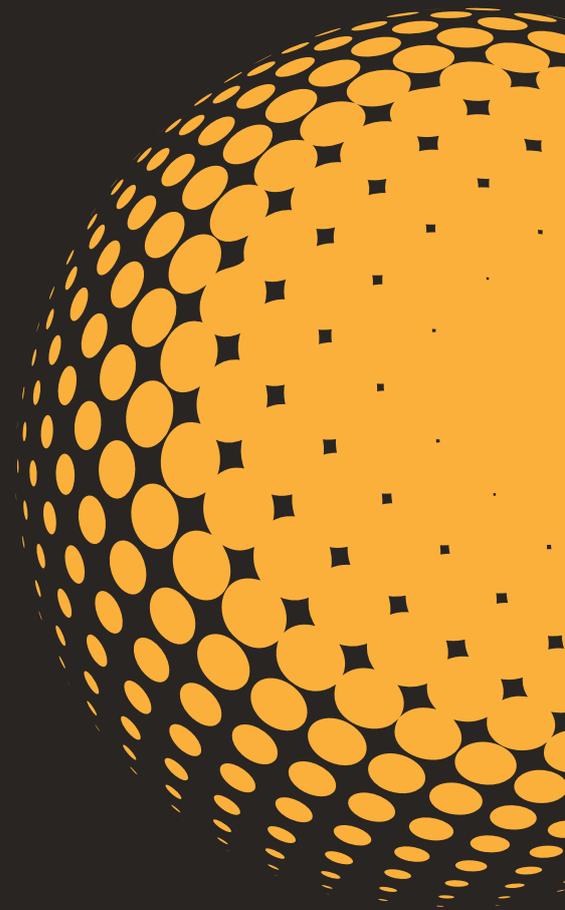


# The apprenticeship levy: one year on

April 2018



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Introduced by the UK government as part of its Industrial Strategy in April 2017, the apprenticeship levy has been marred by controversy from the start. Organisations with a pay bill of £3 million or more must now spend 0.5 per cent of this cost on the levy, and so it's been touted by some as a 'tax on employers' - despite its overarching goal to increase skills and productivity across the UK.

However, apprenticeships provide some incredible benefits to employers that are getting lost amongst the debate: greater access to skilled workers, enhanced retention and attraction, and improved organisational performance are just some of these. And now, with the introduction of higher and degree level apprenticeships, employers can use the funding to build up the higher-level skills they require to future-proof their organisations against the changing world around them.

One year on from its introduction, this report investigates business leaders' attitudes towards the apprenticeship levy, and suggests changes that could improve businesses' experiences and help make the initiative a success.

## Foreword

**With the Fourth Industrial Revolution gaining pace and Brexit on the horizon, it's safe to say we're entering an exciting time for enterprise. The vast changes happening in our political, economic, technological and cultural environment open new doors – and it's essential that organisations are primed to seize the opportunities that emerge.**

In order to capitalise, organisations must grow their strengths and address their weaknesses – building up existing capabilities and filling skills gaps. The UK government recognised the urgent need for investment in skills and training, and that's where the apprenticeship levy comes in.

The introduction of the apprenticeship levy marked a crucial step in encouraging employers to take the issue of training seriously, but it's been met with criticism in some quarters, from both employers and trade bodies. While it's true, and understandable, that there have been teething issues, the vast majority of business leaders can see the long-term benefits it will bring, including increased productivity, and improved attraction and retention of crucial talent.

However, as levy-paying organisations have only withdrawn eight per cent of the £1.8 billion paid into the apprenticeship levy so far, there are clearly still a number of barriers to overcome. While some concerns are linked to associated costs and management of apprenticeship programmes, the rigidity of new apprenticeship standards leaves a lot to be desired.

The one-size-fits-all approach to these standards does not afford the flexibility to tailor apprenticeships to different sectors, business models or business sizes, and this needs to be addressed in order to provide organisations with better value and return on investment.

At The Open University, we believe the industry could shake up apprenticeships by introducing 'modular apprenticeships' that are tailor-made to organisations'



**David Willett**  
Corporate Director at The Open University

needs, to fit alongside existing programmes – giving organisations a chance to maximise the opportunities the levy can bring, and help it work for everyone.

It's crucial that we smooth out the creases in the current system and, in doing so, pave the way for apprenticeships that can strengthen organisations across the UK.

Employers can become more adaptable and agile, and ensure they have the core skills required to future-proof themselves against changes in the business landscape.

Our goal is to help organisations to develop a culture of learning, where staff update and build new skills throughout their working lives, allowing employers to evolve with the world around them. One thing is certain: organisations that embrace the apprenticeship levy will reap the benefits.

**“The one-size-fits-all approach to these standards does not afford the flexibility to tailor apprenticeships to different sectors, business models or business sizes, and this needs to be addressed in order to provide organisations with better value and return on investment.”**



## Changing attitudes

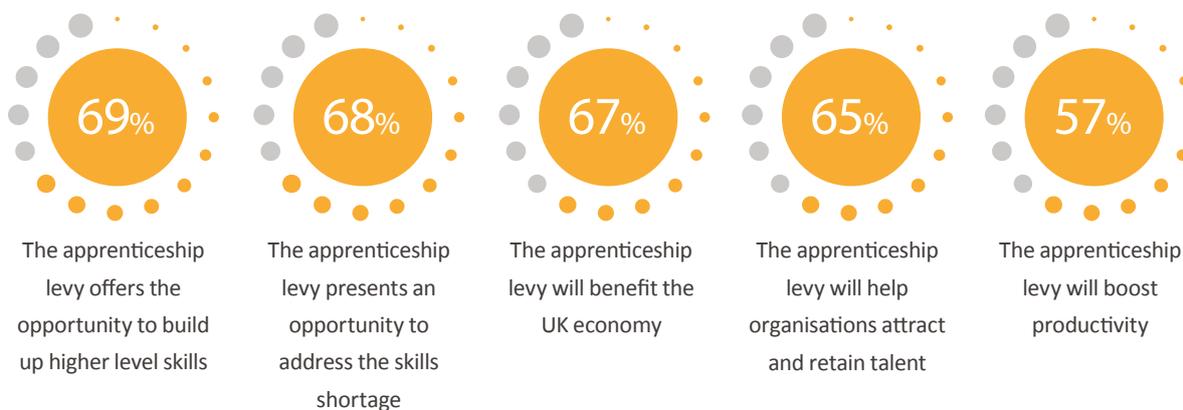
As part of its analysis, The Open University commissioned independent market research among 750 senior business leaders from large employers and small and medium enterprises (SMEs) across the UK. We asked leaders about their experiences of the levy a year on from the launch, and expectations for the future.

Overall the picture is encouraging. 84 per cent of business leaders in England support the apprenticeship levy in principle and, despite some negative preconceptions at the start, more than half (54%) of business leaders say they feel more positive about the apprenticeship levy now

than they did a year ago indicating that attitudes are turning a corner as uncertainty wanes.

The UK government introduced the levy to encourage investment in training and skills in the face of a skills shortage costing organisations an estimated £2.2 billion a year in inflated salaries and temporary staff costs.<sup>1</sup> Now, business leaders recognise the benefits apprenticeships can bring, both for their organisations and the UK economy as a whole, with two thirds (66%) believing that those who embrace the apprenticeship levy will reap the rewards.

To what extent do you agree or disagree with each of the following statements about the apprenticeship levy?



## But some remain sceptical

The picture is not so rosy for all organisations however. While attitudes are clearly improving, a significant number (40%) of business leaders still regard the apprenticeship levy as little more than a tax, and almost one in five (17%) believe it will not recoup its dues.

The levy is paid to HM Revenue & Customs by all UK employers with an annual wage bill of over £3million, via the PAYE process, enabling organisations in England to draw down funding from the National Apprenticeship Service to spend on apprenticeship training. But there are a number of barriers to overcome, such as managing apprenticeship programmes, associated costs and apprenticeship content (see page 12).

<sup>1</sup> [The Open University Business Barometer \(2017\)](#)



## Levy-payers on board - but want changes

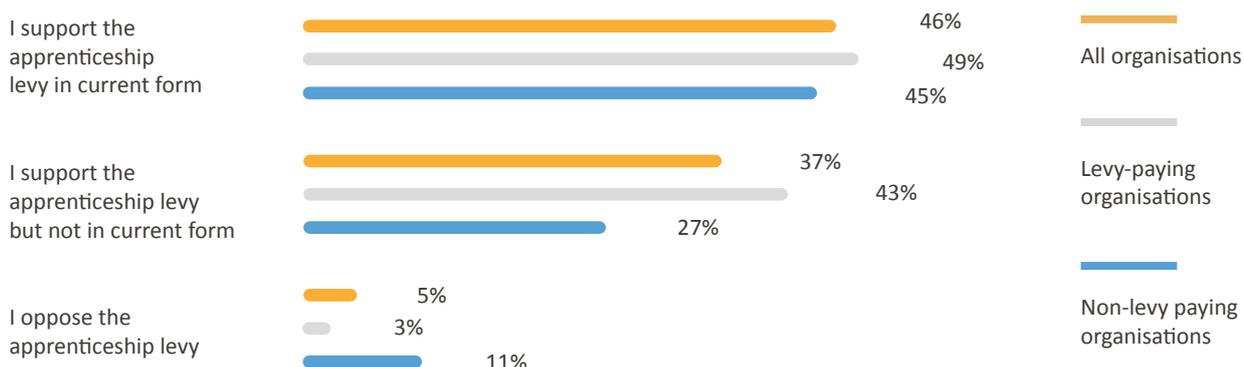
Despite the financial obligation imposed on them, levy-paying organisations are in fact much more supportive of the levy than non-levy-payers. Overall, 92 per cent of business leaders at these organisations agree with the apprenticeship levy in principle - although many (43%) want to see changes (see later chapter). Only a very small number of business leaders (3%) believe that the apprenticeship levy should be scrapped.

In non-levy-paying organisations, only 72 per cent support the levy, with one in three (34%) saying it offers

no benefit to their organisation, perhaps as a result of the way they currently have to access funding.

Non-levy-payers in England, which are primarily smaller businesses, are not yet able to access funding through the National Apprenticeship Service (scheduled for later in 2018), and have to pay for training up front. While they will be able to recoup funding from the apprenticeship levy later if their provider provides proof of payment, this is most likely acting as a deterrent for many.

### Which of the following most closely fits with your view of the apprenticeship levy?



## Outside England

As apprenticeships are a devolved policy, employers in Scotland, Wales and Northern Ireland are not in the driving seat the same way they are in England. Still, only 17 per cent of business leaders in these nations would like to see a system resembling the National Apprenticeship Service introduced in England.

Across Scotland, Wales and Northern Ireland, business leaders are unsure how the apprenticeship levy will help them, with 30 per cent believing their organisation will not benefit. However, they can see the long-term benefits to their nations' economies, with 40 per cent accepting that an increase in apprenticeships will benefit the economy.



## Using apprenticeship levy funding

As part of the research, The Open University issued requests to HM Revenue & Customs and the Education and Skills Funding Agency under the Freedom of Information Act 2000, to ascertain the total amount UK organisations have paid into the apprenticeship levy since April 2017 and how many of those employers that operate in England are now using it to fund apprenticeship programmes.

The data reveals that more than 50,000 organisations across the UK have contributed to the apprenticeship levy since its introduction, at a total cost of £1.8 billion.

But organisations in England, which are in control of how they use the funding via their National Apprenticeship Service accounts, have only withdrawn £108 million – just eight per cent of the £1.39 billion they have paid in.

With 119,500 commitments entered into the apprenticeship service until the end of January,<sup>2</sup> this figure is likely to increase significantly during 2018. A slow start was to be expected as employers find their footing and identify how they can best use the funding, but for many the priority is how to absorb the additional cost.



### Meeting the cost

Some business leaders (16%) say their organisation is struggling to absorb the additional expense of the apprenticeship levy, and significant numbers plan to increase sales costs or make cuts internally.

This will have a knock-on effect on customers and clients, with three in 10 (30%) organisations planning to pass on the cost at a time when many households are already financially stretched and businesses are watching their spending.

Employees will also be impacted, as many employers will choose to sacrifice other aspects of continuing professional development. More than one in five (22%) business leaders admit they will cut their overall training budget to cover the apprenticeship levy, affecting those who will not benefit from apprenticeship training.

<sup>2</sup> Department for Education (March 2018) [Apprenticeship and levy statistics: March 2018](#)



## Access to funding

**While there has been criticism of the process for accessing funding, employers are, in fact, finding it easier than expected.**

More than one in five (22%) of those who have accessed their National Apprenticeship Service accounts agree that the process was easier than they thought it would be, with three in 10 (29%) reporting that the process was clear and straightforward, in comparison to just 15 per cent who found it confusing.

Despite the relative ease of accessing funding, the time required seems to be the overwhelming issue, with 30 per cent saying it took longer than they expected. Nearly one in five (18%) business leaders agree that the administration required to access funding is a drain on management time, suggesting that many organisations would benefit from additional support.

Thinking about the process of accessing apprenticeship levy funding, which of the following statements do you agree with?



The process was easy



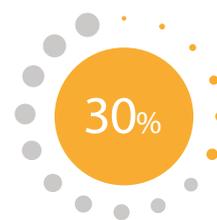
The process was complicated



The process was clear and straightforward



The process was confusing



The process was more time-consuming than I thought it would be



The process was less time-consuming than I thought it would be



## Use it or lose it

With the process taking more time than expected, organisations must pick up the pace – any funding that remains in their National Apprenticeship Service accounts after 24 months (i.e. after 6 April 2019) will expire.

If employers in England continue to use the funding at the same rate, they risk losing as much as £139 million a month, which could otherwise be used to build skills, attract and retain staff and increase efficiency.



## What are employers using apprenticeships for?

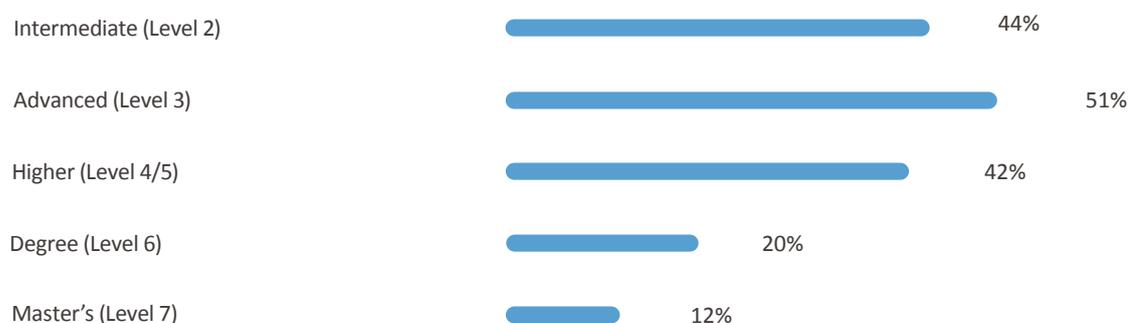
**Four in five (80%) organisations in England either employ apprentices currently or plan to in the future, and each organisation has a different strategy. Business leaders are using the funding to train new and existing staff at various different levels across their organisation, and are hoping to fill a range of different skills gaps.**

While a significant number of these employers are using apprenticeships to build up skills amongst their existing staff (27%), the majority are using apprenticeships to train new recruits (54%). This is reflected in the type of skills they are planning to develop, with more than half (52%) expecting to build technical and industry-specific skills, rather than where there are the largest shortages: digital and management<sup>3</sup>.

### What are you using apprenticeships for?



### What level of apprenticeships do you plan to run?



### What type of skills are you planning to develop?



<sup>3</sup>The Open University Business Barometer (2017)



## Working with apprentices

**With such a huge amount of money committed to the apprenticeship levy, it's essential that employers get a return on investment – and those who embrace apprenticeships will find they pay dividends. Of those who currently employ apprentices, 83 per cent rate their experience as good or excellent, with many mentioning positive attitudes, more ambition, higher engagement and increased loyalty.**

Working with apprentices can also bring about positive knock-on effects on other staff members. Many business leaders say that apprentices have made the rest of the workforce more productive, but they also pass on what they learn to others in the organisation, and generally lead to a more motivated and satisfied workforce.



The opportunity to earn while you learn is an appealing proposition for many – 37 per cent of organisations have found that offering apprenticeships has helped them to attract new talent.

However, there are still some misconceptions about apprenticeships, with two in five (40%) business leaders in England saying they are mainly for young or entry-level staff, despite the mix of levels and subjects available.

14 per cent believe apprenticeships cannot be used to train or retrain existing staff, a misconception that means

many employers are missing out on the opportunity to use apprenticeships to their full potential. With political and economic uncertainty, and automation threatening a number of low-skilled roles, retraining existing workers is crucial, so it's important that employers fully understand how apprenticeships can support their workforce development strategies.

### About apprentices



Apprentices bring a fresh approach and a positive attitude to the workplace



Apprentices are more loyal and easier to retain than other members of staff



Apprentices are more productive than other members of staff



Apprentices are more engaged than other members of staff



Apprentices are more productive than other members of staff

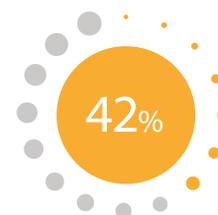
### About their effect on the workforce



Taking on apprentices leads to a more motivated and satisfied workforce



Apprenticeships are less disruptive than other forms of training



Apprentices pass on what they learn to other workers in the organisation



“The key to a successful apprenticeship programme is good feedback and high-quality work. You get the most value out of an apprenticeship by coaching people through it, and helping them apply the lessons they learn while studying in their job...

“...In my experience, people have a natural desire to pay you back if you invest in them. Apprentices may stay with you for longer, as they feel appreciated and well recognised. Longer-serving employees see apprenticeships as a great opportunity to leave a legacy and get great benefit from developing their potential.”

Phil Jones, Managing Director at Brother UK



“We’ve always looked to offer apprenticeships throughout the organisation and with the apprenticeship levy we are using that as an opportunity to really get, grow and retain our workforce. With apprenticeships, we can provide a sustainable route for our workforce at degree level and provide that flexibility for our people and how they wish to undertake their studies.”

Maz Fosh, Director of Workforce and Transformation, Lincolnshire Community Health Services NHS Trust



“We are working with The Open University to feed the apprenticeship programmes into our wider talent strategy; we want to develop the future regional directors of our business. Those who feel stagnant within the organisation will be motivated, as they will see a clear path to a higher position. We expect to promote people throughout their apprenticeships.”

Louise Powell, Head of Skills Development, Travis Perkins



## What are the barriers?

**The administrative process of accessing funding isn't the only deterrent for employers when it comes to making the most of the apprenticeship levy. There are concerns about managing apprenticeship programmes, associated costs and apprenticeship content.**

### Managing apprenticeships

The introduction of the apprenticeship levy means that employers in England need to think differently about how they handle training. It requires a new strategy that ensures they get return on investment, but it also comes with a number of questions to answer: Which provider? Which apprenticeship? How do we allocate training? All need careful consideration, which takes up valuable time.

At a time of uncertainty, where efficiency and productivity are crucial for an organisation's ongoing success, the additional time required to set up an

apprenticeship programme can be a significant drain on resource.

Not only this, managing the Education and Skills Funding Agency's 20 per cent off-the-job learning requirement is problematic for many organisations looking to use apprenticeships to develop their existing staff, as it takes staff away from their day-to-day duties for too long. Some apprenticeships, like ones delivered by The Open University, are delivered using technology-enabled learning, which is more flexible and can help workers to fit training around their duties, but with many organisations trying to improve efficiency losing the equivalent of one day a week to training can be an issue, despite the potential for long-term gain.

### Barriers



Developing a strategy for apprenticeships is a drain on management's time



Researching apprenticeship programmes and providers is a drain on management's time



Management of the entire apprenticeship process is a full time job we just can't afford



Deciding how to use the funding is a huge task and my organisation doesn't know where to start



## Associated costs

Organisations in England can recoup the cost of the apprenticeship levy by investing in apprenticeships, but this still requires other financial investment for consultancy or time to set up a programme and, if hiring new staff, the cost of salaries.

While the benefits of apprenticeships far outweigh the costs, it's understandable that senior leaders might choose not to make this additional investment. This has led to calls from some organisations to extend the apprenticeship levy so that funding can be used to cover these costs but, with the initiative still in its infancy, it's unlikely that such substantial changes will be made in the near future.

13%

The apprenticeship levy cannot be used to pay for the associated costs of apprenticeships

11%

The associated costs of setting up and paying for apprentices are too high

## Apprenticeship content

**Some organisations are concerned that the content of apprenticeships will not deliver the skills they need, partly due to a delay in the development and approval of apprenticeship standards but also due to the way that the standards were built.**

For employers in specific sectors, the majority of their training budget is spent on developing technical or industry specific skills in the workforce, and with the introduction of the apprenticeship levy, most employers in England would be looking to transfer their spend to apprenticeships.

However, apprenticeship standards, which determine programme content, are taking longer to come to fruition than expected, leaving many sectors without access to apprenticeships that work for them.

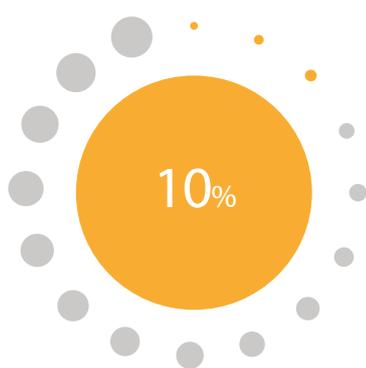
While they have the opportunity to invest in broader skills, like management, leadership or digital, some are hesitant to commit with other apprenticeships on the horizon.

Where standards have been approved there has been criticism over the lack of flexibility. It is important for the apprenticeship levy to work effectively that the quality of apprenticeships is closely regulated, but this has so far resulted in rigid standards that cannot be tailored to meet specific employers' needs.

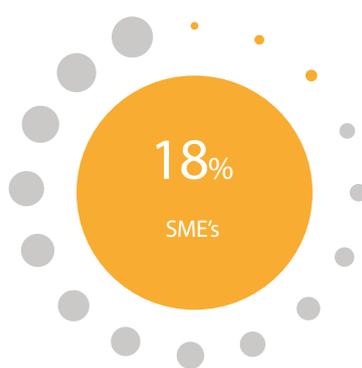
It can be difficult to adapt apprenticeship standards to organisations' specific requirements, which can vary by sector and between workers. For example, experienced workers, who have strong occupational knowledge but need to update or build upon their existing skillset, may find that an apprenticeship covers too much on topics they have detailed knowledge of, but too little of the new skills they need.

Many SMEs are concerned that the standards, which were developed with larger employers in mind, do not meet their needs. Smaller employers need training that aids their ability to be durable, fast moving and agile as the organisation changes and grows. Staff roles can evolve over time, and apprenticeships need to reflect the same flexibility.

## Barriers



Apprenticeship standards for skills in my organisation's sector have not been approved



The skills and training provided by apprenticeships do not fill the gaps in my organisation



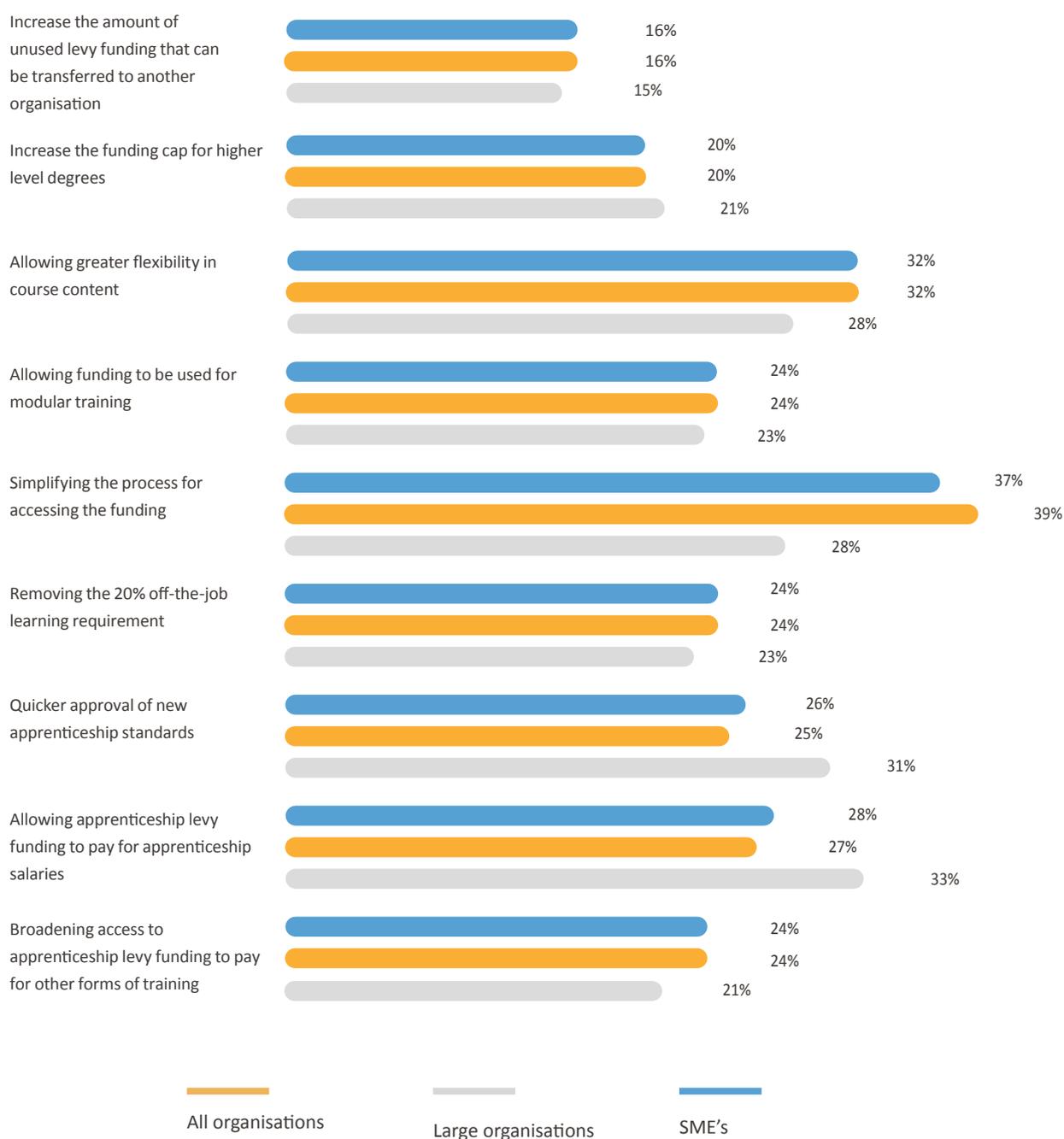
The skills and training provided by apprenticeships do not fill the gaps in my organisation



## How can the apprenticeship levy **work harder**?

Overall, levy-paying organisations in England are positive about the apprenticeship levy in principle, but throughout this report, we've highlighted a number of issues and barriers preventing it from working harder for everyone. Most organisations would like to see some improvements to the way the apprenticeship levy works, with just eight per cent saying it is fine the way it is.

### How could the apprenticeship levy be improved?





## Recommendations

**Some organisations are concerned that the content of apprenticeships will not deliver the skills they need, partly due to a delay in the development and approval of apprenticeship standards but also due to the way that the standards were built.**

Some improvements suggested by employers, like reducing or removing the 20 per cent off-the-job training requirement in England, are part and parcel of the apprenticeship experience and are unlikely to change any time soon. This issue in particular is likely to become less of a burden on organisations as they become used to the new system and develop a culture of continuous learning, but it is important to remember that the long-term benefits outweigh the short-term inconvenience.

Other suggestions, like speeding up the approval of new apprenticeship standards and simplifying access to funding, are likely to improve with time. Both the apprenticeship levy and the Institute for Apprenticeships are still very new, and it will take some time for the dust to settle. As the system becomes established, processes for both approvals and funding will be honed and streamlined to become more efficient for all involved.

However, other issues require solutions and action, which is why The Open University has developed proposals that would help address concerns across organisations of all sizes, across all sectors.



## Modular apprenticeships – a solution

Many employers (32%) in England would like to see greater flexibility in apprenticeship content, which would offer more value and enable them to fill skills shortages specific to their organisation.

At the moment, trailblazers – groups of employers representing sector areas – are building higher and degree apprenticeships around new apprenticeship standards, essentially creating training programmes designed by organisations, for organisations. However, standards have come under criticism for being too rigid and inflexible, particularly by SMEs, who have wildly different needs from the larger enterprises that developed them.

The Open University believes that the future needs of the economy would be best served by a more agile approach that allows employers to create bespoke apprenticeships that are tailor-made for their organisation and employees, by adding learning ‘modules’ to ‘core’ apprenticeships – requiring an adaptation rather than overhaul of existing apprenticeship standards.

These modular apprenticeships could be modelled on The Open University’s ‘Open Degrees’, which allow students to pick and choose modules to build a qualification that suits their skills or training requirements. Employers could pick modules relevant to the specific organisational knowledge required, adding other soft skills or digital skills their organisation lacks.

While the idea of broadening out the apprenticeship levy to include wider skills training is popular with business leaders, it contradicts the UK government’s objective of developing three million apprenticeships by 2020. A modular approach would allow the government to achieve this objective, but also increase flexibility for employers.

In the meantime though, here is our five-step guide for organisations operating in England to ensure they make the most of the levy and embrace all its benefits from today.



## Five step guide to apprenticeships

### Step 1 – Align apprenticeships with business strategy

Take a strategic view of your organisation's future needs so that you can identify the skills you will require. What will your organisation look like? What will your employees be doing in four or five years' time?

If you can pinpoint the skills your organisation will need to adapt and grow in the future, you'll be in a stronger position, with a clearer picture of the types of apprenticeship standards and levels you'll need to reach goals and objectives.

### Step 2 – Conduct a skills audit

By reviewing the skills of existing staff and comparing those to the skills your organisation will need in the future, you will have a clear view of the training that is required to plug the gaps. Not only will this allow you to create apprenticeship opportunities in your organisation, but you will also be in a good position to plan ahead and align skills with your three, five and even 10-year business objectives.

### Step 3 – Take an integrated approach

Take a look at your existing training programmes and map them to apprenticeship standards. Some will be able to be replaced directly by apprenticeships, while others can be supplemented with additional learning. Depending on your provider, you may find they are able to do this for you and make recommendations, saving valuable HR and management resource.

### Step 4 – Be diligent when choosing a training provider

When you're looking for an apprenticeship provider make sure you ask a broad range of questions so that you can accurately assess whether they'll be able to meet your needs – it's a big commitment so it's important to get it right.

Do they have a proven track record and experience? Can they help with attraction, selection and recruitment? Can they offer flexible learning delivery to make the 20 per cent off-the-job requirement more manageable? The best providers will come with added value, so pinning down what that value might be is essential – they should be able to support you through the process, making it quick and simple.

### Step 5 – Support and engage employees

Consider how the introduction of new apprenticeship programmes will impact on your staff. For many they will present a massive cultural shift – to a continuous learning environment – so it's crucial to think about your internal communications strategy. You'll need to get employees on board, promote opportunities and make sure there's plenty of information available in order to keep teams engaged and motivated.



## About Open University

**For nearly 50 years, The Open University (OU) has led the way in innovative, part-time education, developing workplace learning and development solutions for employers (across the private, public and voluntary sectors), as well as educating individuals.**

Specialising in developing high quality learning materials, based on rigorous research and industry insight, the OU combines academic excellence with technological expertise to deliver flexible, results-driven and truly engaging workplace learning solutions.

The OU's flexible and adaptable approach enables consistent learning to be delivered at scale, across geographically dispersed workforces, through having an online delivery model that uses advanced learning analytics to enhance the performance of business professionals.

The OU's well-developed blended learning approach enables them to deliver learning that is responsive to both organisational and staff needs, therefore maximising return on investment.

This is why more than 1,300 employers, including IBM, BT and the NHS, regularly choose the OU's learning solutions to develop their workforces.

Whether you're looking to develop new or current employees, the OU offers a range of higher and degree level apprenticeships in England and Graduate Apprenticeships in Scotland.

Apprenticeships include:

- Chartered Manager Degree Apprenticeship
- Senior Leader Master's Degree Apprenticeship
- Digital and Technology Solutions Professional Degree Apprenticeship
- Healthcare Assistant Practitioner Higher Apprenticeship
- Registered Nurse Degree Apprenticeship

The OU's Graduate Apprenticeships in Scotland are:

- Graduate Apprenticeship in BSc (Hons) IT: Software Development
- Graduate Apprenticeship in BSc (Hons) Cyber Security
- Graduate Apprenticeship in MSc Cyber Security

Visit [open.ac.uk/apprenticeships](https://open.ac.uk/apprenticeships) for more information.





## Methodology

**The apprenticeship levy: one year on was developed using the expertise and experience of The Open University's staff, in conjunction with Freedom of Information request data and data from a commissioned business survey.**

### **Freedom of Information requests**

The Open University issued requests to HM Revenue & Customs and the Education and Skills Funding Agency under the Freedom of Information Act 2000. Responses were received on 2 March and 12 March respectively.

### **Business survey**

The Open University commissioned PCP Research Limited to undertake a survey of 750 senior business leaders across the UK between 1 and 11 March 2018.

**For further information including a full methodology and data breakdowns, please contact:**

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