



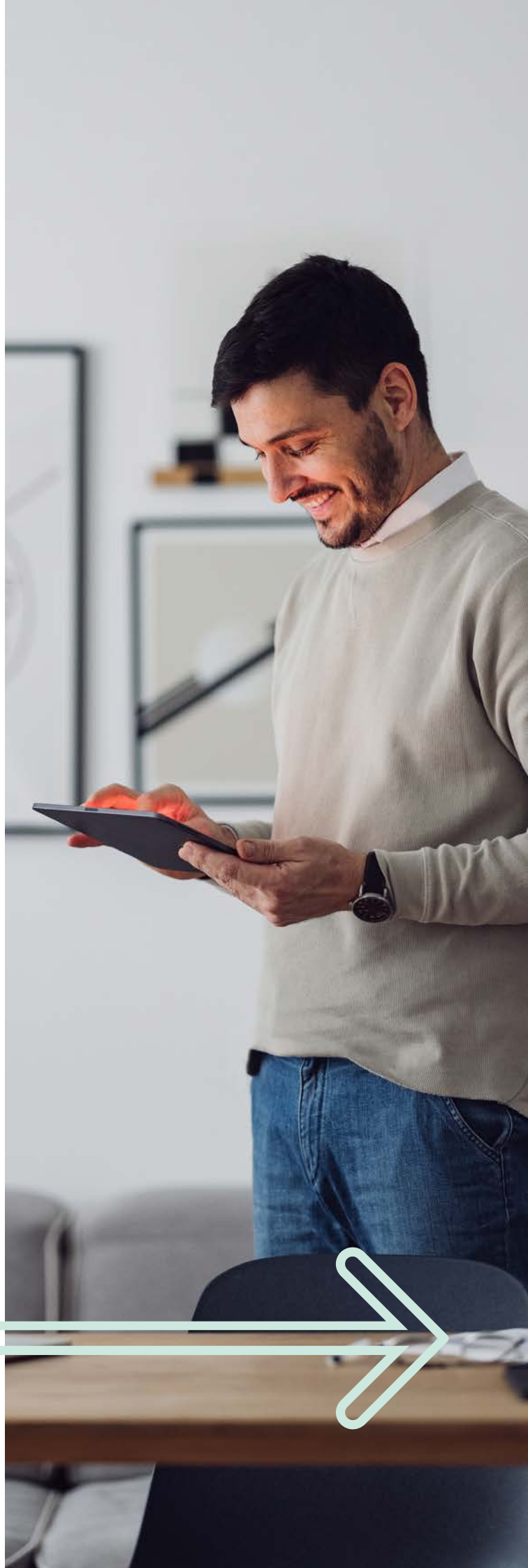
Workplace training: The productivity and growth accelerator

How successful culture change
can transform skills and
productivity in the UK

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Foreword

At QA, we are passionate about giving people the tools they need to master the digital world - changing lives, businesses and the economy for good.

For more than 35 years we've worked with organisations spanning sectors including government, construction, finance, health and beyond to support their business by developing vital digital and technology skills in their workforces.

We've worked with 96% of the current FTSE100, are accredited by all major technology vendors including Microsoft, AWS and Google Cloud, and supported 439,000 learners in our last full financial year. We deliver a blend of talent acquisition, upskilling and reskilling using digital and live learning, in disciplines from cyber security and data to digital transformation and leadership skills.

As a nation, we must tackle the major barriers we face when it comes to investing in skilling people up. At stake is the productivity of the UK. British working adults aged between 25 and 64 hold a third less vocational qualifications than other OECD countries, while UK business investment also sits well below the OECD average¹.

The UK must also overcome a chasmic digital skills gap. 57% of UK IT firms cite the current talent shortage and access to skills among the biggest barriers for their businesses², and vacancies in the tech sector are now equivalent to 13.8% of the country's entire tech workforce³.

QA exists to help overcome these challenges – not only directly through our own work, but by sharing our experiences to drive policy change. Day in, day out we hear about the challenges facing our clients when it comes to developing the right skills and finding the right talent, and the barriers they face in unlocking the potential of new hires and existing employees.

Through our work across Skills Bootcamps, apprenticeships and higher education we know that when these barriers are overcome, the results can be incredibly powerful for both businesses and the individuals they employ from diverse backgrounds. We don't keep our learnings to ourselves – we use them to shape policy and public opinion. In the past year we've taken these insights to government and parliamentarians, providing evidence to the Education Select Committee, and presenting to the APPG on Digital Skills.

But we always want to go further. This research was commissioned to get under the skin of the challenges facing businesses and their perceptions towards training, giving them a voice to explore what could be done differently, while providing practical solutions that might help break through the artificial ceiling in training and investment.

The recommendations we've reached in this report are about tailoring the system to the needs of businesses. This is about far more than just throwing more money at the problem and hoping the dial will move, but creating a cultural shift that allows easier and greater access to training and, subsequently, the skills the UK so desperately needs.

Fundamentally, that is not just the responsibility of government or policymakers. Nor is it just the responsibility of business. Instead, we need policymakers, industry and training providers to act together to ensure business gets what it needs to make this happen.

Paul Geddes
Group CEO, QA Ltd
March 2023

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062708/Spring_Statement_2022_Print.pdf (4.22 p.35)

² <https://techmonitor.ai/policy/digital-economy/uk-needs-fix-digital-skills-gap>

³ Lightcast labour market analytics (subscription)

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Summary

2A. KEY FINDINGS

- ⇒ **83%** of senior financial decision makers we polled **agreed that offering formal training beyond the basic functions of a job has a positive effect on people's performance at work.** Despite this, 26% had not offered this training in the last 12 months.
- ⇒ **A very high proportion of apprenticeship levy paying businesses (83%) expected to spend less than 50% of their levy pot this year** - with some referring to levy payments as a "sunk cost" or "basically another tax".
- ⇒ Businesses also experience a wide range of financial barriers to investing in training and these vary based on size. **Non-levy paying companies - in particular SMEs - found accessing apprenticeship funding to be administratively burdensome and complicated.**
- ⇒ **While businesses' perceptions of more formal training schemes such as apprenticeships are largely positive,** when given the choice, many express preferences for less intensive (and arguably, less impactful) training alternatives, such as shorter (49%) and online (44%) courses to address specific skills shortages.
- ⇒ Crucially though, our research has revealed that many of the most pertinent barriers to training are non-financial. We heard in our roundtable that **businesses that created a culture of engagement with training, including advocacy from the executive team, were able to utilise training effectively and embed it into the operations of the business.**
- ⇒ This culture was also described as a way to mitigate a key barrier for training - the risk of losing your investment by staff being poached (a key concern during a skills shortage) - as **a culture of training and development in an organisation can encourage such staff to stay for longer.**
- ⇒ We also heard that a **lack of knowledge about how to engage with schemes such as the apprenticeship levy has led many businesses to rely on other, less formal, easier to access training provision.** In this report, we share examples of inter-business collaboration that has been effective in increasing uptake in apprenticeships.

Throughout our research we tested a number of potential solutions with businesses, covering both financial and non-financial barriers to investment. Below we outline our recommendations for addressing the findings above.

2B. SUMMARY OF RECOMMENDATIONS

Our recommendations focus on resolving both the financial and non-financial barriers to investment in training, tailoring the solutions as far as possible to business needs.

The recommendations below involve potential action from government, businesses, and training providers across the short, medium, and long term.

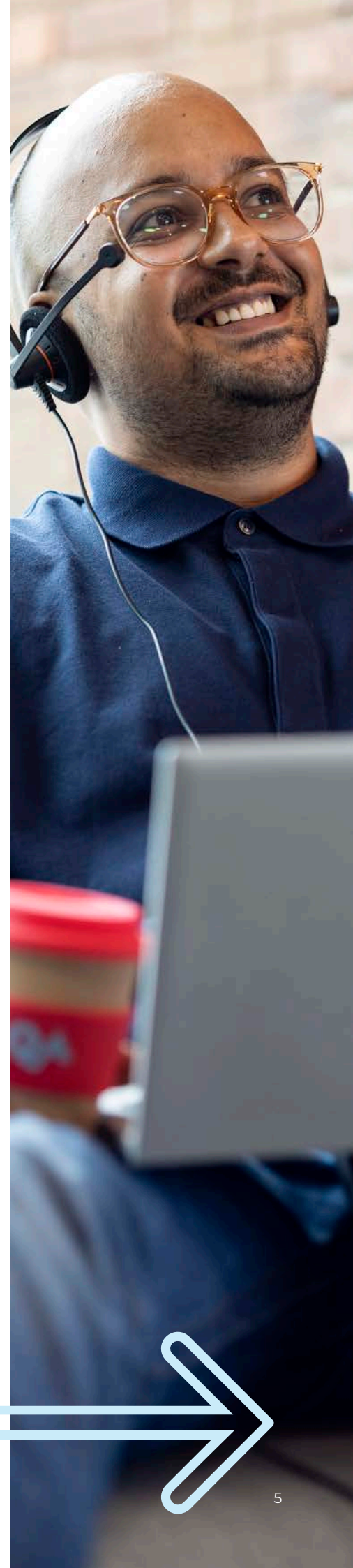
1. AIM:

To shift the culture of training within the business community to drive greater investment.

Implement training investment reporting - based on the success of gender pay gap reporting - so boards can engage with, and prospective employees can understand, how much training the company undertakes. We would see this as being on a voluntary basis, certainly in the short term.

This could be further supported by action to:

- **Develop a training investment network for businesses** to support each other on how to make the most from training opportunities - this could utilise existing mechanisms such as Local Skills Improvement Plans. (Short term)
- **Develop a campaign for businesses to encourage them to consider retraining as a preferred option over redundancy** – changing the default culture among businesses in the UK. This could be supported by incentives for retraining mid-life and older employees at risk of redundancy – of increasing importance given the ageing population. (Medium term)



2. AIM:

To make adjustments to the apprenticeship levy that make it easier to use for businesses.

Simplify the apprenticeship levy system to make it easier to use. Reform how businesses interact with apprenticeships across value, process and funding, particularly in relation to the apprenticeship levy, to increase engagement.

More specifically, this could be supported by action to:

- **Reform the apprenticeship standards process** so that it is easier for businesses to engage with and so that skills can be delivered faster. This will ensure that the knowledge, skills, and behaviours required for qualifications more closely match those needed by UK business (including emerging sectors and technologies) (Medium term)
- **Increase the flexibility of the apprenticeship levy to allow businesses to spend it on a wider set of training** and in a more impactful/ concentrated way based on areas where skills shortages are most prevalent for quicker results in the short term. However, the intended, specific role of apprenticeships should not be forgotten or lost over the longer term and funding should be ring-fenced to support this. (Short term only)

3. AIM:

To make adjustments to accountancy practices to ensure training is financially attractive and money already in the system can be used effectively.

Make training more financially attractive by changing accountancy practices, as well as encouraging businesses to share their unspent levy and introducing tax incentives

- **Engage finance and accountancy professionals to seek to change the way businesses treat expenditure on training** – as an investment rather than an expense – which could make training more attractive for boards and senior executives (Medium term)
- **Facilitate larger businesses transferring more of their unspent levy to SMEs** – supporting schemes such as levy matchmakers (Short term)
- **Investigate potential tax incentives that would make investing in training more financially attractive to businesses,** including creative uses of individuals' personal allowance to mitigate retention issues (Short term)



3

Background and Methodology

3A. POLICY BACKGROUND

Spending on adult education and learning in the UK is comparatively lower than many other OECD countries

The data presented below shows that businesses with over 250+ employees spend less on training per person than those with 10-249 employees.

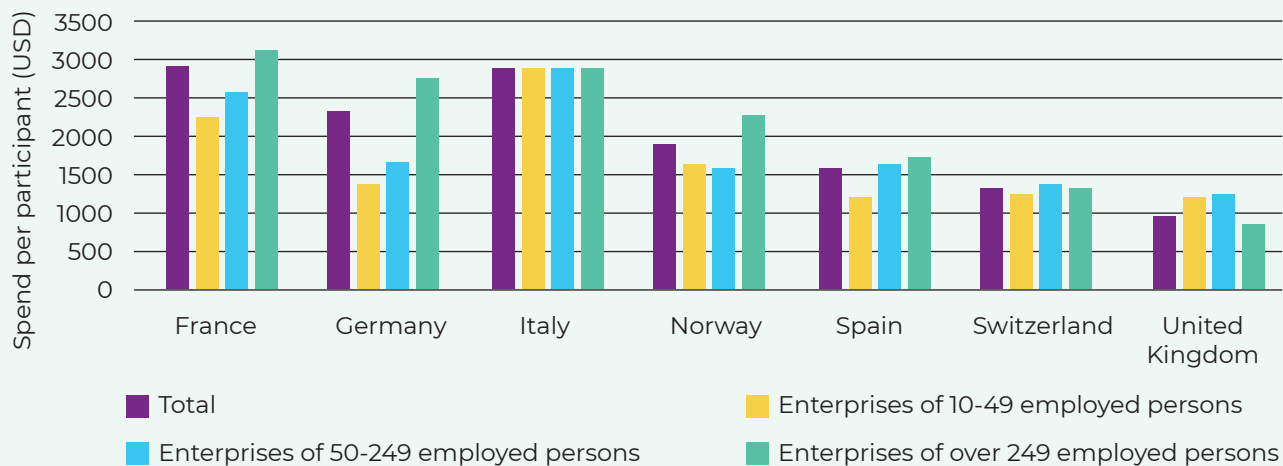


Figure 1: Adult Education and Learning: Annual Training Costs (OECD, 2015)⁴

In the UK, between 2010/11 and 2020/21 there was a 50% decrease in the number of adults participating in government funded further education and skills training (a drop from 3.2 million to 1.6 million)⁵. In addition, there was an 11% real terms fall in employers' spending on workforce training per employee from 2011 to 2019. Perhaps unsurprisingly, regional disparities in skill acquisition are stark with 13% of Birmingham's workforce having no qualifications at all compared to 5% in London⁶.

⁴ <https://stats.oecd.org> - Adult Education and Learning Costs: Annual Training Cost by Country, 2015

⁵ <https://www.nao.org.uk/wp-content/uploads/2022/07/Developing-workforce-skills-for-a-strong-economy.pdf>

⁶ <https://www.cityandguilds.com/-/media/cityandguilds-site/documents/news/2022/great-jobs-levelling-up-the-uk-report-pdf.ashx?la=en&hash=E13C54E6EC5679C62F35FD2288753072842838FE>

Training spend is not matching the growing need for new skills

Between May 2021 and 2022, there were 14.85 million vacancies across the economy - with over 2 million of the vacancies being for tech roles⁷. The digital skills gap is estimated to cost the UK economy £63 billion per year in lost potential gross value with a workforce inadequately equipped to meet the demands of the digital age⁸.

Modelling from LSE suggests that around three million UK jobs will require upskilling as we move away from high carbon activities towards a greener economy⁹. Similarly, 64% of tech employees believe their tech skills are essential to their job security.

Effective reskilling can bring a productivity uplift of 6 to 12% for businesses¹⁰ and the CBI recently reported that closing the UK skills gap could provide a £150bn uplift to GVA by 2030¹¹.

Skills policy is at an important crossroads

This report has been produced against the backdrop of political parties beginning to think about how they approach the challenge of increasing productivity across the UK plc. Rishi Sunak made clear in his annual Mais lecture that his priorities were “Capital. People. Ideas” – and as skills needs increase and change our training system needs to “match it”¹².

Similarly, the Labour Party used its 2022 annual conference to announce substantial new policy on skills – including turning the apprenticeship levy into a “Skills and Growth Levy”¹³.

Skills policy is likely to continue to be a key topic for both parties in the run up to the general election given ongoing challenges with work force participation, productivity and fast-evolving industries.

7 <https://technation.io/people-and-skills-report-2022/#key-statistics>

8 <https://publications.parliament.uk/pa/cm201617/cmselect/cmsctech/270/270.pdf>

9 <https://www.lse.ac.uk/granthaminstitute/news/green-economy-how-the-transition-to-net-zero-could-affect-uk-jobs-across-the-country/>

10 <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/the-economic-case-for-reskilling-in-the-uk-how-employers-can-thrive-by-boosting-workers-skills>

11 <https://www.cbi.org.uk/media/mvfk20vt/how-britain-grows-again.pdf>

12 <https://www.gov.uk/government/speeches/chancellor-rishi-sunaks-mais-lecture-2022>

13 <https://labour.org.uk/press/labour-announces-landmark-shift-in-skills-to-drive-growth-and-equip-our-country-for-the-future/>



3B. METHODOLOGY

QA commissioned public policy research agency Public First to conduct research into businesses' perceptions of training, the barriers they face to investment and possible ways to mitigate these barriers. This research comprised the following:

- A nationally representative poll of 515 CFOs and financial decision makers of English companies (as some funding and tax arrangements vary across UK devolved administrations). Businesses surveyed ranged in size from 2 to over 10,000 employees - with 356 SME respondents.
- A qualitative roundtable with business leaders, tax specialists and policy experts, to discuss the findings of the quantitative research and explore the 'real world' viability of potential policy recommendations.
- Desk research on the policy context, both within the UK and Europe, including existing ideas for interventions to stimulate investment in training.

All research took place between June and September 2022. Public First is a member of the British Polling Council and Company Partner of the Market Research Society, whose rules and guidelines we adhere to. For more information, please visit our website: www.publicfirst.co.uk.

PUBLICFIRST 



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Research findings

Businesses recognise that the need for up/reskilling is growing, but many still aren't investing in training



There's so many people out there that don't get the opportunity. So whatever we do, we have to make sure that we're wrapping our arms around the underserved, underprivileged, non- socially mobile population. Because we've discovered just through boot camps, for example, in partnership with QA, amazing talent surfacing in the most unexpected places.

QA Research Roundtable Attendee



77% of all businesses surveyed felt that upskilling/reskilling employees has become more important in the last few years. This increased to 85% among businesses with over 250 employees.

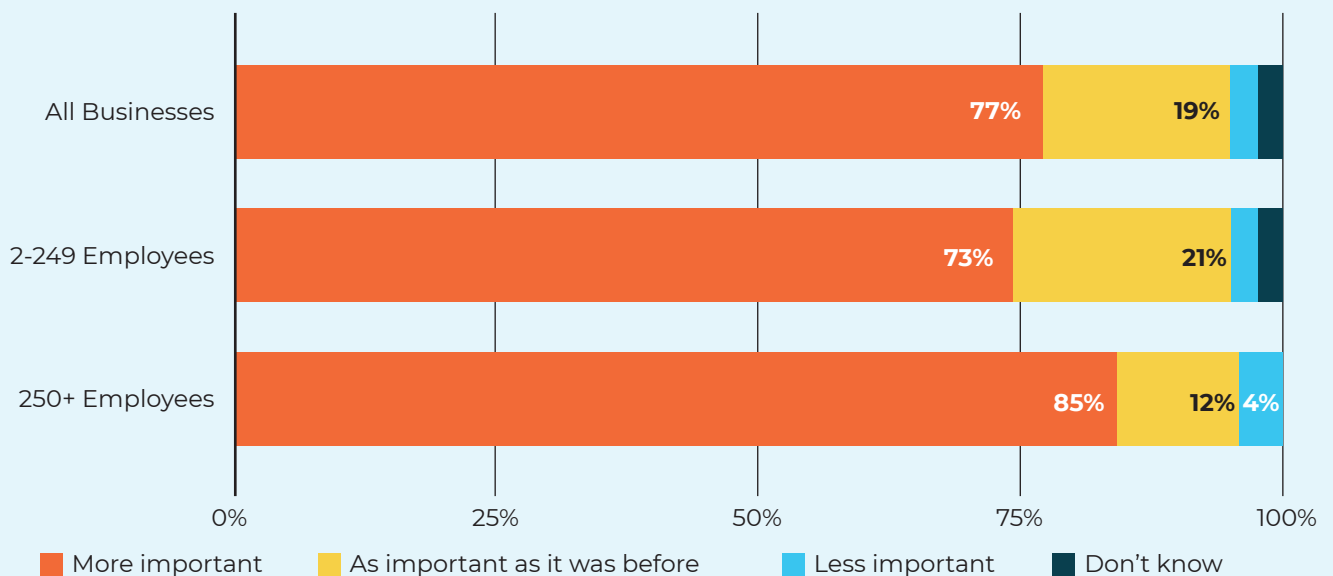


Figure 2:

In your view, has it become more or less important for people to upskill/reskill in the last few years?

83% of all businesses polled agreed with the statement “offering formal training beyond the basic functions of a job has a positive effect on people’s performance at work”. Despite this, over a quarter (26%) had not offered their staff any formal training in the last 12 months.

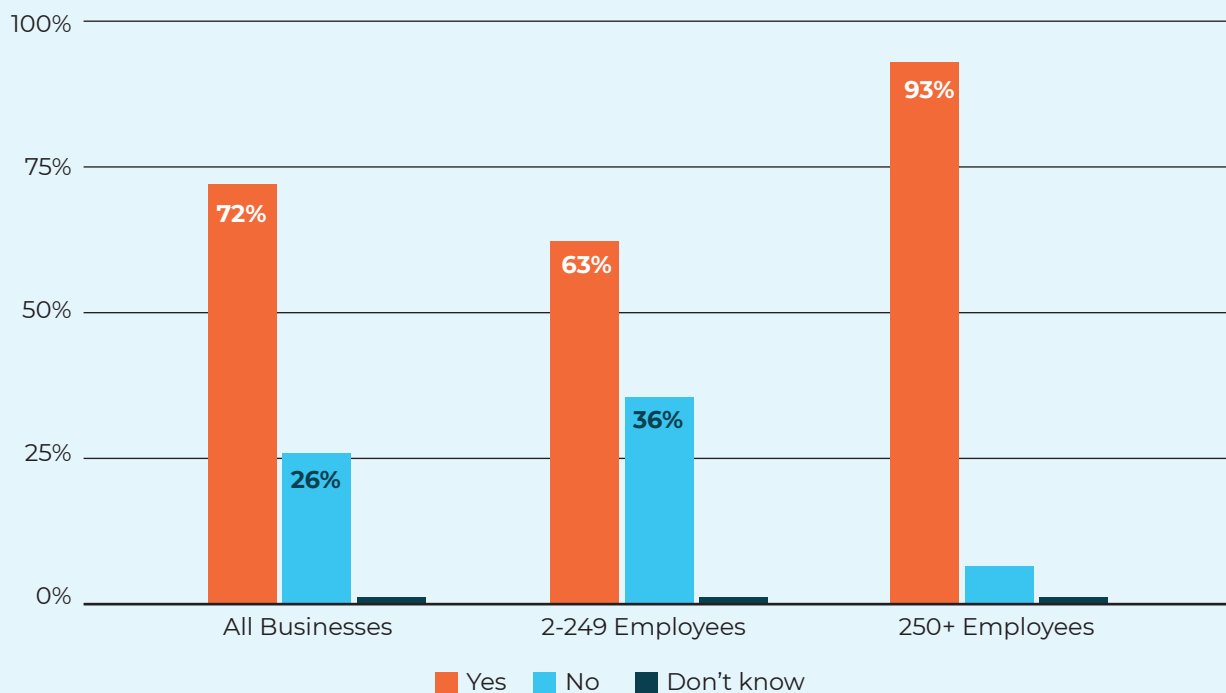


Figure 3: Has your company offered any of its employees any formal training beyond the basic functions of the job in the last 12 months?

Cost is a major barrier for businesses – in particular SMEs – to invest in training

SMEs were more likely to share that they hadn’t offered their staff any training over the last 12 months - 36% compared to 6% for businesses with over 250 employees.

Of the companies who offered no training in the last 12 months, 48% did so because “our staff do not need any formal training” with a further 24% selecting “formal training is not applicable in our industry or sector”.

Businesses also suggested that cost was an issue with 21% responding they had not offered formal training as they couldn’t afford it and 14% said they were unable to spare capacity for formal training. 43% of businesses polled indicated that they would want the government to help make training courses more financially attractive to help them be able to invest.



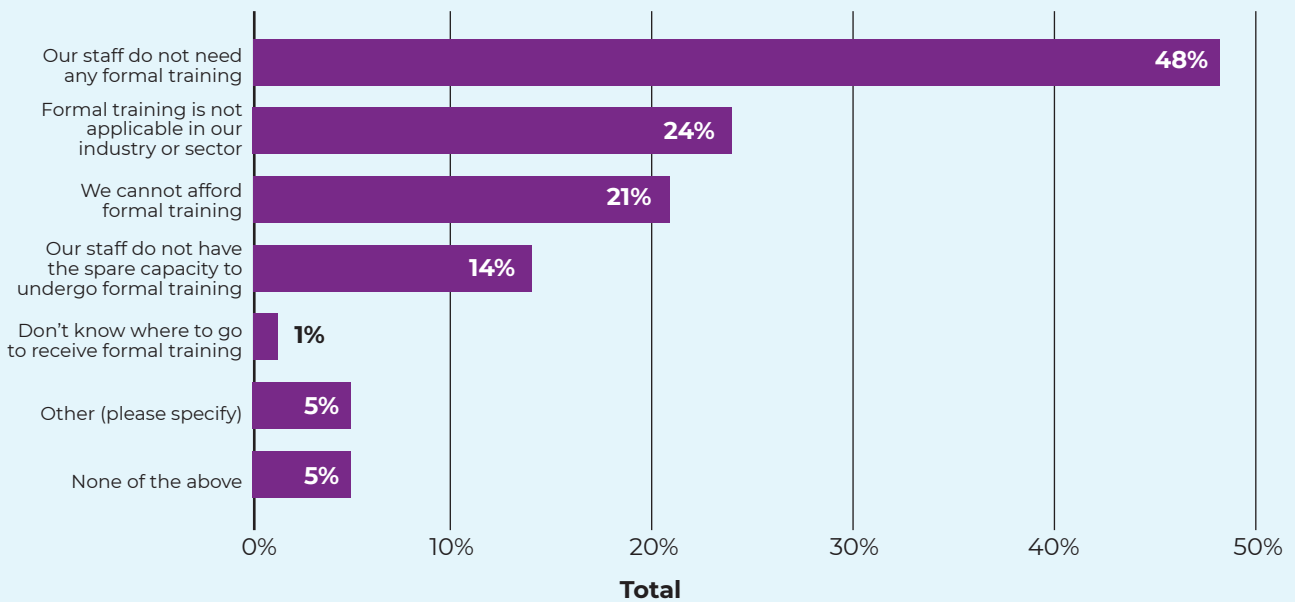


Figure 4:

You said you have not offered your employees any formal training in the last 12 months. Why is this? Please select all that apply.

The majority of businesses are underutilising their apprenticeship levy

In addition, 83% of companies who pay the apprenticeship levy expect to use less than half of their funds this year. And while they are entitled to 95p funding for every 5p they spend on apprenticeship training, 74% of non-levy payers told us they have never used top up funds to pay for training.

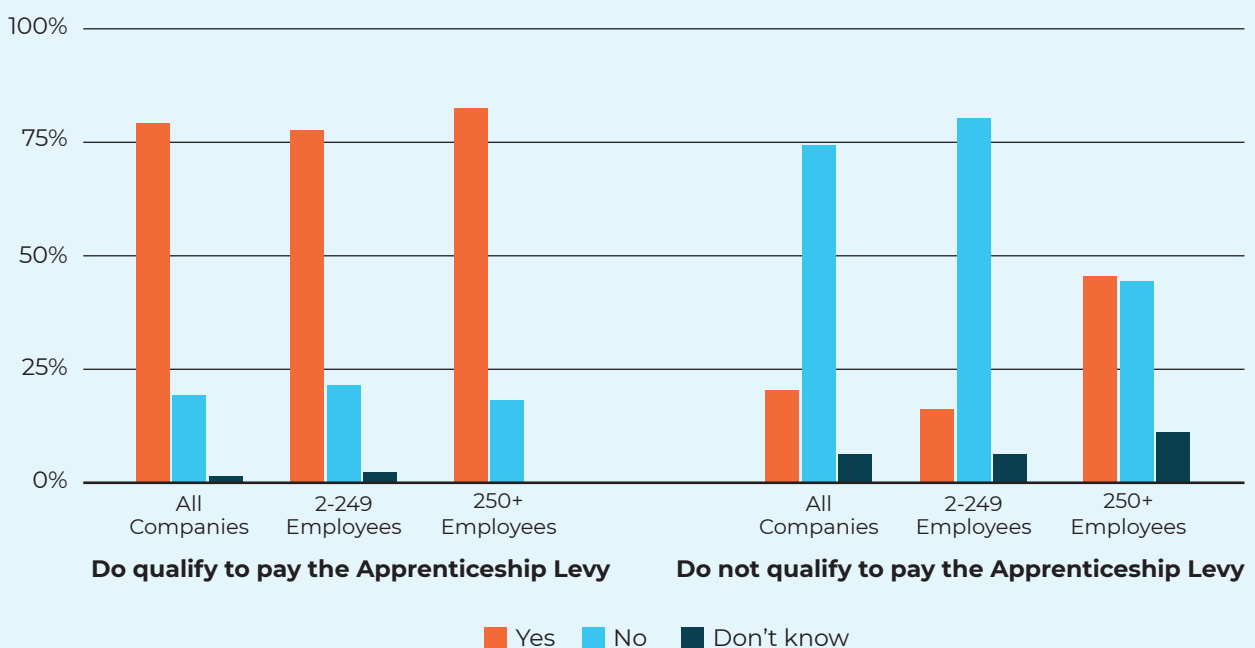


Figure 5:

Has your company ever used these funds to pay for training?

These figures support recent reports that nearly £3.3 billion of unspent apprenticeship levy has been returned to the UK Treasury¹⁴.

While there are arguments that some or much of this underspend is used for top-up funding for non-levy payers – it is clear from our data that this is not the case for the majority.

Our roundtable echoed this, with many participants sharing that smaller businesses struggle to engage with government apprenticeship funding as they find the system to be complex and administratively burdensome. Without support from larger employers or levy matching schemes, the benefits of hiring an apprentice seem to be outweighed by the costs for SMEs.

A particular barrier for SMEs appears to be the difficulty of engaging with an apprenticeships system which is complex and bureaucratic. Participants of our roundtable suggested that SMEs find it particularly hard to navigate many of the barriers outlined above – especially those relating to cost, capacity, and risk. To truly realise the productivity potential of UK plc measures should be put in place to address barriers to investment - in particular barriers faced by SMEs, who make up 99% of all businesses within the UK (5.6 million)¹⁵.

Some businesses also seem to view the levy as a “sunk cost” - a cost which has already been spent and cannot be recovered. This leads to a risk that the tone around it for businesses is immediately negative, rather than emphasising the positives this can bring for the business.



There's no incentive, other than that money evaporating, for businesses to engage with and use it [the levy pot]

QA Research Roundtable Attendee



Overall, the majority of businesses recognise a need to reskill/upskill employees to remain competitive.

However, a small but significant number of companies believe that their employees do not require training – and many experience barriers, such as costs, which stop them from engaging with training provision.

Our research only scratches the surface and further work could helpfully be done to understand the motivations of employers who do not invest in staff development.

Alongside cost, businesses also highlighted the risk associated with training employees only for them to be recruited by competitors.



I coach, you poach -

QA Research Roundtable Attendee



Findings from our roundtable suggest that fluctuations in the labour market and the ongoing cost of living crisis have exacerbated poaching of apprentices and other talent as well as a lack of engagement with the system.

Putting measures in place to mitigate risk for companies investing in training is key for promoting confidence in utilising the apprenticeship levy and absorbing the additional costs that come with this.

¹⁴ <https://www.ft.com/content/32ace572-46c3-48b8-9202-b6d7ac27f8c9>

¹⁵ <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

Employers can find apprenticeship standards inflexible - in particular within fast evolving industries such as tech

When businesses do engage with the levy they prefer to offer apprenticeships to new recruits (38%) compared to existing employees (25%). 35% of businesses have found it either somewhat or a lot harder to find staff with the necessary skills to fill vacancies. In addition, findings from our roundtable revealed that employers can find apprenticeship standards inflexible - in particular within fast evolving industries such as tech.

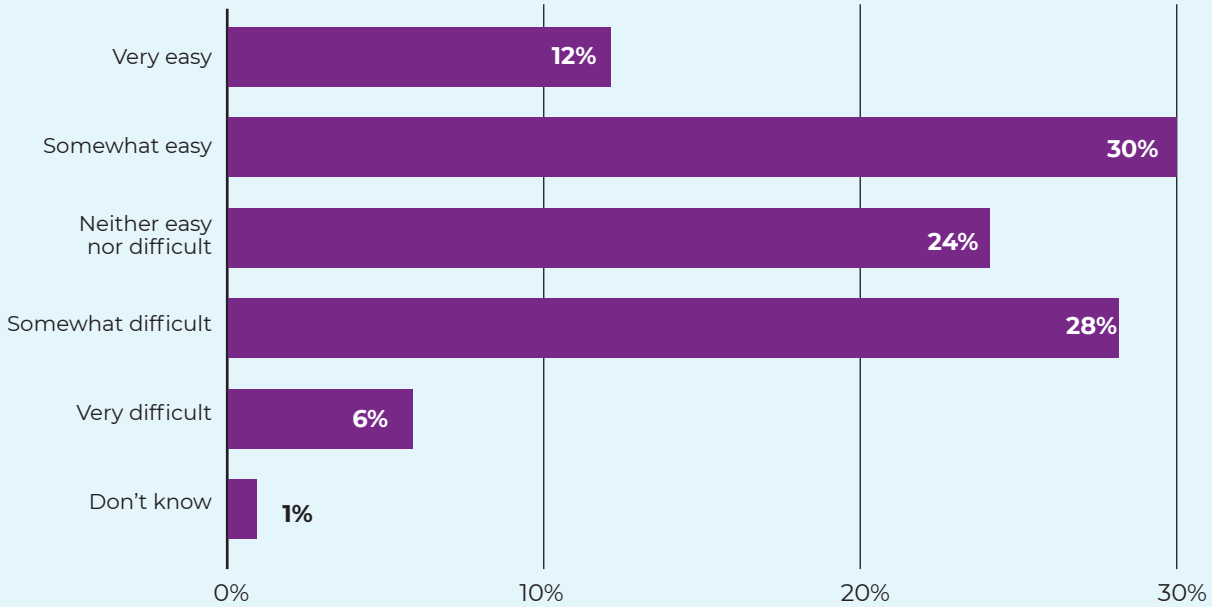


Figure 6:

How easy or difficult has it been for your business to find staff with the skills needed to succeed in your company in the last 12 months?

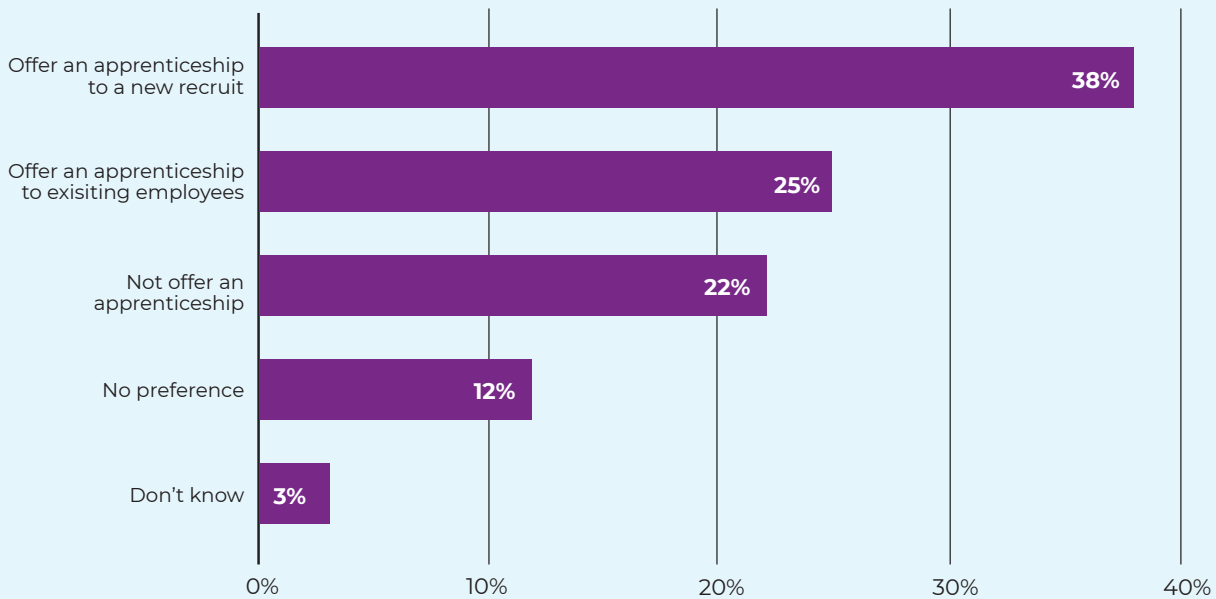


Figure 7:

Which of the following would your company prefer to do?



You can't do an apprenticeship in a job that doesn't exist yet.

Everyone thinks apprenticeships are a reskill tool, fundamentally. Policy says it isn't.

The government is never going to be able to keep up with what businesses need.



Quotes from QA Research Roundtable

As roles within the economy begin to adjust to developments such as those outlined above, the mechanism for developing apprenticeship standards and training content needs to evolve to keep up. Route Panels are in place to ensure that apprenticeship standards and T levels meet employer needs; however, the last consultation on occupation maps was run between December 2017 and February 2018¹⁶.

Of course, employers are theoretically able to engage with the process through trailblazer groups. However, the group has a number of membership requirements that may be considered as a barrier to smaller businesses who do not currently engage with the levy system.

These include members serving for two years and working for an organisation who intends to employ an apprentice in the occupation - which for some smaller employers may be considered a big leap in committing to funding an apprenticeship. Ironically, it is arguably exactly the organisations who do not intend to hire apprentices that we most need to listen to in deciding how to design apprenticeship standards, so that apprenticeships appeal to businesses and convince them to think again about their investment decisions.

Employer investment in training has dramatically decreased over the past seven years. In 2021, just under half (48%) of employers had funded or arranged any training over the last 12 months for employees compared to 66% in 2015 and 2017, and 61% in 2019¹⁷. Both through our own insights and through our discussions with business leaders at our roundtable, we have found that many businesses struggle to identify skills needs in a fast evolving world. Developing businesses' understanding of how funding an apprenticeship could positively impact their workplace will be key to increasing the number of apprenticeship starts – particularly in businesses that have never supported an apprentice before.

¹⁶ <https://www.instituteforapprenticeships.org/about/occupational-maps-consultation/>

¹⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1071259/Employer_Pulse_Survey_2021_Report.pdf



Businesses prefer flexible training provision that works for both them and their employees

In addition, businesses favoured shorter training sessions (49%) and online training (44%) compared to apprenticeships (20%) and longer training sessions (26%). This reflects a recent study by the Lifelong Education Commission, supported by Respublica, on the role of microcredentials in modular learning. Over a quarter of all businesses were likely to use forms of microlearning in the next 12 months, if available¹⁸. Participants at our roundtable echoed this - highlighting the importance of flexible training provision - in particular the use of online training to reduce travel time.

Given this, further research could helpfully be conducted into the growing role of modularity and microcredentials within the adult learning space - and in particular possible adjustments to the apprenticeship delivery model to match these developments. This highlights the value of flexibility and adjustable delivery – the introduction of accelerated apprenticeships is a welcome development for businesses and learners.

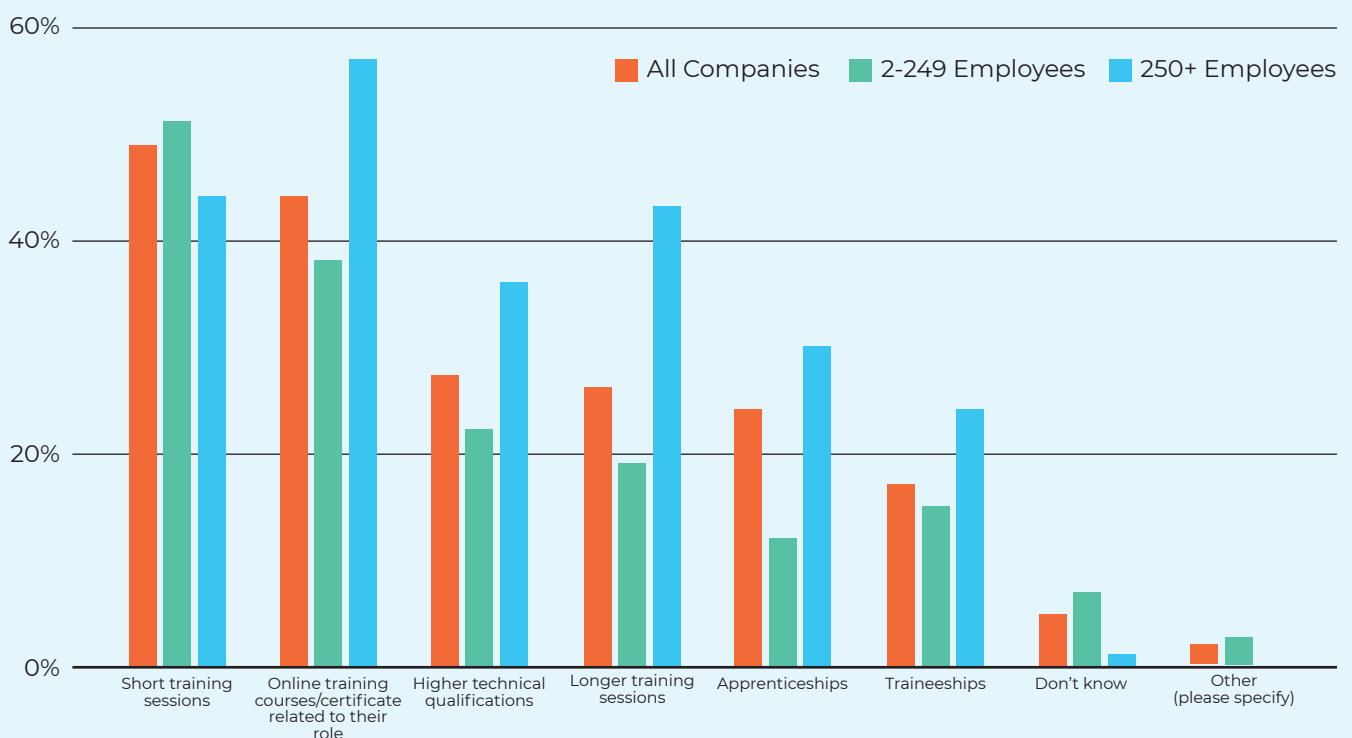


Figure 8:

In your view, what types of training would be most useful for the staff at your company to take part in during the time they work at your company? Please select up to three of the following options.



¹⁸ <https://www.respublica.org.uk/wp-content/uploads/2022/06/The-Role-of-Microcredentials-in-Modular-Learning-LEC-Report.pdf>

Overcoming barriers to investing in training

Findings from our research highlight that making training more financially attractive through tax adjustments is a key priority for businesses to be able to invest (43%).

Almost half of companies with 250+ employees selected this - suggesting this is particularly pertinent for larger businesses. However, when asked 'What would you say are barriers to claiming tax benefits, if anything?' 29% of businesses said that the process was too cumbersome - this increased to 40% among businesses with 250+ employees.

So, while larger businesses are more likely to ask for financial incentives as a solution, they are also less likely to find the current tax incentives system easy to manage.

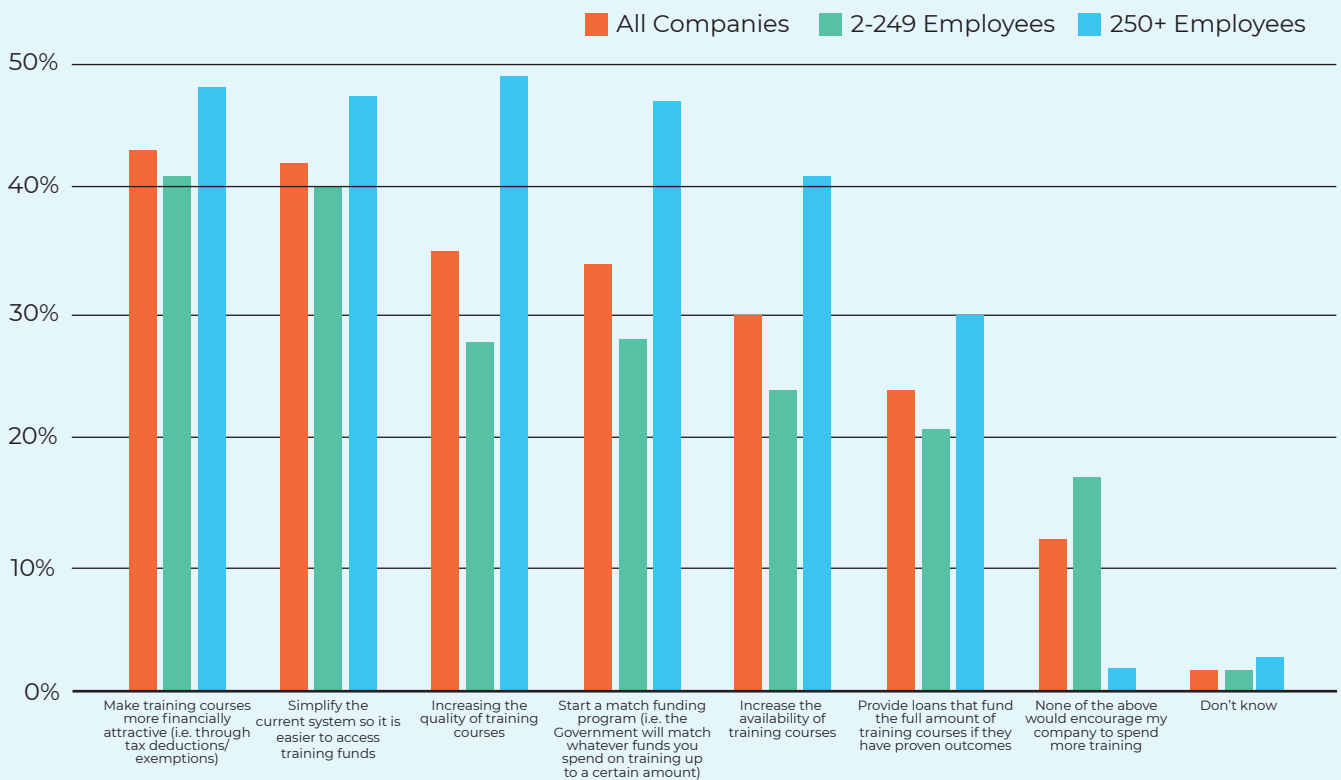


Figure 9:

Which of the following things the Government could do would encourage your company to spend more on training, if any? Please select all that apply.

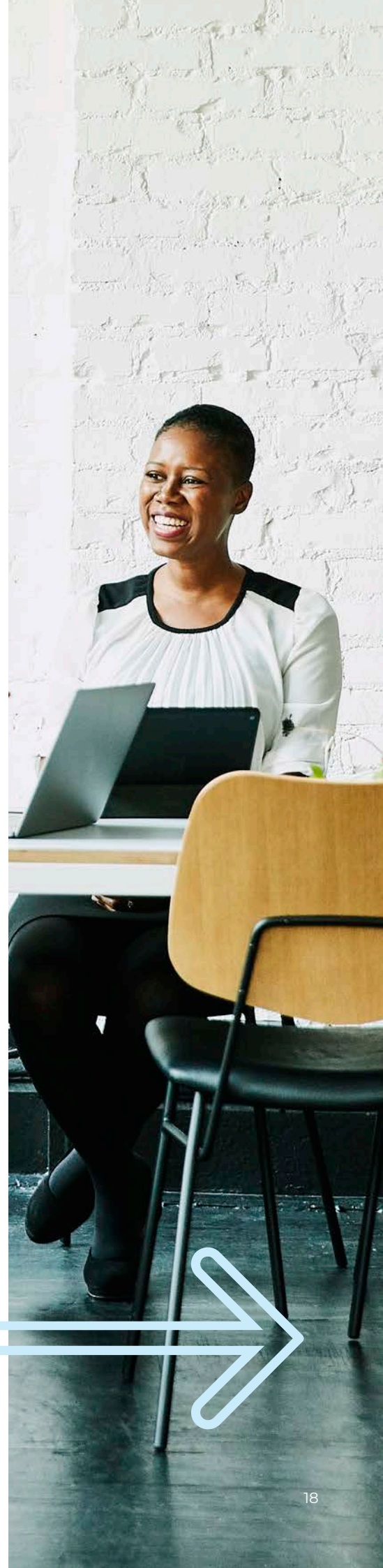


Research from the OECD outlines the key principles of good practice from across Europe on incentivising investment in skills for SMEs¹⁹- many of which echo our own research findings:

- Participation in reskilling initiatives is higher when the administrative burden is low and businesses have certainty of funding
- Cost sharing models continue to be the most effective and most common financial instruments utilised
- Many programmes combine financial and non-financial support to increase uptake in schemes - non-financial support can include elements such as tools to support businesses to identify where would be most effective to invest
- Open and proactive communication between training providers and employers increases the take up of interventions by SMEs. Providing accurate but accessible information on the availability and function of the intervention is a key element to the policy's success. Open and proactive communication between stakeholders increases the uptake of schemes.

Incentivising investment in training requires a range of actions from various actors and stakeholders within the skills sector. The recommendations outlined below take into account a number of factors including maintaining and developing high quality training and apprenticeships, the different skills needs and capacity of businesses of different sizes, and ensuring changes are financially sustainable.

Bringing together our own analysis with existing research has led us to the selection of key recommendations outlined below. The recommendations cover both financial and non-financial actions. Our research shows that these factors are highly interconnected and therefore recommendations should be looked at in the round rather than individually.



¹⁹ https://www.oecd-ilibrary.org/sites/1eb16dc7-en/1/3/2/index.html?itemId=/content/publication/1eb16dc7-en&csp_37f3d3022e82e5c198152c6cc55436b9&itemIGO=oeed&itemContentType=book#section-d1e697

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Full recommendations

1. IMPLEMENT TRAINING INVESTMENT REPORTING

Following the success of gender pay gap reporting, we suggest that increasing transparency and accountability on training spend among businesses could positively influence behaviour. This could provide boards, employees, or prospective employees with insights into where training and development feature in the businesses' priorities.

Of course, more work would need to be done on this to consider the potential merits in more detail – however, we think it is an idea worth exploring. Since the introduction of mandatory gender pay gap reporting, affected employers have reduced the gap between male and female employees pay by almost a fifth (19%)²⁰.

Given the impact of this change in legislation on the behaviour of businesses, applying similar principles to training spend could lead to it being a more common topic for discussion at board meetings. Providing a spending report could also enable prospective employees and investors to have greater insight into the current investment of human capital within the business as well as future plans for growth.



Gender pay gap reporting is on every board's agenda - why can't it be the same for training spend?

QA Research Roundtable Attendee



²⁰ <https://www.lse.ac.uk/News/Latest-news-from-LSE/2021/c-March-21/Gender-pay-gap-closes-by-one-fifth-after-reporting-introduced>



SUPPORTING RECOMMENDATIONS

Develop a training investment network for businesses

Businesses are clearly struggling to make the levy work for them and are finding it difficult to see how training can benefit them. We therefore believe a key part of changing employers' perceptions on the expected returns from training includes better promoting an understanding of the benefits of training and how to access funding.

Both businesses and training providers should work together to develop networks to help foster a community and culture of engagement with training – this could also be applied regionally. Many smaller businesses demonstrated a lack of knowledge about accessing funds such as top up levy funding from government or transferred levy funding from larger businesses. Enabling businesses, in particular SMEs, to engage with local schemes and support mechanisms would help build employer confidence and knowledge of the system - including adjusting to any future changes in the system.

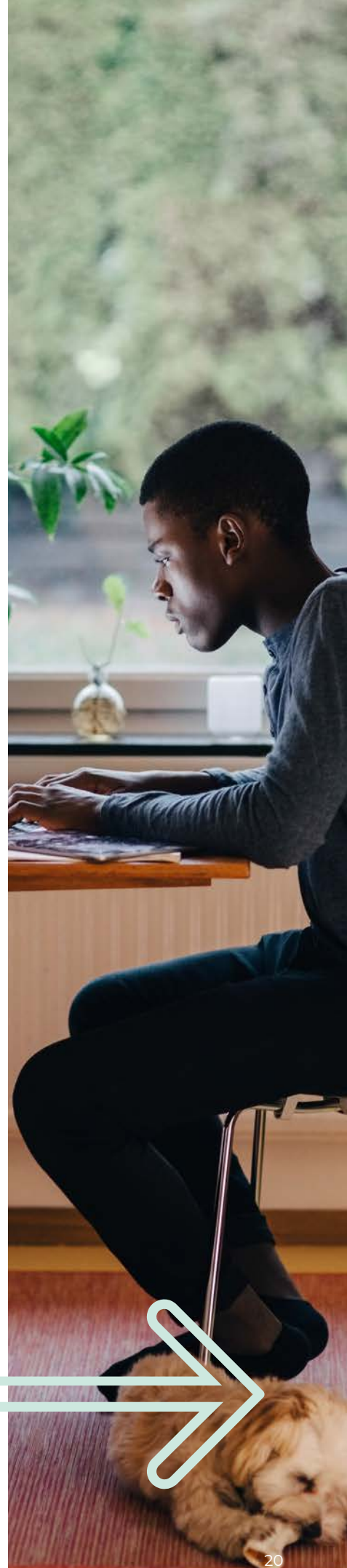
Businesses and training providers should be actively engaged in localised schemes such as Levy Matching Services²¹. There are a number of examples of collaboration at a regional level to enhance investment in training, including The Apprenticeship Levy Fund formed by the West Midlands Combined Authority²². Successful schemes in this area demonstrate the role and impact of training on regional growth and success.

The introduction of Local Skills Improvement Plans seeks to shift the focus increasingly to local skills needs - in particular in areas which have been identified as key to the Levelling Up agenda. Given this, the roles and responsibilities of local combined authorities should reflect the government narrative around skills needs - and subsequently training needs - being different in different areas of the country while actively supporting skills issues at a national level.

Local combined authorities should be given a more prominent role in supporting local and national businesses to engage in spending on training. Local Skills Improvement plans look to put the employer at the heart of skills development. Using LSIPs and local combined authorities as an anchor for a business community of training would make it easier for employers, providers, and local government to engage. Enabling local combined authorities to engage with businesses, share examples of good practice, and share opportunities for engagement – such as levy fund sharing – would enable there to be a greater focus on what specifically needs to be done in that area.

²¹ <https://levymatchfinder.co.uk/>

²² <https://www.beta.wmca.org.uk/what-we-do/productivity-skills/apprenticeship-levy-fund/west-midlands-levy-transfer/>



Case Study:

WEST MIDLANDS COMBINED AUTHORITY – CREATING THE ‘APPRENTICESHIP LEVY FUND’

The Apprenticeship Levy Fund is a pioneering levy transfer scheme set up in 2019. The scheme looks to large businesses to donate their unspent apprenticeship levy to support SMEs in the region to take on apprentices. The fund covers 100% of the training and assessment costs for apprentices starting at small and medium enterprises across the region.

Since 2019, the levy fund has helped nearly 2,500 apprentices start at nearly 800 SMEs.



The Apprenticeship Levy Transfer Scheme has been a resounding success for our region – improving skills, providing jobs, and changing lives. I'm pleased therefore we have been able to take a moment to celebrate what we have achieved around apprenticeships in the West Midlands.

Andy Street, Mayor of the West Midlands
and chair of the WMCA



To date, HSBC alone has donated £6.75million to the fund which has supported the training of 709 apprentices at 206 SMEs in the West Midlands.



Develop a campaign for businesses to encourage them to consider retraining as a preferred option over redundancy

We want to see a change in the default culture among businesses in the UK to seeing training as a tool for retaining employees including in the case of possible redundancies. This could be supported by incentives such as the Midlife MOT for retraining mid-life and older employees at risk of redundancy or in need of retraining in areas such as tech and digital skills. 83% of business decision makers polled agreed with the statement “Getting formal training can greatly increase the chances of finding a job for those who are unemployed or at risk of redundancy”.

The sector should review how it can better promote the benefits of businesses engaging with training, including through more effective business to business engagement. Our roundtable research found that a positive culture of learning starts at the top of businesses. Businesses who engage with training effectively and strategically often have buy-in and vocal support from the company’s board and senior executives.



Firing a 52-year-old who doesn't have the right skills – surely you should be either incentivised, or charged to do that?

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Our research also found that inter-business communication is key. In particular, larger businesses have knowledge and insight that SMEs are less likely to have, and there is greater scope here to exchange knowledge and information, going beyond simply transferring levy funding.

While businesses of course compete with each other, there are benefits here to collective action that can help build skills pipelines in sectors that particularly need it.



2. SIMPLIFY THE APPRENTICESHIP LEVY SYSTEM TO MAKE IT EASIER TO USE

Reform how businesses interact with apprenticeships across value, process and funding, and the apprenticeship levy specifically, to increase engagement. Many of the barriers cited in this report focus on process and knowledge-based issues – both could be ameliorated through simplifying process and enhancing communication.

Reform the apprenticeship standards process

The Institute for Apprenticeships and Technical Education should review the employer engagement mechanism for developing standards to ensure that the knowledge, skills, and behaviours required for qualifications match those needed in UK businesses (including emerging sectors and emerging/fast-moving technologies).

A review should focus on developing a faster, more agile system which is tailored to the needs of all businesses who they aim to engage with. This may include developing incentives for SMEs to engage with the standard setting process, such as cash incentives or support for backfilling staff who sit on Trailblazer groups. More engagement from SMEs in the Trailblazer process could help ensure that standards are suitable for smaller businesses - allowing for recognition of where knowledge, skills and behaviours may differ between settings. For example, our research found that often small businesses are looking for apprentices and/or new staff who are able to apply themselves across the whole business where required.



What exactly does employer-led mean? We talk about being employer-led but we don't talk about being employer directed.

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Increase the flexibility of the apprenticeship levy to allow businesses to spend it on a wider set of training

35% of businesses polled ranked “simplify the process of accessing the levy funds” in the top three things government could do to incentivise them to utilise the levy.

This was also supported by participants of our roundtable who shared that they would support increased flexibility around the apprenticeship levy to ensure it didn't feel like a sunk cost (for levy payers) and so that they did not have to use levy funds to invest in training that wasn't quite right for them - both in terms of content and delivery method.

Making adjustments to the delivery and funding model of apprenticeships - such as introducing a front-loaded accelerated model – would allow businesses to account for training in a way that suits them. This could also provide a better experience for apprentices - particularly those in SME settings. The introduction of accelerated apprenticeships is a key way of achieving this and could be applied more specifically to the tech and digital sector to address skills gaps at pace.

3. ENSURE TRAINING IS FINANCIALLY ATTRACTIVE

Engage finance and accountancy professionals to seek to change the way businesses treat expenditure on training

Current accountancy practices for UK businesses often treat training costs as an expense rather than as an investment. Altering this practice could make training more attractive for boards and senior executives and contribute to the larger cultural changes required to fully embed training within an organisation.

Facilitate larger businesses transferring more of their unspent levy to SMEs

There are a number of examples of good practice within the UK which demonstrate the potential of large businesses in supporting smaller businesses to invest in training.

Promoting examples of good practice through mechanisms including membership bodies and other business networks could help facilitate a more strategic approach to engagement from the entire UK business community.

Case Study:

GREATER MANCHESTER COMBINED AUTHORITY – A NEW LEVY MATCHMAKING SERVICE

In 2019, the Greater Manchester Combined Authority launched an online platform which aimed to 'matchmake' employers who had unspent apprenticeship levy funds with smaller businesses who were unable to fund apprenticeships alone.

The platform allows businesses to sign up for digital accounts to easily send and receive apprenticeship levy funds. Businesses with digital accounts are also able to search for other employers who may be a 'match'.

The scheme is also launching a specific initiative to address digital skills needs in the region. The Develop Digital initiative - which is supported by Lloyds Banking Group, Amazon, Co-op & B.T. - is supporting a cohort of ten digital apprentices through training.

The apprenticeships that would be supported include:

- Digital Marketer Level 3
- Software Developer Level 4
- Cyber Security Technologist Level 4

This is promoted as a potential progression pathway for graduates of the digital bootcamps.

The Service has, as of August 2022, enabled larger employers to pledged over £8.1m – supporting 843 apprenticeships in SMEs across Greater Manchester.

Investigate potential tax incentives that would make investing in training more financially attractive to businesses

Businesses have told us that cost, including the associated costs with completing the admin required to hire and support an apprentice - is one of the biggest barriers for them to invest in training.

However, the fiscal situation in the UK remains challenging and dramatically increasing government subsidies for private sector training may be neither possible nor desirable. A targeted intervention which uses the fiscal powers of the state to 'nudge' businesses to change their behaviour could stimulate greater investment in training, without costing the taxpayer billions of pounds. Outlined below are a number of options for tax deductions / incentives which utilise systems that businesses may already be familiar with such as super-deduction capital tax allowances.

A risk to schemes in this space that has already been outlined persuasively by Onward and other think tanks is the potential for government schemes to end up subsidising training that businesses were planning on undertaking anyway, particularly higher level (6 and 7) qualifications for high salary individuals.

This takes the focus away from the role of apprenticeships in supporting new talent and allowing mid-life and older workers to reskill.

A further element to consider for the Government might therefore be caps based on salary levels, as well as restrictions on the sort of training in scope e.g. for training in areas with significant skills gaps such as digital and tech.

- The introduction of a **super-deduction human capital tax allowance** covering all or certain forms of training could increase investment appetite among companies. Super-deduction is a well established capital tax allowance method and therefore would be familiar to many businesses requiring little familiarisation time and cost. This form of tax allowance could also allow the government to determine which training investments qualify for a claim.

- Government could explore **adjustments to personal tax allowance thresholds** for apprentices and other trainees. Raising the personal tax allowance for a trainee would incentivise them to remain with the employer who provided the training - they would only benefit from the change in allowance if they stayed with that employer. This would reduce the risk of successful "poaching" of trainees from other employers and increase the probability of a return on investment for training through greater retention of talent and improved mid to long-term productivity.
- Similarly, the potential of **National Insurance Contributions adjustments** could be explored – NIC holidays for employers who sponsor trainees they subsequently employ. This could work as an incentive for businesses to invest in training to reduce their NIC bill.
- Government should investigate a flexible approach to **VAT on training spend and/or to the VAT cost on the levy**. We would propose introducing a VAT option on the cost of training/the levy for businesses to allow applicable businesses to keep the benefits of VAT exemption but remove irrecoverable VAT costs for businesses that can reclaim the VAT they incur. This would remove some VAT costs to make training provision cheaper to provide and the money spent by businesses go further.

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Conclusion

Our roundtable and polling found that despite a wide range of challenges faced by businesses when looking to invest in workplace skills, there is a genuine desire from businesses to invest in training. We believe that the most successful solutions should be formulated for employers, rather than done to them, to make it easier and more attractive to leverage this interest.

This report has looked at how potential actions from government and the sector could positively influence investment in training, many of which focus on the role of culture change among UK businesses as a lever for positively influencing behaviour. It highlights that there are many actions that can be taken to make a meaningful increase in the number of employers facilitating engagement with training.

These actions include:

- Shifting the culture of training within the business community to drive behaviour change.
- Making training more financially attractive by changing accountancy practices, enabling businesses share their unspent levy and introducing tax incentives.
- Reforming how businesses interact with the apprenticeship levy to increase engagement.
- It's clear that action is needed to address the growing skills gap to support employees to successfully deliver for their businesses and improve in their careers - in particular in developing industries such as tech. We hope this report can act as a starting point for discussions with policymakers and the government on tangible ways to stimulate investment in training in ways that work effectively for UK plc.



I think it's very easy to lose sight because we're talking about policy. But at the end of it, it's a person. And at the end of that is going to be, you know, social influence, social cohesion, growth, and economic prosperity.

QA Research Roundtable Attendee



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**FOR MORE
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