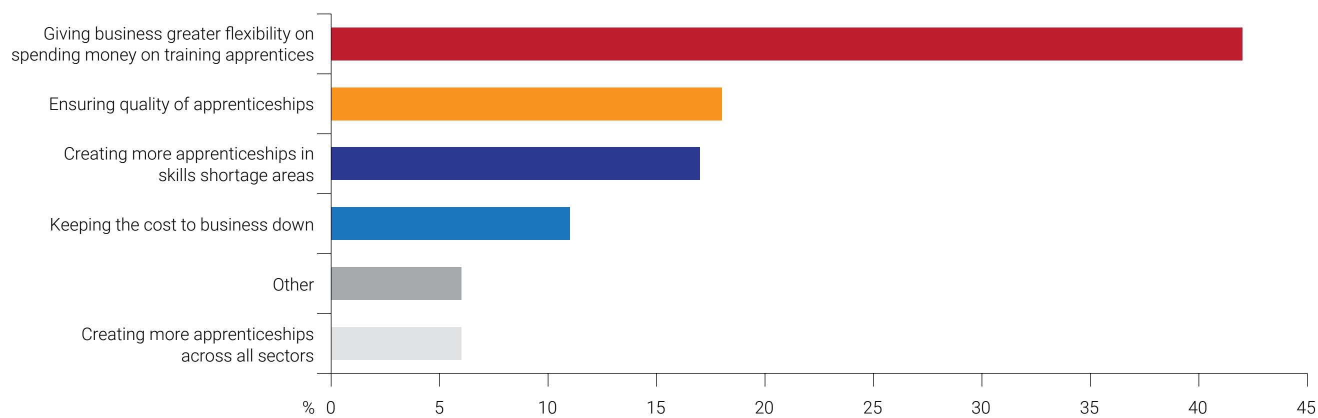


OF MANUFACTURERS THINK THE GOVERNMENT'S TOP PRIORITY SHOULD BE CREATING MORE APPRENTICESHIPS IN AREAS OF SKILLS SHORTAGES

One in ten (11%) want the Government to keep down the cost to business. This again chimes with manufacturers not wanting to pay more into the Levy. Employment-related costs continue to rise with the introduction of the Levy, the increases to the National Living Wage and increases to employer contributions for pension auto-enrolment. And many businesses, particularly in light of Brexit uncertainty, are struggling to keep up with these new costs.

Chart 10: Manufacturers want to see the Government focus on giving business greater flexibility

% of companies stating what they think the Government's top priority should be for future apprenticeship policy



Source: Make UK, Education and Skills Survey (2019)

[7]Engineering UK, The State of Engineering: Key Facts (2018).

RECOMMENDATIONS

Make UK has made previous recommendations in its report, *A Levy Price to Pay: The Apprenticeship Levy One Year On*. While we have seen some movement on these recommendations, a number remain outstanding, and therefore we call on Government to o look again at those that need action in the near term. Looking ahead to the longer term and to a blueprint for apprenticeship funding in the future, we make the following recommendations:

What the Levy should be and how it should be funded

1. Government should work with employers and providers to explore whether the Apprenticeship Levy could be used to fund wider skills training, whilst maintaining the current funding model.

2. In the interim, apprenticeship funding from the Levy should be hypothecated (dedicating all the Levy money collected to Apprenticeships), and departmental spending should shift from Annually Managed Expenditure (AME) to Departmental Expenditure Limits (DEL), allowing for the supply of funding for apprenticeships to keep pace with demand.

What the Levy should fund and what the priorities should be

3. In principle, the training costs of younger apprentices should be fully funded, whatever the size of the employer or the nature of the apprenticeship. We would expect that the funding to meet this commitment would fall over time with the rollout of T Levels and some, or possibly many, 16- to 18-year-olds choosing the T Level pathway.

4. Funding should cover the true cost of training provision at Levels 2 and 3. These are fundamental to get people of all ages onto the skills ladder. These apprenticeships are more often than not a stepping stone to a mid- or higher-level qualification. Above that, subject to funds being available from the Levy, funding should continue to contribute the costs of training at Levels 4 and above. We cannot ignore the fact that some higher-level apprenticeships are extremely beneficial not just to the employee and the business, but also to the wider economy.

5. Levy funding should be prioritised and funding levels increased in areas where there is a proven skills shortage. Evidence, such as that collated by the Migration Advisory Committee (MAC), should be used as a starting point. In addition, new and emerging areas, driven by digital technologies, automation, 4IR and the green economy, should be prioritised.

6. Providers and employers who recruit a disadvantaged learner need and should receive greater support than they currently do, reflecting the additional time and resources needed to support them.

7. Funding for higher- and degree-level apprenticeships should be maintained, where the Levy fund can accommodate this. If the Levy is forecasted to be overspent, tripartite funding should replace the Levy, with a mix of employer, Levy and individual contributions. The exact model of this would need further exploration and consultation.

8. Employers wanting to up-skill or re-skill their employees (including through apprenticeships) at the same or a lower qualification which may not be viewed as “materially different” should be able to do so through the National Retraining Scheme (NRS). This would need to be far more flexible, as Make UK set out in its recent paper.

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We create the most supportive environment for UK manufacturing growth and success and we represent the issues that are most important to our members, working hard to ensure UK Manufacturing remains in the government and media spotlight.

Our extensive knowledge of manufacturing that means we're able to influence policy-making at local, national and international levels. We push for the policy changes that our members want to see. We are the voice of manufacturing.

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