Introduction

Our first report into the Apprenticeship Levy, published last year just before it came into force, yielded valuable insights into the way leading employers were preparing for its introduction. However, a lot can change in a year and we wanted to see how businesses had responded and what if anything had changed, hence this second survey.

It’s fair to say that as we approach the levy’s first anniversary, much of the media narrative has been largely negative, dominated by decreasing apprenticeship numbers and employer frustration. But this criticism fails to take into account what a seismic change the introduction of the levy is to training in the UK. Nothing on this scale has ever been attempted before. It has forced companies to radically rethink their talent and development pipeline – and in many cases offer apprenticeships for the very first time. Delays, frustrations and a certain amount of improvisation were always going to be inevitable. And so it has proved. When it comes to developing talent, companies usually carefully consider what skills and type of workforce they might need in the future. We shouldn’t be surprised when they adopt the same gradual approach to taking on apprentices and spending levy funds.

The findings in our survey tell a generally positive story. More than nine in ten companies plan to use the levy, little changed from last year. Three-fifths aim to expand their apprenticeship programmes, with the majority focusing on external recruitment. Two-thirds plan to use levy funds for diversity initiatives, more than double the number last year.

This is not to say businesses’ frustrations with the levy aren’t very real, nor should they be dismissed. Our survey confirms that the majority of employers would like to see greater flexibility in the way they can spend their levy funds and that they have legitimate concerns, in particular around the 20% off-the-job training requirement. But it does mean that as we seek to assess the levy’s impact and how it might be improved, it might be wiser to take the long view rather than look solely at last month’s headlines.

BPP has been proud to provide a professional education to the private and public sectors for over 40 years. During that time we have witnessed many changes to the training landscape. But we have always provided clients with students whose practical skills are underpinned by sound academic foundations, whatever the changing requirements of business. The same applies to our growing range of apprenticeship programmes. However the levy develops, we will be ready to help employers nurture the talent they need.

Emma O’Dell is Deputy Executive Apprenticeship Director, BPP Professional Education.
Context and overview

Last year, as the Apprenticeship Levy was about to be introduced, we asked the UK’s top employers how they intended to respond to it and what plans they had put in place. On the whole and whatever their reservations, most could see the levy’s potential and chose to approach it as a talent opportunity rather than a financial challenge.

Twelve months on and, in the media at least, the levy has attracted a fair amount of criticism. Many employers, we are told, find it costly, frustrating and inflexible. As a result, apprenticeship numbers have collapsed in a year by almost 60%.

Our second survey, conducted like the first among top employers by trendence UK, reflects some of those concerns but paints a far more nuanced picture. Businesses it seems are using the levy increasingly as an external recruitment tool; the number spending it on existing staff has declined. Increasingly too, they see it as a way of advancing their diversity and widening participation agendas. On balance, most are looking to expand apprenticeship programmes; very few plan to cut them.

Moreover, most employers are taking the long view – they regard levy spend as a complement to long-term workforce planning rather than as a financial imperative that has to be met as quickly as possible. Relatively few foresee spending much of their levy pot in the first year; most are looking further ahead.

Why are companies taking time to implement their apprenticeship programmes? Partly because there are delays to the approval of various Apprenticeship Standards, but mainly because aligning training programmes that can benefit from the levy and accord with an organisation’s workforce strategy inevitably takes time. In which case, much of the pessimism in the media over the Apprenticeship Levy could be overdone, simply because it is based on instant headlines rather than employers’ long-term intentions.

One other point to bear in mind, the Apprenticeship Levy is in its infancy. It is bound to develop over time in ways that are not yet apparent. Nevertheless, we hope the findings in this report will give employers an insight into how they might manage that process and how they might benefit from its opportunities as well as meet its challenges.

Note: Percentages have been rounded to the nearest whole number and therefore may not in all cases add up to 100.

Methodology

Research: conducted jointly by trendence UK and BPP
Period: October 2017 to January 2018
Sample: 83 companies from the UK Guardian 300
Sectors: 13
Method: online questionnaire using trendence’s surveying tool TARGETfeedback
Author: Emma O’Dell, BPP
Researchers: David Palmer and Andreea Galin, trendence uk

Main findings

- Virtually all respondents plan to use the levy rather than lose it
- Less than one in five plans to spend the majority of their levy spend in year one - most will only spend the bulk by year four
- This could suggest there is too much pessimism over the recent decline in apprenticeship numbers nationally
- A third of employers say they will use the levy exclusively on external apprentices
- Half of companies plan to convert graduate and school-leaver programmes to apprenticeships
- Three-fifths plan to expand the number of apprenticeship programmes
- The same number say the 20% off-the-job requirement is stopping them expanding apprenticeships further
- Over three-quarters of companies say they want more flexibility in the levy
83 of the Guardian UK 300 top employers responded to this survey, with the majority in banking and financial services (22%), engineering and construction (16%), accountancy and tax, (12%) and law (10%).

Seven in ten (70%) will pay an annual levy in 2017-18 of over £1 million, a slight increase on last year’s proportion (64%), with almost one in five (18%) paying £8 million plus, almost double the number of respondents who were in the highest paying category last year (10%).

Almost all are planning to use the levy rather than lose it, though the proportion doing so has decreased slightly, from 94% last year to 92% this year.

Analysis: As the levy spend among our sample is relatively high, the large majority saying they plan to use it rather than lose it isn’t perhaps surprising. Moreover, the widely reported fall in apprenticeship numbers has been concentrated in SMEs rather than bigger companies and has not affected all levels equally. The number of higher-level apprenticeships, for instance, has doubled in two years, according to the government.

The increase in the number of businesses with an annual levy of more than £8 million could be down to the fact that a larger proportion of respondents this year are in banking and financial services, which have larger payroll bills.

### Employer profile

<table>
<thead>
<tr>
<th>Sector</th>
<th>2016-2017</th>
<th>2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and financial services</td>
<td>22%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Engineering and construction</td>
<td>16%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Accountancy and tax</td>
<td>12%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Law</td>
<td>7.2%</td>
<td>8.4%</td>
</tr>
<tr>
<td>IT &amp; telecommunications</td>
<td>2.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Retail</td>
<td>7.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Investment banking and asset management</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Public sector (Non-Healthcare)</td>
<td>8.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Media</td>
<td>8.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>FMCG</td>
<td>1.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Energy, Water or Utilities</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Consultancy</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

### Approximately how much will the Apprenticeship Levy cost your organisation? (Year-on-year analysis)

<table>
<thead>
<tr>
<th>Amount</th>
<th>2016-2017</th>
<th>2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than £250k</td>
<td>9.8%</td>
<td>8.5%</td>
</tr>
<tr>
<td>£250 - 500k</td>
<td>7.0%</td>
<td>9.8%</td>
</tr>
<tr>
<td>£500k - 1 million</td>
<td>12.2%</td>
<td>13.0%</td>
</tr>
<tr>
<td>£1 - 3 million</td>
<td>14.0%</td>
<td>35.4%</td>
</tr>
<tr>
<td>£3 - 5 million</td>
<td>11.0%</td>
<td>36.0%</td>
</tr>
<tr>
<td>£5 - 8 million</td>
<td>11.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>£8 million+</td>
<td>6.0%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

### Using the levy (Year-on-year analysis)

<table>
<thead>
<tr>
<th>Use it/Lose it</th>
<th>2017-2018</th>
<th>2016-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use it</td>
<td>91.6%</td>
<td>94.0%</td>
</tr>
<tr>
<td>Lose it</td>
<td>8.4%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>
When do employers plan to use the levy?

- Most employers are taking the long-view of apprenticeships and are planning to spend their levy funds gradually over four years.
- Less than one in five (18%) plans to spend half or more of levy funds in year one, but three-quarters of employers (75%) plan to do so by year four.

Analysis: Our survey suggests employers are taking the long view. In some cases, they have no choice because the relevant apprenticeship standards haven’t been approved for delivery. But it is also the case that many employers rightly see talent recruitment, development and retention as a long-term proposition.

Consequently, levy funds will be spent gradually in line with workforce planning rather than quickly to comply with financial imperatives. And increasingly employers will look to apprentices. According to one recent poll from recruiters Alexander Mann, 37% of businesses say apprentices will be the most valuable source of emerging talent in 2018.
What will employers spend the levy on?

- Many businesses continue to see the levy, as they did last year, as a way of developing talent (73%), training existing staff (63%) and promoting workforce planning (60%)

- However, their priorities have changed somewhat. The proportion who say they will use it for diversity initiatives and widening participation has more than doubled from 30% to 64%

- Over a third (34%) now say they will use it for lateral recruitment compared to a fifth (20%) a year ago

- And while training existing staff is still seen as a priority for many, the percentage has fallen sharply from three-quarters (75%) last year to less than two-thirds (63%) this year

Analysis: Although employers continue to see the levy as a way of supporting existing staff, there appears to be more emphasis this year on using apprenticeships to recruit externally.

The dramatic rise in the use of the levy for diversity initiatives will be welcomed by government, not only because it accords with its social mobility agenda but also because it aligns with one of the levy’s key objectives: to offer a ladder of opportunity to those who have never benefited from high-quality training.

Why will you be spending your levy? (Year-on-year analysis)

<table>
<thead>
<tr>
<th>Initiative</th>
<th>2016-2017</th>
<th>2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support workforce planning</td>
<td>58.2%</td>
<td>60.3%</td>
</tr>
<tr>
<td>Lateral recruitment initiative</td>
<td>34.2%</td>
<td>34.2%</td>
</tr>
<tr>
<td>CSR initiative - support local communities/supply chain partners to develop talent</td>
<td>26.4%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Professionalising and training existing workforce</td>
<td>63.0%</td>
<td>74.7%</td>
</tr>
<tr>
<td>Government youth unemployment initiative</td>
<td>29.7%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Talent development initiative</td>
<td>73.6%</td>
<td>72.2%</td>
</tr>
<tr>
<td>Maximising L&amp;D spend</td>
<td>54.8%</td>
<td>64.8%</td>
</tr>
<tr>
<td>Diversity initiative/widening participation</td>
<td>29.7%</td>
<td>24.7%</td>
</tr>
</tbody>
</table>

By cherry-picking the three initiatives used the most, the government can target the employers who are most likely to be using the levy for the right purposes.
Would employers like the levy to be more flexible?

- Over three-quarters of businesses (76%) want more flexibility in how they spend the levy; hardly any (3%) are satisfied with the status quo.
- The most popular options if there were greater flexibility are in-house training programmes outside of apprenticeships (76%), programme overheads (71%), and salary and headcount (62%).
- However, many are more positive about government plans to allow them to transfer 10% of their unspent levy funds to others, such as suppliers or charities. Almost a third of businesses (32%) aim to take advantage of that option, though over half (54%) have yet to reach a position.

Analysis: There clearly is a feeling among employers, which is also reflected in research from the Chartered Institute of Personnel and Development, that there ought to be more flexibility in the way they are allowed to spend levy funds. Organisations which have little experience of offering apprenticeships and which face significant overheads setting programmes up may feel particularly aggrieved.

However, whether government can both satisfy calls for greater flexibility and at the same time guarantee standards is open to question. If ministers are too flexible they risk undermining the coherence of the apprenticeship programme, but if they are too intransigent they could alienate the businesses they rely on to make it work.
Who are employers targeting?

- Over a third of employers (34%) say they will use the levy exclusively on external apprentices, with the same proportion saying between 60% to 80% of apprenticeships will be external.
- Only 6% will reserve apprenticeships solely for internal staff with the same percentage saying 80% of their apprenticeships will be internal appointments.
- When it comes to external apprenticeships, most employers are targeting school-leavers and graduates with the vast majority (91%) indicating that only 0-20% will be experienced hires.
- A fifth of employers (20%) will hire only school-leavers and a half (50%) say well over two-fifths of their apprentices (44%) will be graduates.
- Consequently, most will begin apprenticeships at the start of the academic year, in either September (51%) or October (24%).

Analysis: There is a definite preference among respondents in our survey for recruiting externally into apprenticeship programmes rather than internally. Moreover, employers’ desire to concentrate on school-leavers and graduates runs counter to much of the media narrative over the past few months, which has tended to focus on efforts to train existing staff or apprentices over 25. This could be because many respondents are in sectors that have well-developed graduate and school-leaver programmes, or it could reflect the fact that the survey asked businesses for their plans for the next few years and not only the past 12 months.
What programmes do employers plan to convert into apprenticeships?

- Over half of employers (52%) plan to convert or already have converted graduate programmes to apprentices and a similar proportion (50%) have done the same with school-leaver schemes.
- Two-fifths (40%) are redesigning those programmes within a specific discipline but with multiple destinations in mind.
- A third of employers (33%) are re-engineering them to focus on a specific, technical role.
- When it comes to apprenticeships for existing staff, over two-thirds of respondents (67%) say employees will join as part of a development programme, while three-fifths (61%) say individuals will opt in.
- Interestingly, a fifth (21%) say they will reserve apprenticeships for top talent only.

Analysis: The proportion of employers planning to convert graduate programmes to apprenticeships is virtually the same as last year, when it was 53%. However, the numbers saying they plan to convert school-leaver programmes has risen sharply, from 34% last year to 50% this year.
Will employers expand their apprenticeship programmes?

- The overwhelming majority of employers (86%) will have launched apprenticeship programmes by the anniversary of the levy’s introduction in April; only 14% will not have done so.
- Well over a third (36%) will recruit 100 or more apprentices, with just under a fifth (19%) planning to hire between 50-99 and a quarter (24%) hiring between 20-49.
- When we look at the employers that plan to deploy up to 15 apprenticeship programmes, less than one in five (16%) will offer more than 10 different programmes, with more than half (58%) offering between 1-4, and just over a quarter (26%) launching between 5-9.
- Significantly, three-fifths of employers (60%) plan to increase their number of apprenticeship programmes, with only just over one in twenty (6%) saying they plan to cut numbers.
- However, looking ahead to 2019, employers are less certain about how that will translate into actual apprentice numbers, with a substantial minority (38%) indicating that they are unsure.

Analysis: The fact that so many employers plan to increase their number of apprenticeship programmes is encouraging. However, an increase in programmes won’t necessarily translate into greater numbers of apprentices. Many businesses are still unsure about how many apprentices they will hire only a year from now, which suggests that the picture remains extremely fluid.
When asked what was stopping them expanding apprenticeship programmes, three-fifths of respondents (61%) said the 20% off-the-job training requirement was the biggest impediment, with sizeable minorities citing wider business engagement (47%) and available resources (47%).

Four-fifths (80%) thought they had to do more to educate their organisation about the 20% requirement, and well over half said the apprenticeship brand (52%), its benefits (54%), how it differed from professional qualifications (59%), or simply what it entailed (57%) were a problem.

Nevertheless, the vast majority of respondents said stakeholders were engaged with apprenticeships, with almost all saying line managers and senior management were committed (98% and 100% respectively) with even those they thought least engaged (existing staff who could be potential apprentices) scoring a relatively high 73%.

Analysis: Engagement with apprenticeship programmes does not seem to be a problem for most employers. Implementation does. Although respondents overwhelmingly agree that buy-in at all levels is high, they also realise that challenges remain when it comes to educating their business about precisely what apprenticeships entail. This is especially true of the 20% off-the-job requirement, which appears to be a recurring obstacle for most employers.
Almost seven in ten (69%) respondents say the 20% requirement remains a problem for their organisation, with barely more than a fifth (22%) saying it hasn’t been an issue.

This is despite the fact that almost all (94%) are aware that ‘off-the-job’ training can actually be provided on-the-job, in the workplace.

The most popular method of training delivery is online, which well over half (57%) of employers say they will use, followed by face-to-face instruction (48%), day release (43%) and block release (41%).

Many have deployed a number of solutions to meet the requirement, with almost two-thirds (64%) saying they are developing internal training linked to the standard, half (50%) staggering study time so not all apprentices are off-the-job at the same time and more than two-fifths (44%) rebadging job development time.

None is planning to decrease salary by 20% to offset the cost.

Analysis: Employers are aware that there are several ways in which the 20% requirement can be met. The issue seems to be that not everyone in the organisation understands equally, or that even when they do, the requirement doesn’t impact roles equally. It can be challenging for existing senior staff to devote so much time to training, for instance, while conversely many employers feel lower-level apprenticeships do not require that much time ‘off-the-job’.

Tackling the 20% off-the-job requirement

Has the 20% off-the-job development requirement been a problem for your organisation?

- Yes
- No
- Don’t know

Has the 20% off-the-job development requirement been a problem for your organisation?

- Yes: 69%
- No: 22%
- Don’t know: 9%

Are/will you monitor the 20% off-the-job training?

- Yes: 70%
- No: 30%

Are you aware that the 20% off-the-job training can be provided at the job place?

- Yes: 94%
- No: 6%

What training delivery model will your organisation deploy to manage the government requirement that all apprentices must receive 20% off-the-job training?

- Block release: 40.9%
- Day release: 43.2%
- Weekly sessions: 29.5%
- F2F: 47.7%
- Online: 56.8%
- Not sure: 18.2%

What solutions are you deploying to achieve the 20% off-the-job training internally?

- Only deploying apprenticeship programmes where the 20% off-the-job requirement is covered by the training provider: 25.0%
- Building in relevant internal training that is linked to the standard: 63.9%
- Rebadging as 20% on-the-job development time: 44.4%
- Top-down directive: 33.3%
- Increasing contract hours to factor in off-the-job learning: 2.8%
- Staggering study time so not all apprentices are off-the-job at the same time: 50.0%
- Decreasing salary by 20% to account for the 20% drop in time on-the-job: 0.0%
Are there key sector differences?

Yes. Initial analysis by sector shows marked differences in the way employers in different industries are planning to use their levy and implement programmes, particularly when it comes to diversity, expansion and external focus. Industry sectors where these differences are most prevalent include; financial services (including banking and financial services, investment banking and asset management and insurance); and professional services (including professional services, accountancy and tax and consultancy).

Analysis: A full analysis of differences for key sectors will be published by BPP in March followed by some supporting case studies with large employers sharing the approach they are taking to the levy.

Summary

A year after the introduction of the levy, some things are becoming clearer:

- Most employers will continue to use it rather than lose it
- Most are taking the long view and will only spend the bulk of it by year four
- Most will convert a large portion of their graduate and school-leaver programmes to apprenticeships
- More are shifting levy spend from existing staff to external recruitment
- Most are also using it for diversity initiatives
- Most want greater flexibility in how they spend the levy
- Most plan to increase their number of apprenticeship programmes
BPP Professional Education is one of Europe’s leading specialist providers of professional education and delivers a range of industry-leading professional qualifications, professional apprenticeships, professional development programmes and learning media.

We enjoy a trusted advisor status for many of our clients and institutes and offer professionals opportunities to progress through a variety of qualifications in actuarial, accountancy and tax, banking and finance, business, law, management and leadership, HR and technology.

If you have been tasked with considering your businesses’ strategy for apprenticeships, or advice is needed on the operationalisation of your programmes across the full apprenticeship lifecycle, then we can help. We can support you by reviewing your whole business talent strategy (graduates, apprentices and internal talent/development schemes) with a view to designing new, interconnected propositions.

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