APPRENTICESHIPS AND THE LEVY PROPOSED IN THE SUMMER BUDGET 2015: whys and wherefores

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With the announcement of an Apprenticeship levy in the Summer Budget 2015, Gambin and Hogarth discuss the rationale for the introduction of such a mechanism and consider the possible characteristics of a levy (though there is little detail available at present). This commentary examines large employers' current provision of training and the potential effects of a levy on employer behaviour and what it may mean for Apprenticeship training.

THE ANNOUNCEMENT OF AN APPRENTICESHIP LEVY

To the seasoned commentator on vocational education and training in England, the announcement in the Summer Budget 2015 by the Chancellor of the Exchequer of his intention to introduce a training levy on large employers to fund post-16 Apprenticeships, was a surprise. The surprise was twofold. Firstly, because training levies were, for the most part, abolished during the early 1980s as part of the then Government's policy of creating a less regulated labour market. And secondly, because governments of differing political hues have shown little appetite for their re-introduction since they were largely seen off thirty or so years ago.

So what did the Summer Budget of 2015 advocate? The budget statement says:

> *The most successful and productive economies in the world are committed to developing vocational skills. That is why the government has committed to significantly increase the quantity and quality of apprenticeships in England to 3 million starts this Parliament, putting control of funding in the hands of employers*. (HM Treasury, 2015, para. 1.269)

It then goes on to say:

> *This goal will require funding from employers. In recognition of this, the government will introduce a levy on large UK employers to fund the new apprenticeships. This approach will reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014.* (para. 1.270)

And ends by saying:

> *The levy will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual needs. … There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review.* (para. 1.271)

WHY MIGHT WE NEED AN APPRENTICESHIP LEVY?

In part, the answer to this question relates to the increasing the number of Apprenticeship starts which in turn hinges upon the number of employers offering this form of training. Baldly stated – as the authors have pointed out previously - not many employers invest in Apprenticeships in England. Certainly not when compared with high productivity economies such as Austria, Germany and Switzerland. In 2014, 11 per cent of employers in England currently had an apprentice on their books.

Since the establishment of the publicly funded Apprenticeship system in 1994, Government has sought to increase the number of apprentices through various means. This has included, amongst other things:

- demonstrating the returns that accrue to both employers and individuals from engaging with

Apprenticeship (the evidence is particularly strong in this regard); and,

- providing employers with the flexibility to tailor Apprenticeship training to their particular skill needs.

To be fair, these policies have had some success in raising participation levels. But, and there is always a 'but', there is a sense in which employer participation is dependent upon the state picking up a large share of the overall Apprenticeship bill. For some employers, their participation in Apprenticeships is predicated upon being able to break-even on their investment by the time their apprentices complete their training, or at least soon after (Hogarth *et al.*, 2012). Breaking even, for many employers, requires Government to meet the cost of the training delivered to their apprentices by a training provider.

The government, via employer routed funding, would like the employer to meet part of the training providers' costs which are currently met by the state. There are several reasons for this, including:

- if the employer is the purchaser of training from the provider, and is expected to meet part of the providers' costs, then they will likely strike a better deal as they will be particularly sensitive to obtaining value-for-money;
- in obtaining better value-for-money, employers will purchase training that is relevant to their needs, in a more demand-led Apprenticeship system;
- if employers are beneficiaries of Apprenticeship training – and there is a lot of evidence that they are – then they should be prepared to meet a share of the cost in line with the benefit they derive.

The danger is that by expecting the employer to meet more of the overall cost of an Apprenticeship – even though the overall cost may be reduced with employer-routed funding – fewer employers might be willing to invest in this form of training (Hogarth *et al.*, 2014).

The state of the Government's finances cannot be ignored here. The level of public expenditure on skills development for the adult (19+) population has been in decline and is expected to fall further over the short-term. In 2012, public expenditure, in real terms, on adult skills was less than it was ten years earlier as a result of the Government's general commitment to deficit reduction (Wolf, 2015). Accordingly, compared with the recent past, the scope Government has given itself to subsidise employers to deliver programmes such as Apprenticeships, is much reduced.

A levy on large employers may provide a solution, at least of sorts. But what is envisaged in the Apprenticeship levy and how will it work in practice?

WHAT MIGHT THE LEVY ENTAIL?

At the moment there is little detail as to what the levy might comprise and its implementation. Numerous questions arise:

1. What constitutes a large company: over 100 employees, over 500, or perhaps even 1,000?
2. How will the levy rate be determined: a percentage of turnover or profit, at what level?
3. Will the levy differ by sector?

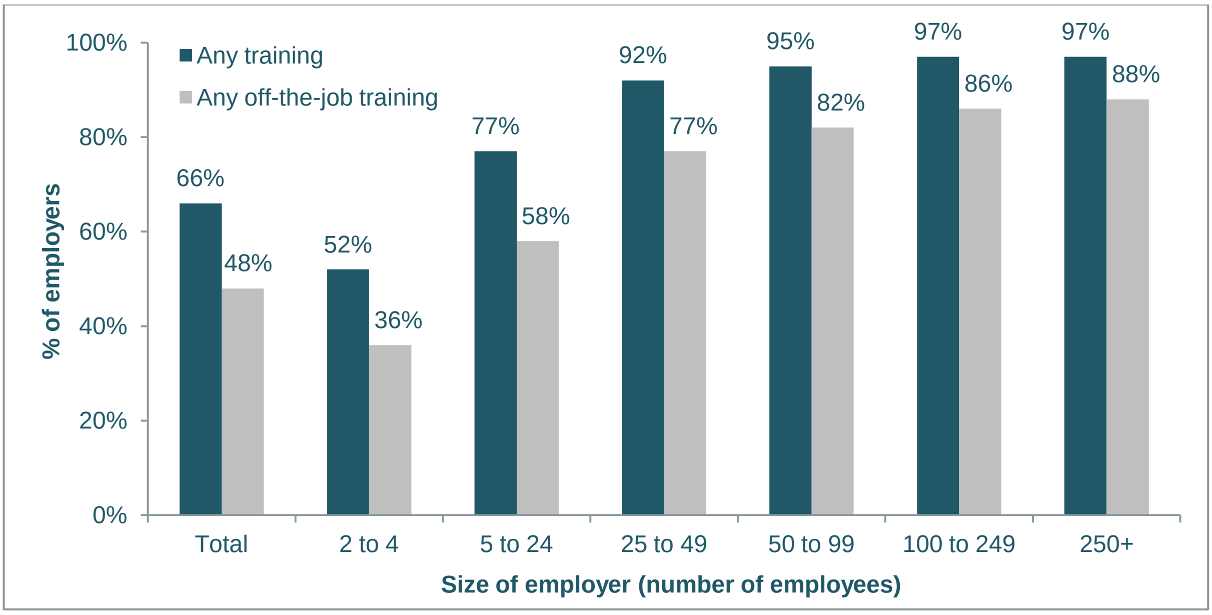
Clearly, the devil is in the detail. Further information about the proposed levy will become available when the Spending Review is published later in 2015. At that point, all should become clear.

Perhaps more pressing is gauging how the success of the levy might be assessed. At the simplest level, will it, other things being equal, increase the number of Apprenticeship starts? One might regard this as a politically important consideration given the target of three million Apprenticeship starts over the lifetime of the current Parliament. But the bar of success could, and possibly should, be set higher. So one might reasonably inquire whether the levy will increase the number of Apprenticeship starts at Level 3 and above, in programmes of training that are typically considered of particularly high quality. Further, one might reasonably ask whether it will increase Apprenticeship starts within particularly hard-to-reach groups, such as small and medium-sized enterprises (SMEs). SMEs, for instance, sometimes experience difficulties in meeting the cost of delivering an Apprenticeship, but these are the very employers that are key to the future success of the national economy. And how will the levy assist young people making the transition from education to work?

LARGE EMPLOYERS AND APPRENTICESHIPS

How many employers might fall in scope of the levy and how many might be promoted to commence investing in apprenticeships as a consequence of its introduction?. As noted earlier, this depends upon what one considers to be a ‘large’ employer. It is readily apparent from Figure 1 that nearly all employers that fall into the highest size groups provide training. It is worth bearing in mind though that what might be considered as training is often broadly defined, so this may give a misleading impression of the extent to which substantial programmes of training are being delivered to employees. On average, employees in companies that train receive seven days of training a year.

Figure 1: Employer participation in training (2013)

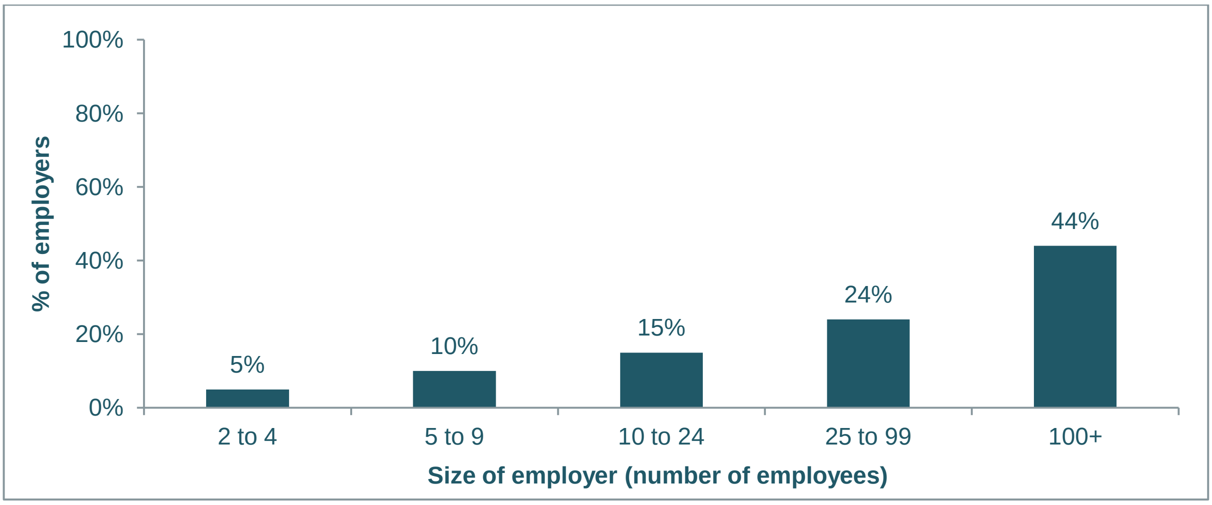


Source: Employers Skills Survey 2013

Focusing on Apprenticeships, the evidence points to there being a substantial percentage of employers with 100 or more employees that do not participate in Apprenticeships (see **Figure 2**). Unfortunately, the data are only available for employers with 100 or more employees. It is likely that the very large employers, say those with 500 or more employees, are much more likely to take on apprentices (and to recurrently do so).

The data suggest that size matters. Amongst, say, the larger medium-sized employers there may well be a willingness to take on apprentices, but not necessarily every year. The danger in setting the employer size threshold too low is that one may inadvertently end up with a system where the larger medium sized employers end up subsidising larger ones (who are more likely to train every year), as well as the smaller employers (who are less likely to train).

Figure 2: Large and small employer participation in Apprenticeships



Source: Employer Perspectives Survey 2014

TO BOLDLY GO

The introduction of the Apprenticeship levy may be regarded as a bold step. It is a bold step simply from the perspective that it might, in the light of what is known already about training levies, be a leap into the unknown. Howard Gospel's splendid review of training levies reveals a number of potential pitfalls associated with training levies, including:

- employers may engage in training they were about to undertake in any case but repackaged as an apprenticeship in order to avoid paying the levy, suggesting significant deadweight;
- it can lead to over-training in some instances and divert training towards Apprenticeships when other forms of training may be more appropriate to an organisation;
- the administrative burden involved.

At the same time, Professor Gospel points to many positives, including:

- it reduces the risk to the employer of training because the financial cost associated with poaching of skilled employees by non-training companies is mitigated to some extent;
- it increases the resources available for training;
- It reduces pressure on public finances.

But perhaps the key finding that can be inferred from Gospel's review is that there is a paucity of studies that have sought to determine the impact of training levies on either the quantity or quality of training undertaken, or their impact on employer productivity or whether the labour market position of the individual who has been trained has been improved. Little to nothing is known about potential deadweight and substitution.

It will be interesting to observe - if the levy is successful in increasing the number of Apprenticeship starts - the impact this will have upon overall government spending on Apprenticeships. And if an increase materialises, whether this will be at the expense of other forms of post-16 vocational education and training?

The need to reduce public expenditure may be a significant factor in deciding upon a return to training levies, but this is nonetheless a bold step in the further, on-going reform of the VET system. It has the potential to deliver many benefits, but there is a potential downside too. The detail of what will be eventually introduced is keenly awaited.

FURTHER INFORMATION

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See the series: *Apprenticeships and Skills: how to get there from here*