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CBI WALES RESPONSE TO THE ECONOMY, INFRASTRUCTURE AND SKILLS COMMITTEE INQUIRY INTO THE APPRENTICESHIP LEVY'S IMPACT IN WALES

1. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the UK's private sector workforce. We represent businesses of all sizes from all sectors, offering apprenticeships at all levels - from level 2 to level 7. This includes firms in industries with well-established apprenticeship schemes (such as construction or engineering for example), those in industries that have only recently started to offer apprenticeships (such as retail or banks), and those in industries with other routes into the profession (such as professional services). We also have members involved in supplying apprenticeships to businesses – among these are both private providers and colleges.
2. With 2 million additional jobs expected to require higher-level skills by 2022 it is clear that the UK has a huge skills challenge on its hands. The CBI's 2014 report *Better off Britain* noted that this challenge is particularly acute at the technical level – the level 4 and 5 skills required for roles in the “new middle” of our labour market. While we do well at producing level 6 (and above) skills through our excellent universities – though we will require more STEM graduates in years to come – it is this gap at technician level that is at the heart of the UK's skills shortage.
3. Apprenticeships play a vital part in addressing this skills challenge. Through hiring apprentices, businesses are able to develop people from starts at level 2 or level 3 into great careers. This is fantastic for the people concerned, as it improves employability and raises future income. It also helps in addressing the UK's productivity challenge. Investment in skills is responsible for around a fifth of productivity growth. The growth of apprenticeships over the last few years, and further business and political commitment to them is therefore to be welcomed. The CBI and the governments in Wales and Westminster see eye-to-eye, therefore, on the necessity of growing apprenticeships. The CBI's 2017 *Education and Skills Survey* revealed the extent of the problem with over a third of firms (31%) experienced or anticipated experiencing difficulty recruiting apprentices over the next three years.

THE IMPACT OF THE UK-WIDE APPRENTICESHIP LEVY

4. It has been almost a year since the introduction of the levy across the UK and employers consider the post apprenticeship levy system too complicated. Firms that operate across the UK face four different administrative systems in Wales, Scotland, England and Northern Ireland - all funded by a UK-wide levy. While devolution rightly allows policy differences, we believe it is possible to implement a common administrative approach or at least ensure alignment between nations. The status quo is unnecessarily complicated and does little to protect the UK internal market.
5. In the last few days, the CBI has delivered a clear message to the UK Government asking the government to urgently reform the English apprenticeship levy system if it is going to deliver great training and jobs. Firms operating in England that have a levy account (there are several Welsh HQ'd firms that do too) need more flexibility in how levy funds can be spent on apprenticeships, so firms can work together to deliver high-quality training in their

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area or sector. The UK Government has started building an effective English skills system through the introduction of T-levels and the National Retraining Partnership. But the UK Government should continue with its reforms to apprenticeship standards and better progression for apprentices to higher paying jobs.

6. The Apprenticeship Levy could be a key part of England's skills system. By rewarding those who do their bit and taxing those who do not, encouraging more investment. Businesses want a system that delivers for people and our economy in the long term - with a focus on quality, not numbers.
7. There's been a significant drop in apprenticeship starts over the past year in England. It shows that the levy in its current form is not fit for purpose. It does not have to be like this. The levy's design faults are serious, but not insurmountable. The CBI has recommended that UK Ministers immediately loosen the rules on what happens to the levy cash itself – the forthcoming 10% transfer rule simply isn't enough. Companies should be able to draw down far more from the levy pot – over 50% - and use it to work with others to create centres of excellence for training.
8. Providers should also lead from the front and make sure that they're offering high-quality apprenticeships that suit local businesses – reacting to employer demand, not going back to an old system.
9. In Wales the levy has impacted employer training models in a range of ways. Basically, the levy is a UK-wide tax on large employers with funding being routed to Welsh Government and not into digital accounts controlled by employers. It is important to remember this is not additional money, the Welsh Government had their skills budget reduced broadly in line with the money being received from the levy (via the Barnett formula). So the Welsh Government suddenly found itself having to respond to a UK-government policy tool designed for a demand-led system and integrate it into a historically supply-led apprenticeship structure which has, rightly, focused on supporting firms of all sizes and not only those that pay a contribution. This is not easy challenge to meet - especially with no extra money - and it will take time to get right.
10. In the meantime, the levy has resulted in a significant increase in demand among large employers for apprentices, with many now paying a tax for training they expect to get their training needs met, delivered in a way that works for them. However, unlike in England, the purchasing power is not in the hands of Welsh levy employers – it remains in the hands of the Welsh Government. Welsh employers - many of whom have lost a significant part of their training budget to the levy – now have to engage with a local training provider who will work with the Welsh Government to understand the training and funding required. There are examples of this working extremely well but there are also examples of employers in Wales having to use training providers in England to meet their training needs. However, because the English levy system is superficially more simplistic for employers to understand, there is a common belief among employers that the English system is far easier to access and understand but, as my we have outlined, the English system is far from perfect.
11. The fundamentals of the Welsh apprenticeship levy system – all-age apprenticeships, an evidence-based strategy to support important sectors and the need to shift to higher-level skills are all welcome. So too is the Welsh Government's preference to maintain National Occupational Standards. However, some employers are concern about the pace of change the Welsh Government has adopted in its decision to focus delivery on technical

higher-level skills and reduce level two provision. While the goal is right, there is a concern that current provision of level 2 needs to be phased out over a longer period of time.

12. The good news is the Welsh Government are listening and working closely with a range of interested organisations to make the right changes needed to improve the system more all concerned. What we do know is we need to be training more apprentices in both traditional and emerging fields and we need to do this as soon as possible.
13. The CBI would welcome the exploration of a way to guarantee levy payers in Wales a certain level of training support and streamline the access to this (i.e. consider whether a reduced level of adherence to national and regional skills drivers may lead to an increase in training delivered in Wales). This general approach would reduce uncertainty for employers and ensure some training needs are met without moving away from the underlying benefits of the Welsh apprenticeship system. The Scottish Government's Flexible Workforce Development Fund may offer an example of this general approach.

CBI WALES
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