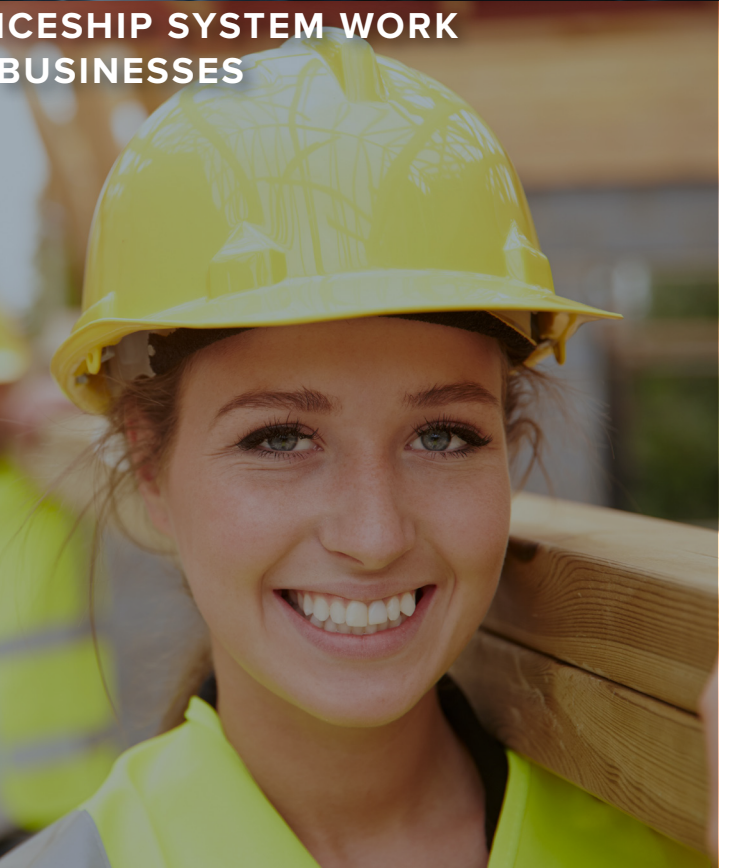




FIT FOR THE FUTURE:

MAKING THE APPRENTICESHIP SYSTEM WORK
FOR SMALL BUSINESSES



Published: April 2019

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Experts in Business

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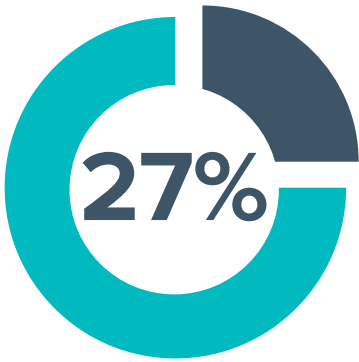
Lastly, this report would not have been possible without any of the FSB members across England who participated in this research, generously taking the time out of running their small businesses to complete our survey and take part in the focus groups.

ABOUT FSB

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government.

FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

APPRENTICESHIPS REPORT 2019

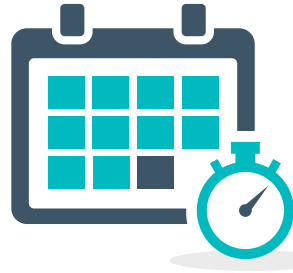


Over a quarter of apprentice employers say reforms have had a **negative impact**

Three biggest challenges when engaging with apprenticeships



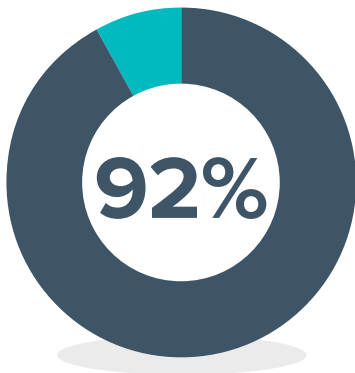
42%
Recruiting an apprentice



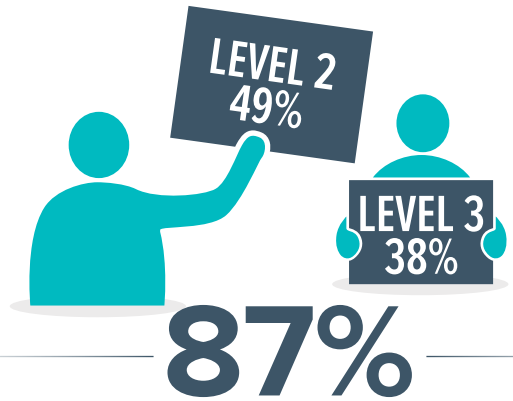
29%
Management time



24%
20 per cent off-the-job training



of **all apprenticeships** offered by small firms are held by **16-24 year olds**



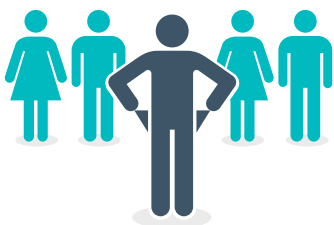
of **all apprenticeships** offered by small firms are **Level 2 'Intermediate'** and **Level 3 'Advanced'**



Only 40 per cent of eligible smaller businesses have received the **£1000 incentive** for **hiring 16-18 year olds**. A **third (34%)** say they are **not even aware** of the **incentive**



of small businesses say **costs related to recruiting and training apprentices** have **increased**



21%

Around **one fifth** of smaller firms that have **employed apprentices after** the 2017 reforms say they have had **difficulty contributing 10 per cent** towards **training and assessment costs of apprentices**

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FOREWORD

Ensuring small employers are able to recruit and retain a skilled workforce is critical to unlocking enhanced productivity and growth in small businesses. Along with T Levels, apprenticeships are the key intervention through which the Government is seeking to achieve long overdue parity of esteem between technical and higher education. Apprenticeships are also an essential plank of Government policy to promote social mobility, and smaller businesses play a critical role in achieving this ambition.

Smaller firms have been champions of apprenticeships. However, if this is to continue, change is needed in the short, medium and long-term. The 2017 apprenticeship reforms were intended to improve the technical education system and provide the UK with a world-class workforce. However, FSB research shows that the reforms have created a dual apprenticeship system for larger and smaller business employers, with the latter not benefiting from the measures to improve quality. Of deep concern is the sharp decline in Level 2 (intermediate) and Level 3 (advanced) apprenticeships since the introduction of the 2017 reforms. Our research shows that, of those apprenticeships offered by smaller businesses, the vast majority are Level 2 or Level 3.

FSB welcomed the Spring Statement announcement that the co-investment requirement for non-levy paying smaller businesses would be reduced from 10 per cent to five per cent from April 2019, and that the percentage of unspent levy funds that can be shared with non-levy paying smaller businesses (for example, in their supply chains) would increase from 10 per cent to 25 per cent. The provision of a further £5 million for the Institute for Apprenticeships and Technical Education to introduce new standards and update existing ones is also a step in the right direction. However, far more needs to be done.

Smaller businesses need immediate support to meet the explicit requirement for a minimum of 20 per cent off-the-job training and to ensure they are not disadvantaged by the transition from frameworks to standards. Equally important is ensuring small businesses can access good quality training in their locality and benefit from incentives currently allowed for within the system. Establishing equilibrium in the relationships between businesses as consumers and suppliers is essential. Currently, smaller businesses simply cannot wield the same buying power as larger private sector employers to influence training provision.

While FSB does not want to see radical reform to the apprenticeship system, there are now serious questions to be answered in relation to the future sustainability of funding for apprenticeships. As levy funds are exhausted, policy makers must find solutions that are fair and equitable, and which do not lead to apprenticeships becoming unaffordable for smaller businesses. Both the Review of the Apprenticeship Levy and the Spending Review 2019 are important opportunities to make a true success of apprenticeship policy in England.



Anthony Impey MBE
FSB Apprenticeships and Skills Policy Chair

EXECUTIVE SUMMARY

This report shines a light on the impact of the apprenticeship reforms on small businesses in England. It should inform Government decision-making to improve the system, feeding into the ongoing Review of the Apprenticeship Levy and the upcoming Spending Review. This report is based on quantitative and qualitative data collated from FSB members. It is structured into four sections: post-reforms state of apprenticeships in small businesses in England; impact of May 2017 reforms on small businesses; training and assessment provision; and the future of apprenticeships.

The vast majority of smaller firms do not pay the Apprenticeship Levy, instead contributing towards training and assessment costs through co-investment. The apprenticeship system creates opportunities for smaller businesses to expand their workforce and upskill their existing employees. Apprenticeships help small firms to boost their productivity and address skills shortages and gaps. Therefore, a robust and fair apprenticeships system is critical if smaller businesses are to fully maximise the opportunities of the Fourth Industrial Revolution.

Equally important is the contribution of smaller businesses to social mobility. Small firms are found everywhere across England, including in rural areas, fringe towns and less favoured areas. They play a vital role in offering pathways for school-leavers into employment. FSB research shows that 92 per cent of all apprenticeships offered by smaller businesses in England are held by 16-24 year olds. Of those small firms that provide apprenticeships, 30 per cent have employed apprentices whose highest educational achievement is GCSE Maths / English grade C or lower (or equivalent), i.e. those with low educational attainment. Therefore, any Government policy which limits the ability of small businesses to offer apprenticeships will impact on smaller business ability to drive forward social mobility.

FSB research shows that the 2017 apprenticeship reforms have had unintended, negative consequences for smaller businesses. This report focuses on those reforms which have had most impact on smaller businesses:

- a. Explicit requirement for a minimum of 20 per cent off-the-job training;
- b. Change in training and assessment provision geared at improving quality;
- c. Introduction of co-investment of 10 per cent of training and assessment costs.

Of those smaller firms that employed apprentices both before and after the 2017 reforms, over a quarter (27%) say the 2017 reforms have had a negative impact on their business. FSB evidence suggests that the changes to the apprenticeship system – intended to significantly increase the number of apprenticeships by March 2020 and achieve the Government target of three million apprentices in England – have not, to date, worked for smaller businesses. Government statistics show that, compared to 2015/16, the proportion of Level 2 (intermediate) and Level 3 (advanced) apprenticeship starts fell sharply in 2017/2018, by 45 per cent and 13 per cent, respectively.¹ The vast majority (87%) of apprenticeships offered by smaller businesses are at Level 2 and Level 3. Smaller businesses are more likely to employ new apprentices (i.e. new to their workforce) than larger businesses.

Small firms have welcomed Government interventions on co-investment and transfer of unspent levy funding to non-levy paying firms. However, more must be done in the short-term to:

- a. support smaller businesses in the operation of the explicit requirement for a minimum of 20 per cent off-the-job training;
- b. improve the quality and availability of training provision for smaller businesses, especially where the most common apprenticeships levels utilised are Levels 2 and 3, and;
- c. ensure existing incentives, especially those that are currently passed down by training providers, are delivered to eligible smaller businesses.

In the medium to longer-term, FSB continues to have serious concerns about the likely exhaustion of the levy budget and the consequences for non-levy paying employers. Government expects the apprenticeship programme to overspend in the future given that the average cost of training an apprentice on a standard is around double what was expected.² The 2019 Spending Review and the Review of the Apprenticeship Levy present a vital opportunity to address these difficulties.

¹ Department for Education (2019) Apprenticeships and traineeships data. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships#apprenticeship-and-traineeships-current-data>

² National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

KEY FINDINGS

Post- 2017 reforms state of apprenticeships in small businesses in England

- 87 per cent of all apprenticeships offered by FSB small firms are at Level 2 'Intermediate' (49%) and Level 3 'Advanced' (38%).
- 10 per cent of all apprenticeships offered by FSB small firms are at Level 4-7. Four per cent are at Level 6-7.
- 92 per cent of all apprenticeships offered by FSB small firms are held by 16-24 year olds, which is significantly higher than the national average of 56 per cent for all apprenticeship achievements in England (2017/18).
- 47 per cent of all apprenticeships offered by small businesses are held by 16-18-year olds. 44 per cent of all apprenticeships offered by small businesses are held by 19-24 year olds.
- Of those small businesses that have employed apprentices, many say they have hired from the following disadvantaged groups:
 - Highest educational achievement GCSE Maths/English grade C or lower (30%)
 - Long-term unemployed (9%)
 - BAME background (9%)
 - Mental health condition (7%)
 - Returning to work after a career break (4%)
 - Disability (4%)
- 48 per cent of smaller businesses that employ or employed apprentices, or wish to employ apprentices in the future, would be interested in offering part-time apprenticeships.
- 43 per cent of small businesses that employ or employed apprentices, or wish to employ apprentices in the future, are also interested in more flexible bespoke apprenticeships that can be adjusted to their needs, even if this requires more administrative time and effort on their part.

Impact of 2017 reforms on small businesses and apprenticeships

- Of those small firms that employed apprentices both before and after the 2017 reforms, over a quarter (27%) say the reforms have had a negative impact.
- The three biggest challenges for smaller firms when engaging with apprenticeships are:
 - Recruiting an apprentice (42%)
 - Management time (29%)
 - 20 per cent off-the-job training (24%)
- Only 40 per cent of eligible smaller businesses have received the £1000 incentive for hiring 16-18 year olds. A third (34%) say they are not even aware of the incentive.
- 41 per cent of small businesses that employ apprentices report that their costs related to recruiting and training apprentices have increased.
- Small businesses based in rural areas (46%) were more likely to report increased costs associated with apprenticeships than those in urban areas (40%).
- Around one fifth (21%) of smaller firms that have employed apprentices after the 2017 reforms say they have had difficulty contributing 10 per cent towards training and assessment costs of apprentices.
- One fifth (20%) of smaller firms that have employed apprentices after the 2017 reforms have upskilled their existing employees or themselves using apprenticeships. The biggest barriers to this are the requirement for 20 per cent off-the-job training and finding funds for co-investment.

- Of those small firms that have employed apprentices or are seeking to employ, apprentices, almost half (48%) say they want control over the recruitment and administration process.
- Around a third (30%) of small businesses that have employed apprentices say they are dissatisfied with the ability of training providers to accommodate their needs. Over a third (35%) are dissatisfied with providers' communications.
- Just over a quarter (27%) of small businesses that have employed apprentices rate the quality of training as poor. The same proportion do not think it was a good experience for the apprentice.
- 49 per cent of small businesses that have employed apprentices after the reforms say 'quality of the training provider in my area' is the main reason for the difficulties with finding a training provider.

RECOMMENDATIONS

1. Supporting the operation of explicit, minimum 20 per cent off-the-job training

The Department for Education (and the Education and Skills Funding Agency) should:

- **Establish a set of standards to address the inconsistencies in the delivery of 20 per cent off-the-job training by training providers and ensure that the rules are communicated properly, accurately and consistently.** While the Apprenticeship Commitment Statement produced by the Education and Skills Funding Agency is a step in the right direction, it is not mandatory and there is a need to ensure providers are consistent in their delivery and measurement of this requirement.³ Many employers are simply encouraged to release their employees from work one day a week, regardless of whether they receive quality training. There is also a common misconception that 20 per cent off-the-job training needs to be time spent outside the workplace. This is not actually the case.
- **Develop a toolkit for small businesses to monitor and track 20 per cent off-the-job training that is undertaken in the workplace.** The effective administration of off-the-job training prejudices smaller employers who lack the monitoring and work-flow management systems to track the amount of training that is categorised as off-the-job, while the apprentice is in the workplace.
- **Inform employers about the possibility of waiving their national insurance contribution for apprentices under 25 years old, amounting to a 13.8 per cent saving in employee costs.** Not all small businesses are aware that they can waive their national insurance contribution for apprentices under the age of 25.
- **Make training-related travel free for all young (16-24 year old) apprentices working for employers with less than 50 staff to ensure small business employers, particularly those located in rural areas, are not disadvantaged by prohibitive travel costs.** Small businesses often incur extra costs as a result of the travel apprentices must undertake in order to access training providers. Although there are some areas with travel support for apprentices,⁴ we want to see the Government act on the Conservative Party Manifesto commitment to introduce significantly discounted bus and train travel for apprentices across England. Travel costs for apprentices are also likely to be particularly acute for smaller businesses in rural areas.
- **In the medium to long-term give serious consideration to allowing flexibility in the amount and structure of the off-the-job training required by different sectors.** Most sectors have varying training needs and some occupations benefit from more practical learning than others. Different sectors should be able to identify and influence the amount of training required.

2. Ensuring that training and assessment provision does not disadvantage smaller businesses and improves the quality of apprenticeships for businesses of all sizes

The Department for Education (and the members of the Quality Alliance where applicable) should:

- **Play a greater stewardship role, working with the Institute for Apprenticeships and Technical Education in promoting the development of a healthy and sustainable provider market. There should be a stable funding environment for good quality training and assessment provision that is easily accessible to smaller employers, as well as larger ones.** Accessing a provider with good quality training has become difficult for many smaller employers as a result of changes in funding policies. Government must steward the development of the provider market to allow all businesses to access good quality training and assessment.

³ Education and Skills Funding Agency (2019) Apprenticeships: off-the-job training. Accessed on 8 April 2019. Link: https://www.gov.uk/government/publications/apprenticeships-off-the-job-training?utm_source=7dd88fa7-c6d4-44cb-9af9-d7eac57be127&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

⁴ For example, Transport for Greater Manchester (TfGM) offers support to apprentices on their commute to work with a free and reduced price ticket offer, or a free bike.

- **Commission analysis of the geographical distribution of sector-specific training and assessment provision.** The distribution of small firms throughout England – including rural communities, fringe towns (where larger businesses are less well represented) and less favoured areas – make them indispensable to the delivery of apprenticeships and the promotion of social mobility. These small firms need access to sector-specific training and assessment, distributed across the whole of England. While Skills Advisory Panels will play a major role in delivering this work locally, feeding into Local Industrial Strategies, there must also be a nationally coherent picture, linking up training and assessment provision in different areas and addressing any gaps.
- **Migrate smaller businesses onto the Apprenticeship Service (whilst allowing for a suitable transition period and offering support for those that lack the digital skills to manage the transition themselves⁵).** The Apprenticeship Service should make the process of finding a training provider easier – particularly for those located in rural communities, fringe towns and less favoured areas. They could do this by listing nearest providers (by subject expertise, methods of teaching and rating of quality) once they migrate to the service. FSB research shows that small employers lack buying power and are unable to negotiate prices with providers. The Apprenticeship Service could empower small businesses to increase their buying power by aggregating together and negotiating more advantageous offers.
- **Develop a functionality within the Apprenticeship Service to support those non-levy paying smaller businesses who are recruiting an apprentice for the first time.** This could include providing general information and signposting on employment law issues.
- **Make the Institute for Apprenticeships and Technical Education the central body responsible for managing a sustainable provider market. The Institute should develop a clear and vigorous oversight of the apprenticeship training and assessment provision that measures and reports on performance through publicly available data.** The Institute should develop strong expertise in all aspects of vocational education as well as having a formalised role in contributing to the design of future apprenticeship policy. The work of the Institute for Apprenticeships and Technical Education should be supported by the Quality Alliance⁶, the members of which, in turn, should work together in a collaborative and coordinated way. FSB welcomed the Institute's decision to establish a sub-group dedicated to understanding the cross-sectoral horizontal issues that generally affect smaller businesses in response to its recommendation.
- **Prevent anticipated difficulties in the delivery of end-point assessment activities and establish consistency in the external quality assurance for assessments.** Difficulties with end-point assessment add to the perceived complexity of the apprenticeship system. Government must ensure that smaller employers are not burdened with the challenges arising from these assessments, including where there are no end-point assessment organisations registered for standards. There is also a lack of consistency in quality assurance provided by External Quality Assurance Organisations. Consistency can be achieved by enabling a single organisation to quality assure all end-point assessments. FSB believes this role should go to Ofqual.

3. Supporting smaller businesses to take on new apprentices

The Department for Education (and the Education and Skills Funding Agency) should:

- **Ensure through the Institute for Apprenticeships and Technical Education that there are suitable substitutes available for the frameworks that were popular with small businesses (e.g. Level 2 Business Administration Framework).** FSB research shows that small businesses are heavy users of Level 2 and 3 frameworks. Where standards are being developed, or are due to be developed, the Institute for Apprenticeships and Technical Education must speed up the process to ensure these are ready to be used by August 2020. Where this is not possible, the deadline for withdrawal of these frameworks should be extended beyond 31 July 2020.

⁵ 26 per cent of business owners in England lack confidence in their basic digital skills. FSB, Learning the Ropes: Skills and training in small businesses.

⁶ Consisting of the Department for Education (through the Education and Skills Funding Agency), the Institute for Apprenticeships and Technical Education, Ofsted, Ofqual, the Office for Students and the Quality Assurance Agency for Higher Education (QAA).

- **Put small businesses (the vast majority of whom are not levy-payers) in control of non-levy apprenticeship funding through the Apprenticeship Service after their migration to the Service.** Permitting small businesses to manage apprenticeship funding, including claiming the incentives for hiring particular age groups for eligible employers, will enable them to take greater ownership and engage with the system in a more efficient manner. Government should allow for an adequate transition period and provide appropriate support to non-levy paying smaller businesses as they are transitioned onto the Apprenticeship Service.
- **Develop a ‘matching service’, hosted via the Apprenticeship Service, to support levy-paying employers to pass on unused funds to non-levy-paying employers.** This could help businesses to find each other through the Service to transfer or receive funds in the appropriate locality and/or sector and/or supply chain. More generally, larger employers should be able to use functionality within the Apprenticeship Service to support smaller businesses within their supply chains, for example around queries on employment law or contractual issues. This would be a particularly useful service for those that have not recruited an apprentice before.
- **Extend the current £1000 incentive to those businesses with less than 50 employees who take on a new apprentice aged between 19-24 from selected labour market disadvantaged groups including people with a chronic mental health condition and ex-offenders.** Even with minimal support small businesses are drivers for social mobility and diversity in their communities. Government should support small businesses to enable them to build on the existing level of inclusivity. It should financially assist smaller firms in recruiting disadvantaged individuals and maximise their impact on local communities.
- **Consider the feasibility of an incentive for start-ups who have never taken on an apprentice.** Start-ups have a large amount of potential and face higher levels of uncertainty. Supporting start-ups through apprenticeships, especially in the early stages when their costs tend to exceed their income, would help with the productivity and growth.
- **Monitor and evaluate the impact on non-levy payers of the reduction in the co-investment requirement for training and assessment costs (10% to 5%).** This data should be publicly available and broken down by size of business. In the event that this reduction does not demonstrably increase the number of small business apprenticeship starts, Government should remove co-investment completely for microbusinesses taking on 19-24 year olds. For microbusinesses taking on apprentices, 24 per cent find it difficult to meet the 10 per cent co-investment requirement.
- **Inform employers of opportunities to offer part-time apprenticeships through a communications campaign.** FSB research shows that 68 per cent of smaller employers who have never employed apprentices, but would consider employing one in the future, would be willing to offer part-time apprenticeships. Smaller business employers are unclear on the availability and process for part-time apprenticeships. Government should work closely with FSB to inform small businesses across England about part-time apprenticeships.

4. Supporting the future of small business apprenticeships including specific strategic considerations for the Review of the Apprenticeship Levy and the Spending Review

Government should:

- **Put the apprenticeship funding on a sustainable footing and ensure that small businesses are not excluded from the apprenticeship system.** The Department for Education predicts there will not be an underspend in 2019-20 and that, on the basis of current trends, there could be a significant overspend by 2021.⁷ The vast majority of small businesses are non-levy paying employers and rely on unspent funds to cover the majority of their training and assessment costs for the apprentices they take on. To better cope with fluctuations in demand, Government should

⁷ National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

explore the possibility of taking apprenticeship funding from annually managed expenditure, rather than from departmental expenditure limits. There are three red lines for smaller businesses:

- Solutions must not result in limiting the number of apprenticeships taken up by non-levy paying employers – including Level 2 and Level 3;
- There must be no reduction in the threshold for the applicability of the apprenticeship levy; and
- Funding arrangements must be confirmed as soon as possible to give confidence to all stakeholders involved.

- **Clarify progression pathways within technical education across apprenticeship levels, T levels and the interaction between these two technical education options.** There is a need to explicitly outline the pathways between different levels for apprentices, as well as T levels. Government should help businesses to understand how their apprentices or other employees could grow through education and develop higher level skills.

INTRODUCTION

Apprenticeships are a valuable way for employers to invest in growing their business and increasing productivity and competitiveness. The Industrial Strategy highlights the importance of apprenticeships for raising the level of skills available in the UK economy.⁸ A typical return from Government investment in apprenticeships at Levels 2 and 3 is £26–£28 for every £1 spent.⁹ FSB research shows that smaller firms highly value the role apprenticeships can play in growing their business.

Smaller firms constitute 99.3 per cent of all private sector businesses and 60 per cent of all private sector employment in the UK.¹⁰ Smaller enterprises have historically accounted for the large part of demand for apprenticeships.¹¹ Prior to the May 2017 apprenticeship reforms, the UK Government acknowledged ‘significant scope for growing apprenticeships’ among smaller employers to reach its target of three million apprenticeships between 1 May 2015 and 31 March 2020.¹² However, research commissioned by the Government in 2017 found that the reforms may be less successful at engaging smaller employers with apprenticeships and ‘may threaten existing provision’¹³

The new levy-based funding system with elements such as co-investment came into effect on 1 May 2017.¹⁴ The reforms, resulted in a sharp reduction in the number of apprenticeship starts overall, including in small businesses. The reduction in numbers led to a change in the government discourse on apprenticeships with more emphasis being placed on quality rather than quantity. It is widely accepted that the Government is unlikely to reach the target of three million apprenticeships by April 2020.

Most recently, in the 2018 Budget, the Chancellor of the Exchequer introduced a £695 million package to support the apprenticeship system. The new funding will be used to increase levy transfers from 10 per cent to 25 per cent, and to reduce the co-investment rate to five per cent. It will also be used to support the Institute for Apprenticeships and Technical Education and the National Apprenticeship Service to identify gaps in the training provider market and increase the number of apprenticeship standards. The Chancellor also announced plans to review the response to the Apprenticeship Levy across various sectors and the role of apprenticeships in the post-2020 skills landscape.¹⁵

Previous FSB research in 2016 demonstrated that apprenticeships in small businesses were at a make-or-break moment.¹⁶ It highlighted the importance of getting the apprenticeship reforms right for small businesses. The report recommended that:

“...a key focus of apprenticeship reform must be on creating the conditions which facilitate participation by small businesses in apprenticeships, instead of implementing changes that cause these enterprises to scale-back or withdraw their offering altogether, which would be severely detrimental for the system as a whole.”¹⁷

FSB’s latest report examines the impact of the May 2017 reforms on FSB members to assess whether small businesses have indeed scaled-back or withdrawn their offering altogether.

This report is broadly divided into four main sections. The first part explores the current state of apprenticeships in small businesses looking at the level, age and diversity of apprenticeships.

- 8 HM Government (2018) Industrial Strategy: Building a Britain fit for future. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf
- 9 HM Government (2015) English Apprenticeships: Our 2020 Vision. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/482754/BIS-15-604-english-apprenticeships-our-2020-vision.pdf
- 10 Department for Business, Energy & Industrial Strategy (2018). Business Population Estimates for the UK and Regions 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746599/OFFICIAL_SENSITIVE_-_BPE_2018_-_statistical_release_FINAL_FINAL.pdf
- 11 Warner, P. and Gladding, C. (2019) Employers in the driving seat? New thinking for FE leadership. Link: <https://fetl.org.uk/publications/employers-in-the-driving-seat-2/>
- 12 HM Government (2015) English Apprenticeships: Our 2020 Vision. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/482754/BIS-15-604-english-apprenticeships-our-2020-vision.pdf
- 13 Department for Education (2017) Apprenticeships evaluation 2017: employers. IFF Research. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659710/Apprenticeships_evaluation_2017_employers.pdf
- 14 Department for Education (2016) Apprenticeship Funding: Apprenticeship funding in England from May 2017. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730064/Apprenticeship_funding_from_May_2017.pdf
- 15 HM Treasury (2018) Budget 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf
- 16 FSB (2016) Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>
- 17 Ibid.

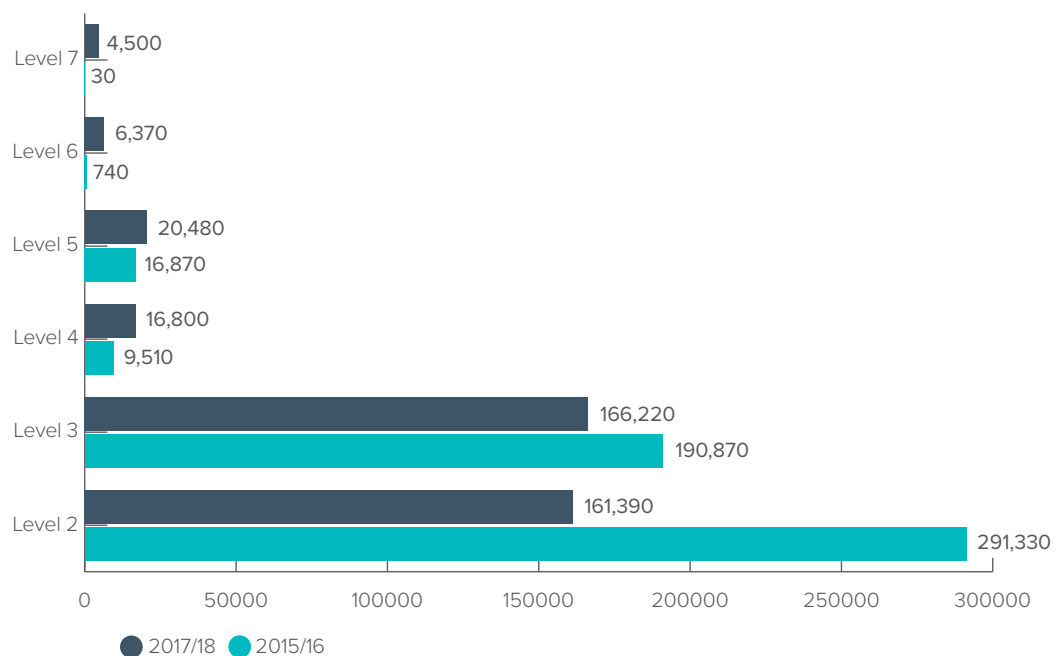
The second section identifies the main challenges smaller firms experience under the existing system. It analyses the costs and benefits of employing apprentices and whether, under the current arrangements, apprenticeships are still an attractive business proposition for small businesses. The third section reviews the challenges with training and assessment provision, investigating the range of difficulties smaller employers experience geographically. The final section addresses some of the difficulties that small businesses will encounter in the near future. Each section ends with recommendations for overcoming the challenges in the apprenticeship system and improving it for smaller firms.

POST-REFORMS STATE OF APPRENTICESHIPS IN SMALL BUSINESSES IN ENGLAND

Apprenticeships in small businesses

Official Government statistics show that there has been a substantial reduction in the number of apprenticeship starts following the introduction of the new apprenticeship funding system in May 2017 (Figure 1).

Figure 1: Level of apprenticeship starts in 2015/16 and 2017/18
Source: Department for Education, February 2019¹⁸



In 2017/18, there was a significant drop in the number of Level 2 and Level 3 apprenticeship starts, compared to 2015/16, by 45 per cent and 13 per cent, respectively. Apprenticeship starts at all other (higher) levels have increased. The number of Level 2 apprenticeships started by 16-24 year olds has fallen by 37 per cent and Level 3 by 10 per cent.¹⁹

¹⁸ Department for Education, Apprenticeship and levy statistics: February 2019. Official Statistics Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/781075/Apprenticeship-and-levy-statistics-February-2019_main_text.pdf

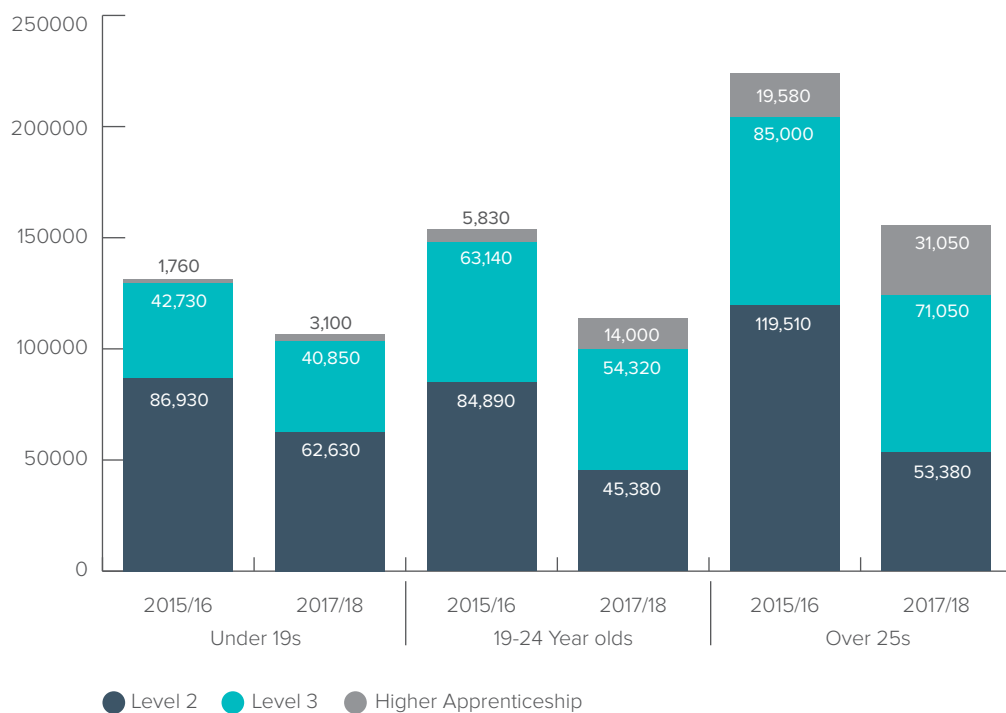
¹⁹ Department for Education (2019) Apprenticeships and traineeships data. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships#apprenticeship-and-traineeships-current-data>

FSB research shows that most (87%) small business apprenticeships in England are Level 2 and Level 3 and most (92%) are aimed at young people aged 16-24. Official Government statistics show that apprentices aged over 25 account for a larger proportion of higher level apprenticeship starts (Figure 2).

It is concerning that the apprenticeship reforms have led to a significant reduction in the number of Level 2 and Level 3 apprenticeships which are utilised by smaller businesses. All levels of apprenticeships play a significant role in building the workforce and contributing to the economy. It is, therefore, important to acknowledge that the level of an apprenticeship does not necessarily reflect its quality. Lower level apprenticeships act as important stepping stones towards higher levels and, subsequently, successful careers.

Figure 2: Levels of apprenticeship starts by age groups in 2017/18

Source: Department for Education²⁰



²⁰ Department for Education (2019) Apprenticeships and traineeships data. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships#apprenticeship-and-traineeships-current-data>

Level of apprenticeships

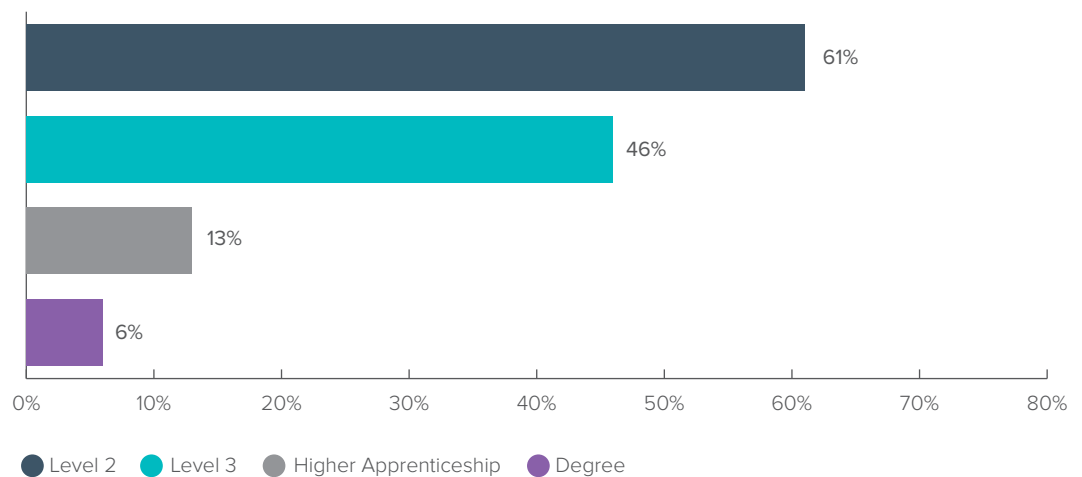
Overall, 49 per cent of all apprenticeships offered by FSB small businesses are at Level 2, while Level 3 make up 38 per cent. This closely matches official Government statistics which show that 54 per cent of all apprenticeship achievements in England in 2017/18 were at Level 2 whilst 40 per cent were at Level 3.²¹

Small businesses are heavily reliant on apprenticeship frameworks due to the low availability of standards at Levels 2 and 3. Therefore, there is a risk of a further reduction in the number of apprenticeships offered by small businesses when frameworks are completely withdrawn on 31 July 2020. This risk could be mitigated if the Institute for Apprenticeships and Technical Education ensures that there are equivalent standards available to substitute for the type of frameworks used by small businesses, e.g. for Level 2 Business Administration Framework.

Overall, Level 4-7 apprenticeships account for 10 per cent of all apprenticeships currently offered by FSB small businesses. Degree apprenticeships account for just four per cent. Official Government statistics show that six per cent of all apprenticeship achievements in England in 2017/18 were higher apprenticeships.²²

Figure 3: Proportions of small businesses offering different levels of apprenticeships

Source: FSB Apprenticeships Survey, 2018



There has been a substantial increase in the number of degree apprenticeships. The higher ticket value of these standards means that training providers have a commercial incentive to market and sell them.

²¹ Department for Education (2019) Apprenticeships and traineeships data. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships#apprenticeship-and-traineeships-current-data>

²² Ibid.

Age of apprentices

The majority of apprentices employed by FSB members are younger apprentices. FSB focus groups identified that small firms often prefer to train apprentices who start with a blank slate rather than retrain individuals who have established ways of performing at work. It is, therefore, not surprising that 92 per cent of all apprenticeships offered by FSB members are held by 16 to 24 year olds (Figure 4). This correlates with the finding that 87 per cent of all apprenticeships offered by respondents are at Level 2 and 3. Small businesses are, therefore, crucial in offering pathways for school leavers and are a key enabler of social mobility.

Smaller businesses are disproportionately likely to employ younger apprentices. Figure 4 shows that 16-18 year olds hold 47 per cent of all apprenticeships offered by small businesses, with 19 to 24 year olds holding 44 per cent. In contrast, Government statistics show that under 19 year olds and 19-24 year olds represented just 26 per cent and 30 per cent, respectively, of all apprenticeship achievements in England in 2017/18.²³

Figure 4: Age breakdown of apprentices employed by smaller firms
Source: FSB Apprenticeships Survey, 2018

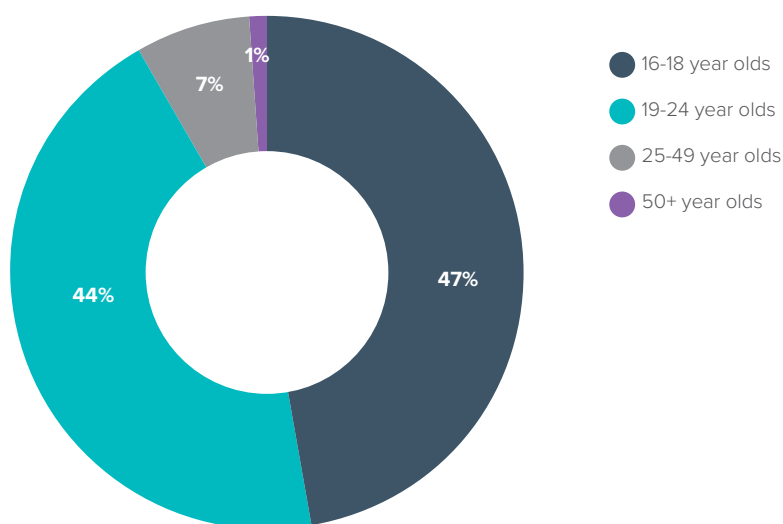
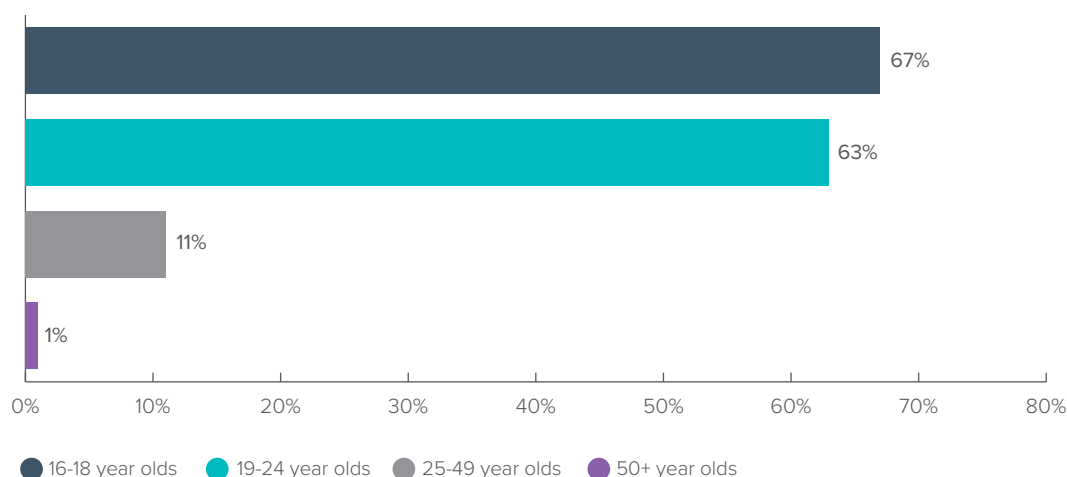


Figure 5: Breakdown of small business apprenticeships, by age
Source: FSB Apprenticeships Survey, 2018

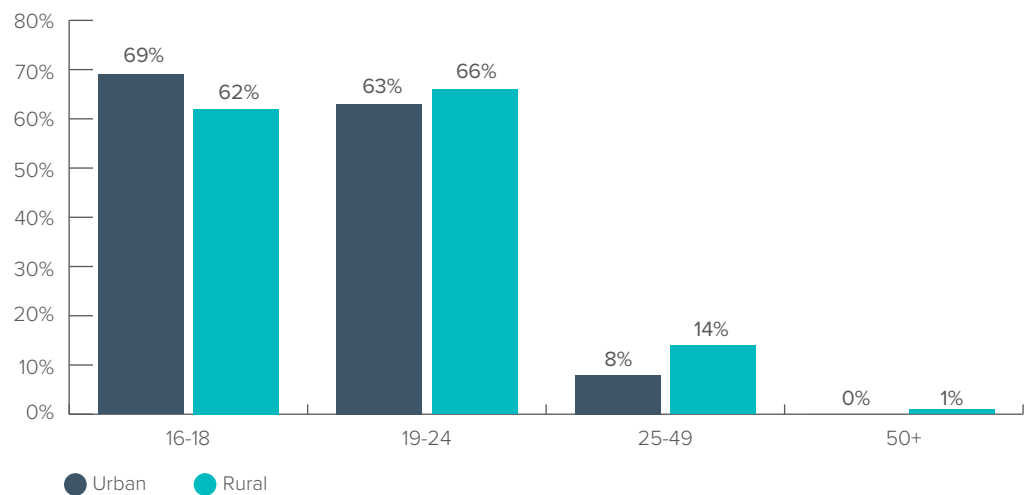


²³ Department for Education (2019) Apprenticeships and traineeships data. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships#apprenticeship-and-traineeships-current-data>

Figure 5 illustrates that, of those FSB members currently employing apprentices, 67 per cent employ an apprentice aged 16-18, while 63 per cent employ an apprentice aged 19-24. A much smaller proportion (11%) employ a 25-49 year old apprentice, which indicates that smaller firms are not generally using apprenticeships to upskill employees above the age of 25.

A larger proportion of FSB members in urban areas employ apprentices aged 16-18 than in rural areas (69% vs 62%). Conversely, small businesses located in rural areas are more likely to employ a 25-49 year old apprentice than those in urban areas (8% vs 14%). These findings most likely reflect the population characteristics of rural England, which has higher proportions of older people in comparison with urban areas.²⁴

Figure 6: Breakdown of small business apprenticeships, by age (Urban versus Rural)
Source: FSB Apprenticeships Survey, 2018



Diversity

Despite the lack of formal diversity policies, small businesses are a significant source of support for their communities, often employing people from labour market disadvantaged backgrounds, particularly in hard-to-reach areas. Some types of state support, such as Care to Learn, are not available to apprentices.²⁵ It is important to ensure that individuals who would like to become apprentices are not deterred from, or disadvantaged by, taking up apprenticeships. This could be a particular issue for the recipients of job-seeker benefits who are dissuaded from becoming apprentices due to the lack of in-work benefits.

The UK Government has made an ambitious commitment to increase the proportion of apprentices from a Black, Asian and Minority Ethnic (BAME) backgrounds and those with a learning difficulty and/or disability by 20 per cent by 2020.²⁶ It will seek to do the latter by delivering the recommendations of the Maynard Taskforce. Most recently, Government launched the '5 Cities Project' to promote apprenticeships among under-represented groups in the Greater Manchester, London, Bristol, Birmingham and Leicester areas.²⁷

FSB research shows that, of those small businesses that either currently employ an apprentice or have employed one in the past, nine per cent have employed an apprentice with a BAME background. Seven per cent have employed an apprentice with a mental health condition and four per cent an apprentice with a disability (according to the definition in the Equality Act 2010).

²⁴ Department for Environment, Food & Rural Affairs (2018) Rural population and migration. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760095/Rural_population_and_migration_November_2018.pdf

²⁵ House of Commons Education Committee (2018) The apprenticeships ladder of opportunity: quality not quantity. Sixth Report of Session 2017–19. HC 344. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/cmeduc344/344.pdf>

²⁶ HM Government (2018) Industrial Strategy: Building a Britain fit for future. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf

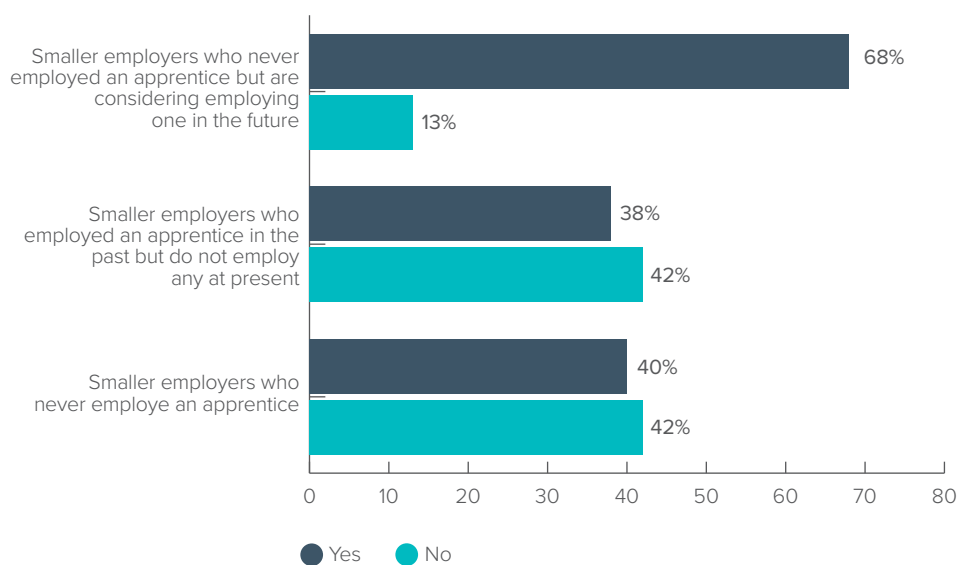
²⁷ Department for Education (2018) New project to boost diversity in apprenticeships. Link: <https://www.gov.uk/government/news/new-project-to-boost-diversity-in-apprenticeships>

Small businesses also support their communities by employing individuals with lower educational achievements and long career breaks. 30 per cent of small businesses say they have hired an apprentice whose highest educational achievement is GCSE Maths / English grade C or lower (or equivalent). Nine per cent say they have employed an apprentice who was long-term unemployed and four per cent an individual returning to work after a career break.

These findings show that even with minimal support small businesses are drivers for social mobility and diversity in their communities. Government should support small businesses to enable them to build on the existing level of inclusivity. It should financially assist smaller firms in recruiting disadvantaged individuals and maximise their impact on local communities. This would align with the Government’s ambition to increase the proportion of apprentices with a BAME background and a learning difficulty and/or disability by 20 per cent by 2020. FSB would be willing to collaborate with the Department for Education on the communications campaign.

Furthermore, almost half of small businesses (48%) that employ or employed apprentices, or wish to employ apprentices in the future, say they are interested in offering part-time apprenticeships. However, employers are not clear on the process or availability of part-time apprenticeships. As Figure 7 shows, those who have never employed apprentices, but would consider employing one in the future, would be more willing to offer part-time apprenticeships than those that currently offer an apprentice.

Figure 7: Small business interest in offering part-time apprenticeships
Source: FSB Apprenticeships Survey, 2018



FSB research shows that 43 per cent of small businesses that employ or employed apprentices, or wish to employ apprentices in the future, are also interested in more flexible bespoke apprenticeships that can be adjusted to their needs even if this requires more administrative time and effort on their part. Introducing more flexibility to the current apprenticeship structure would allow more small employers to engage with apprenticeships. This, in turn, would make apprenticeships more inclusive and have a positive impact on productivity and quality of work.²⁸

28 Good Work: The Taylor Review of Modern Working Practices (2017) Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf

Recommendations

The Department for Education (and the Education and Skills Funding Agency) should:

- **Ensure through the Institute for Apprenticeships and Technical Education that there are suitable substitutes available for the frameworks that were popular with small businesses (e.g. Level 2 Business Administration Framework).** FSB research shows that small businesses are heavy users of Level 2 and 3 frameworks. Where standards are being developed, or are due to be developed, the Institute for Apprenticeships and Technical Education must speed up the process to ensure these are ready to be used by August 2020. Where this is not possible, the deadline for withdrawal of these frameworks should be extended beyond 31 July 2020.
- **Extend the current £1000 incentive to those businesses with less than 50 employees who take on a new apprentice aged between 19-24 from selected labour market disadvantaged groups including people with a chronic mental health condition and ex-offenders.** Even with minimal support small businesses are drivers for social mobility and diversity in their communities. Government should support small businesses to enable them to build on the existing level of inclusivity. It should financially assist smaller firms in recruiting disadvantaged individuals and maximise their impact on local communities.
- **Consider the feasibility of an incentive for start-ups who have never taken on an apprentice.** Start-ups have a large amount of potential and face higher levels of uncertainty. Supporting start-ups through apprenticeships, especially in the early stages when their costs tend to exceed their income, would help with the productivity and growth.
- **Inform employers of opportunities to offer part-time apprenticeships through a communications campaign.** FSB research shows that 68 per cent of smaller employers who have never employed apprentices, but would consider employing one in the future, would be willing to offer part-time apprenticeships. Smaller business employers are unclear on the availability and process for part-time apprenticeships. Government should work closely with FSB to inform small businesses across England about part-time apprenticeships.

IMPACT OF MAY 2017 REFORMS ON SMALL BUSINESSES

From May 2017, smaller firms, the majority of whom are non-levy-payers, were required to contribute 10 per cent towards the training and assessment costs of apprentices. This new obligation – coupled with the explicit requirement that apprentices spend a minimum 20 per cent of their time on off-the-job training – reshaped the apprenticeship system for small businesses. Not only did the costs of employing apprentices increase, but FSB evidence suggests that the system has become overly complex for small businesses to navigate. The changes to the apprenticeship system were not appropriately communicated to small businesses, many of which do not have dedicated HR functions to find or read the guidance developed for them.

Figure 8: Main apprenticeship reforms

The apprenticeship funding system based on the levy which is paid by employers with an annual wage bill of £3 million and above was introduced in combination with the other reforms. The main reforms are:

- **Explicit requirement for a minimum of 20 per cent off-the-job training:** Apprentices are required to spend a minimum 20 per cent of their time on off-the-job training. It can be delivered at an employer's workplace or off-site.
- **Switching from frameworks to standards:** Standards are occupation-focused and are being developed by Trailblazer (employer) groups. Frameworks are qualification-focused and will be completely phased out by 31 July 2020.
- **10 per cent co-investment:** Employers who do not pay the levy were required to contribute 10 per cent towards training and assessment costs of apprentices. This amount has been reduced to five per cent from April 2019.

Therefore, it is not surprising that, of those smaller businesses that employed apprentices both under the new and old system, over a quarter (27%) say the apprenticeship reforms have had a negative impact on their business.

The following sections of this report explore the challenges and barriers to engaging with apprenticeships for smaller businesses. It analyses the costs and benefits of recruiting and employing apprentices for smaller firms, and what can be done to ensure the benefits outweigh the costs.

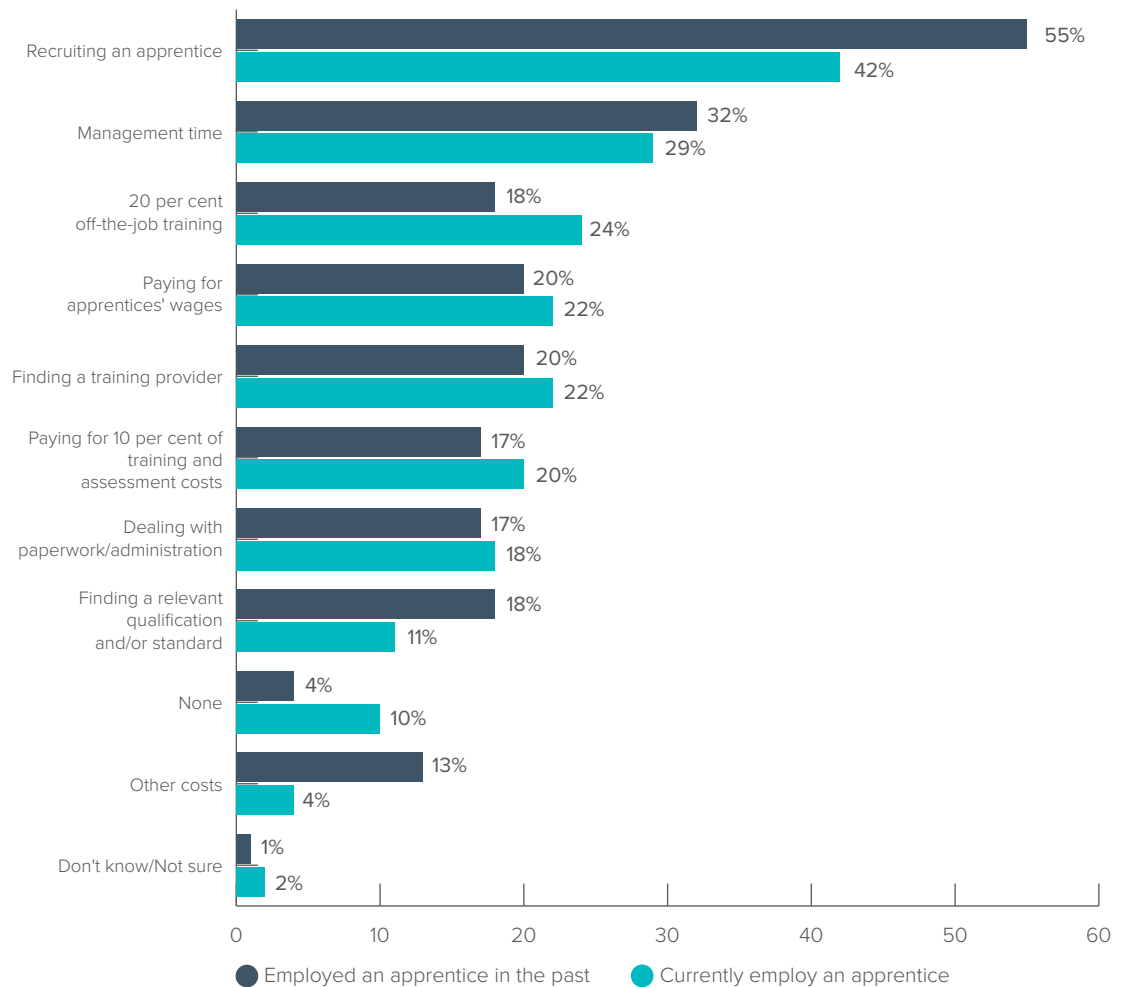
Challenges and barriers to engaging with apprenticeships for small businesses

Of those smaller firms that have employed an apprentice, either currently or in the past, the most frequently cited challenges to engaging with apprenticeships are ‘recruiting the apprentice’ (42%), ‘management time’ (29%) and ‘20 per cent off-the-job training’ (24%).

Figure 9 shows that, in terms of the 20 per cent off-the-job training being a barrier for small firms, there is a significant difference between those that currently employ an apprentice and those that employed one in the past (24% vs 18%). This highlights the difficulties small businesses have faced in meeting the explicit off-the-job training requirement. Figure 9 also shows that ‘finding a relevant qualification and/or standard’ was a bigger barrier for those that employed an apprentice in the past compared to those currently employing an apprentice (18% vs 11%).

Figure 9: Challenges to engaging with apprenticeships by small businesses that currently employ an apprentice and those who employed in the past

Source: FSB Apprenticeships Survey, 2018



Recruitment of apprentices

The ‘recruitment of apprentices’ encompasses various challenges, such as the actual recruitment process itself and the difficulty of finding the right applicants. Previous FSB research looked at this in more detail and demonstrated that the ‘quality of apprenticeship applicants’ is the most challenging aspect of taking on apprentices.²⁹ Other factors were also shown to limit the pool of available applicants, including fewer 18 year olds in the population³⁰, recruitment by big brand employers, the relative simplicity of the university application process and funding system, stigma surrounding the technical and vocational education in society and careers advice favouring the university route in schools.

Recently announced reforms to the pupil destination measure are welcome, including the creation of one measure that will show how many young people are in higher training of any type, as well as the introduction of UCAS points for T levels.³¹ However, there is a need for a wider cultural and societal shift to alter the perception of technical and vocational education in the population, particularly among parents, guardians and teachers. Such a change would help to advance social mobility by bolstering the number of people taking the technical route and becoming apprentices.

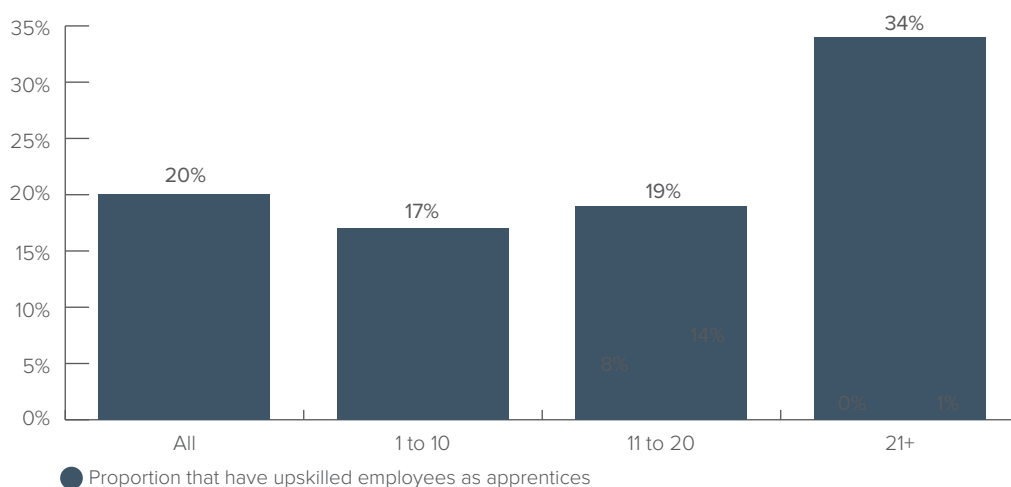
Challenges and barriers to upskilling employees as apprentices

The Apprenticeship Levy-based funding system offers new opportunities for small businesses to train and upskill their employees as apprentices using levy funds. However, there are misconceptions and stigma surrounding apprenticeships among employees. This is a particularly severe problem among smaller firms, 73 per cent of which believe mid and senior-level employees would not be willing to be seen as apprentices.³²

FSB’s own research shows that, of those small firms that have employed apprentices since the 2017 reforms, one in five (20%) say they have used the system to upskill their existing employees or themselves. Figure 10 shows that larger businesses (with more than 20 staff), with more resources, are more likely to engage with the apprenticeship system.

Figure 10: Upskilling employees as apprentices by business size

Source: FSB Apprenticeships Survey, 2018



29 FSB (2016) Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>

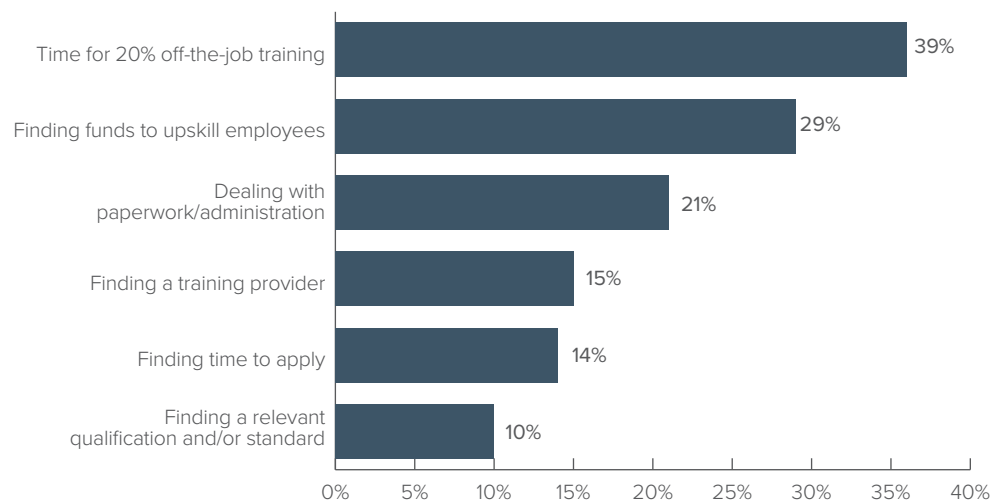
30 Office for National Statistics (2018) Being 18 in 2018. Accessed on 8 April 2019. Link: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/being18in2018/2018-09-13>

31 Department for Education (2018) Education Secretary outlines plans to get more people into skilled jobs. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/news/education-secretary-outlines-plans-to-get-more-people-into-skilled-jobs>

32 ILM (2018) Businesses missing out on funding for leadership training due to misconceptions around apprenticeships. Accessed on 8 April 2019. Link: <https://www.i-l-m.com/news-and-events/news-and-blog/apprenticeships-stigmas>

As Figure 11 shows, the greatest challenges experienced by smaller employers when upskilling their employees as apprentices are the ‘20 per cent off-the-job training’ and ‘finding funds to upskill an employee’. Accommodating this requirement and releasing existing employees from weekly commitments for at least 20 per cent of time is challenging for small businesses with limited resources. The Government should take this impact into consideration and incorporate flexibility.

Figure 11: Challenges for smaller firms in upskilling existing employees since the reforms
Source: FSB Apprenticeships Survey, 2018



Apprenticeship costs and benefits

A well-designed apprenticeship system delivering tangible benefits can add value to businesses and increase their productivity. For the system to work, the perceived cost-benefit balance should make apprenticeships attractive to all employers. **Businesses are likely to offer apprenticeships if the expected benefits are either equal to or more than the expected costs.**³³

41 per cent of small businesses reported that their costs have increased since the reforms. Small businesses based in rural areas (46%) were more likely to report increased costs than those in urban areas (40%). The increase in costs in rural areas could be linked to the travel costs in relation to the accessibility of training and assessment provision as the result of changes in policy. The following sections examine the costs and benefits of employing apprentices in more detail.

Costs

The business costs of apprenticeships mostly include apprentices’ wages, management time, administrative costs including recruitment costs, equipment used by apprentices, and travel costs. Engaging with the apprenticeship system in its current state adds further layers of expenditure associated with 10 per cent co-investment and a minimum, explicit requirement for 20 per cent off-the-job training.

Apprentices’ wages

FSB advocated for increasing the apprenticeship rate, which rose to £3.90 from April 2019 (from £3.70) for young people under the age of 19 and those 19 or over in the first year of their apprenticeship.^{34,35} In 2016, the median hourly pay for apprentices was higher than the above amount across all age groups and all frameworks, with the exception of hairdressing.³⁶

³³ Kuczera, M. (2017) Striking the right balance: Costs and benefits of apprenticeship. OECD Education Working Papers No. 153. Link: <https://www.oecd-ilibrary.org/docs/server/995fff01-en.pdf?expires=1544450623&id=id&accname=guest&checksum=EF98E5A1DEEDAFFFC4BB965EE7CE04B0>

³⁴ FSB (2018) 8 in 10 small firms shun zero-hours contracts while employment costs surge. Accessed on 8 April 2019. Link: <https://www.fsb.org.uk/media-centre/press-releases/8-in-10-small-firms-shun-zero-hours-contracts-while-employment-costs-surge>

³⁵ Gov.uk (2019) Employ someone: step by step. National Minimum Wage and National Living Wage rates. Accessed on 8 April 2019. Link: <https://www.gov.uk/national-minimum-wage-rates>

³⁶ Department for Business, Energy and Industrial Strategy (2017) Apprenticeship Pay Survey 2016: Great Britain. BEIS Research Paper Number 15. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630070/apprenticeship-pay-survey-2016-report-gb.pdf

“In the past, I had apprentices who were on 12-month courses. My latest apprenticeship was on an 18-month course and I was not aware that I have to pay a different rate after the first 12 months – something I had not budgeted for. Paying a full-time salary, the same as other employees after a year, and still losing an employee one day a week, is the biggest issue for my business.”

Jim Cunliffe, Face Media Group

Although FSB advocated for the increase, our research shows that the extended duration of apprenticeships increases the costs of employing apprentices in the long-term. Some businesses who had previously employed apprentices on shorter programmes did not budget for increasing the wages for apprenticeships lasting longer than a year.

Management time

‘Management time’ is the second biggest challenge (29%) for smaller firms employing apprentices. Previous FSB research in 2016 showed that ‘the day-to-day management of an apprentice alongside other responsibilities’ (31%) was the second biggest challenge to taking on apprentices for small businesses.³⁷ Research commissioned by Government found that smaller employers were more likely to report capacity constraints with regards to increasing apprenticeship starts, citing substantial supervision required by apprentices which affected the productivity of supervisors.³⁸

Administrative costs

Administrative costs incurred by small businesses may vary, depending on the level of engagement on the part of employers and training organisations. To begin with, employers would need to research how to engage with apprenticeships if they have no previous experience or if they have not been approached by training organisations. Small businesses report not knowing where to start in such cases.

The next steps would be to recruit the apprentice, find an appropriate apprenticeship standard and a training provider, and administer the apprenticeship. Finding a training provider in the locality can be particularly difficult for businesses with specialist apprenticeships which are based in rural and remote areas. If an apprenticeship is unsuccessful, e.g. the apprentice turns out to be unsuitable or decides to leave, employers will not gain any returns on administrative charges already incurred.

Equipment used by apprentices

Businesses also have to invest in providing a suitable working environment and tools for apprentices, e.g. a uniform, induction training, a laptop etc. If an apprenticeship fails to proceed, there is an opportunity cost associated with investment that may well have been better directed elsewhere in the company.

“We had a couple of apprentices where we had to buy laptops and equipment but it did not follow through which was a bit of a challenge as the equipment sat there depreciating while not being used.”

Dan Benton, Dogsbody Technology

³⁷ FSB (2016) Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>

³⁸ Department for Education and Social Science in Government (2016) The apprenticeship levy: how will employers respond? IFF Research and IER Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/562445/The_apprenticeship_levy_how_will_employers_respond.pdf

Travel costs

Lack of local training providers and suitable courses force many employers to send their apprentices further away to the nearest training organisation. Although some areas have travel support for apprentices, more often than not this leads to extra administrative burden and extra travel expenses, as well as to the loss of employee's and employer's time (and the associated opportunity-cost). Some small businesses report paying for apprentices' accommodation and subsistence whilst on training.

“Being a rural business we are quite transport reliant. This makes our offering less attractive to potential applicants and we have to look at helping with funding travel.”

FSB member

10 per cent co-investment

Since May 2017, employers who do not pay the levy are required to make a 10 per cent financial contribution towards training and assessment costs up to the funding band maximum. This requirement also applies to levy-paying employers who run out of their levy allowances. The co-investment rate has been reduced down to five per cent from April 2019. The remaining amount is covered by Government funding.

Businesses with fewer than 50 people working for them do not need to make a contribution towards the costs of training and assessment if they hire 16-18 year old apprentices or apprentices aged 19-24 who have previously been in care or who have an Education, Health and Care Plan. All training and assessment costs for these individuals are covered up to the funding band maximum by Government funding.³⁹

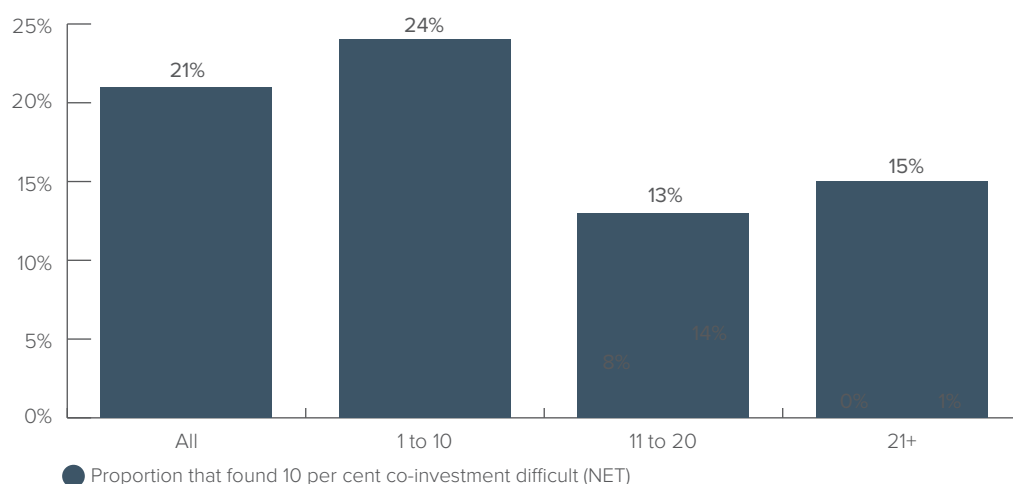
In August 2018, the number of funding bands were raised from 15 to 30.⁴⁰ Upper limits for funding bands are intended as the maximum amounts that the Government will contribute towards training and assessment costs and not as fixed prices. The Government expects that employers will negotiate prices for training and assessment of apprentices with training providers. However, it is clear that employers (and in particular smaller employers) are often unable to negotiate the prices with providers and pay the maximum rates.⁴¹ As a result, training apprentices has become more expensive for many small employers of apprentices in many areas across the country as the costs are typically set at the level of the upper limits.

In combination with all the other costs, the 10 per cent co-investment requirement has been a challenge for many smaller firms engaging with apprenticeships. FSB research found that around a fifth (21%) of small businesses that employed an apprentice after the reforms had difficulties with contributing 10 per cent towards training and assessment costs of their apprentices. A significantly higher proportion of microbusinesses had difficulties with the 10 per cent contribution compared to businesses with more than 10 employees (Figure 12). This is logical as microbusinesses are the firms with the most limited resources. However, focus group evidence also shows that many small business employers of apprentices are less concerned about co-investment costs and more exercised by the explicit requirement for a minimum of 20 per cent off-the-job training.

39 Department for Education (2019) Apprenticeship funding in England from April 2019. March 2019. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788312/Apprenticeship_funding_in_England_from_April_2019.pdf

40 Department for Education (2018) Apprenticeship funding in England from August 2018. May 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730063/Apprenticeship_funding_policy_in_England_from_August_2018.pdf

41 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

Figure 12: Small business difficulties with 10 per cent co-investment**Source: FSB Apprenticeships Survey, 2018**

FSB welcomed the allocation of £240 million to halve the co-investment rate for apprenticeship training down to five per cent announced at Budget 2018.^{42,43} This reduction will help a number of small businesses – particularly microbusinesses – that otherwise face challenges with providing the required amount for co-investment. The impact of this change on smaller business willingness to take on new apprentices should be carefully monitored by Government, with public data split by size of business (e.g. small and micro) made available at regular intervals. In the event this reduction does not have a material impact on apprenticeship starts amongst small businesses, FSB evidence suggests Government should remove co-investment completely for microbusinesses taking on 19-24 year olds. For microbusinesses taking on apprentices, 24 per cent find it difficult to meet the 10 per cent co-investment requirement.

20 per cent off-the-job training

The requirement that an apprentice spends a minimum 20 per cent of their time on off-the-job training is one of the core elements of the recent reforms to the apprenticeship system. It includes the teaching of theory (e.g. lectures or online learning), practical training (e.g. shadowing or mentoring), learning support and time spent writing assessments/assignments. It does not include English and Maths (up to Level 2), progress reviews or on-programme assessment and training which takes place outside the apprentice's paid working hours.⁴⁴

"I regard the 20 per cent off-the job training as a day release. It just means that every Friday, my apprentices are released from work."

Adam Woods, The Honest Services Company

The explicit requirement for a minimum of 20 per cent off-the-job training formalised training previously offered by employers. It was introduced to improve the quality of apprenticeships, but uses time as a proxy for quality. It acts as a blanket measure for all levels and all sectors without recognising the different requirements of businesses in particular sectors. It is based on the common misconception that quality training can only be achieved by having time spent outside the workplace, even though it can be delivered within the workplace.

42 HM Treasury (2018) Budget 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf

43 FSB (2018) Autumn Budget shows Chancellor is now listening to small business community. Press-release. Accessed on 8 April 2019. Link: <https://www.fsb.org.uk/media-centre/press-releases/autumn-budget-shows-chancellor-is-now-listening-to-small-business-community>

44 Department for Education (2019) Apprenticeship off-the-job training: Policy background and examples. Version 2 (reissued) Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/621565/OTJ_training_guidance.pdf

FSB research shows that employers have varying training requirements depending upon their size and sector, with some occupations benefiting more from practical learning than others. For example, the needs for training in seasonal or cyclical businesses are different from other sectors. Most small business employers of apprentices recognise the need for high-quality off-the-job learning and training. However, in general, there is an unfavourable response to the minimum, explicit 20 per cent off-the-job training requirement. FSB research shows that this requirement deters many smaller employers from not only hiring new apprentices but, in particular, from upskilling and developing their existing staff through apprenticeships.

“We employ 31 apprenticeships who completed Level 2 or Level 3 Health and Social Care or Business Administration qualifications. 20 per cent off-the-job training can be challenging to fit in to a busy organisation as well as being costly. Within the health and social care sector, staff turnover can be high. The pressure of the reforms has made us as a business not want to engage with the apprenticeship programme.”

Melanie Ulyatt, One to One Support Services

The minimum 20 per cent off-the job training is the third biggest barrier (24%) to smaller businesses employing apprentices (Figure 9). It has also been identified as a major obstacle by almost a third (36%) of those small business owners who upskilled themselves or their existing employees using apprenticeships (Figure 11). Unlike new-to-business apprentices, existing employees have ongoing responsibilities that need to be covered.

“I have been employing apprentices for 10 years now and off-the-job training was never an issue - apprentices would go to the provider once a month and once every few weeks someone would come and sit with them for an hour or so. That has all changed. The apprentices still need to go to the provider once a month, but they now have to also spend an entire day every week sitting in front of a computer supposedly studying and not doing any other work. Before they would do homework but now it seems that that doesn't happen. The new system basically means that I lose a fifth of my week with no benefit.”

Jim Cunliffe, Face Media Group

Off-the-job training disproportionately impacts smaller employers who lack the monitoring and workflow management systems to track and measure the amount of training that is categorised as off-the-job, while the apprentice is in the workplace. In addition, training providers are often inconsistent in their approach to off-the-job training. Many small businesses are simply encouraged to send apprentices to training providers for one day a week regardless of whether they receive quality training. The Education and Skills Funding Agency says it ‘does not yet have an effective way of identifying’ whether apprentices receive less training than they should.⁴⁵

⁴⁵ National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

Further, the approach to offering a minimum 20 per cent off-the-job training does not appear to be as closely monitored for apprentices studying higher level qualifications, e.g. in leadership and management (particularly for employees in more senior positions). These qualifications have typically involved considerable amounts of studying outside of normal working hours. There are reports that a loose description of start and end of working hours in employment contracts allows employers the flexibility required for the apprentice to study at any time. If an employment contract requires someone to 'work a minimum of 40 hours per week to fulfil their duties' (without specifying start and finish times every day), then an apprentice could study at a time that would otherwise be considered out-of-hours. Equally, an apprentice may choose to work out-of-hours to complete the work that they were not able to deliver while studying.

It is important that the Government addresses inconsistencies in the delivery of 20 per cent off-the-job training by establishing a set of standards to be used by training organisations and ensures that the rules are communicated properly, accurately and consistently by all training providers. While the Apprenticeship Commitment Statement produced by the Education and Skills Funding Agency is a step in the right direction, it is not mandatory and there is a need to ensure providers are consistent in the delivery and measurement of this requirement.⁴⁶ Sectors should be permitted to determine the amount and structure of the off-the-job training required by their industry. The Government should provide a toolkit that will help small businesses to monitor and track 20 per cent off-the-job training when the employee is in the workplace. The Government should also inform employers about the possibility of waiving their National Insurance contribution for apprentices under 25 years old, amounting to a 13.8 per cent saving in employee costs. Not all small businesses are aware that they can do this for apprentices under 25. In addition, extending this policy to National Insurance contributions of all apprentices would incentivise businesses to hire more apprentices.

Benefits

Previous FSB research showed that nearly a third of small business employers face skills shortages and almost half lack full proficiency within their workforce.⁴⁷ Hiring apprentices and upskilling existing employees as apprentices can be cost-effective ways of addressing skills shortages, skills gaps and growing a business. Research commissioned by the Government found that smaller firms are likely to say that 'expansion was behind their plans to increase apprenticeship involvement'.⁴⁸ The increase in the number of higher and degree level apprenticeship starts in smaller firms, since the 2017 reforms, indicates that employers are exploring this option and aspiring to boost the productivity of their business.

"I started my business in my living room about 8 years ago. I realised that apprenticeships are one of the best ways of growing a business and have hired an apprentice almost every year since. Every single one of them has become a member of staff. There are simply not enough skilled people out there for the highly technical roles we need. Finding skilled people is generally challenging. With apprenticeships, I've ended up with a fantastically skilled workforce trained in areas that my business needs."

Dan Benton, Dogsboddy Technology

However, a large number of smaller employers across the country are unaware of the possibility or potential of hiring an apprentice, or upskilling their existing employees, on higher and degree apprenticeships. That said, not all employers would be prepared to offer degree apprenticeships that last longer than other types of apprenticeship because of the employee wages and the long-term administrative costs. In addition, degree apprenticeship standards are not available for all sectors and areas.

46 Education and Skills Funding Agency (2019) Apprenticeships: off-the-job training. Accessed on 8 April 2019. Link: https://www.gov.uk/government/publications/apprenticeships-off-the-job-training?utm_source=7dd88fa7-c6d4-44cb-9af9-d7eac57be127&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

47 FSB (2017) Learning the Ropes: Skills and training in small businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

48 Department for Education (2017) Apprenticeships evaluation 2017: employers. IFF Research. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attach_data/file/659710/Apprenticeships_evaluation_2017_employers.pdf

The direct benefits of employing apprentices are mostly associated with the contributions they make during their employment and their subsequent retention. Incentives for employing certain categories of apprentices and levy fund transfers from levy-paying employers can help alleviate some of the costs incurred as a result of this recruitment.

Retention of apprentices

Employing apprentices is a long-term investment decision for smaller firms. According to previous FSB research, over two-thirds (67%) of small businesses retain their apprentices in the business after the end of the apprenticeship.⁴⁹ Research commissioned by Government shows a similar situation with the retention of apprentices across all types of employers at 65 per cent.⁵⁰ However, employers must consider the benefit of retaining apprentices against the investment in their training and assessment. This is a particular issue for the 32 per cent that fail to complete their apprenticeship successfully.⁵¹

Incentives

Employers who take on a 16-18 year old apprentice, or an apprentice who is aged 19-24 and has previously been in care or who has an Education, Health and Care Plan, are entitled to £1,000 to help meet the extra administrative and management costs. The amount is paid to employers in two equal instalments at three months and 12 months after the start of apprenticeships via their training providers. Providers also receive the additional £1,000 as employers for the same categories of apprentices.⁵²

“In September 2018, our training provider sent us a letter asking us to invoice them £500 as an incentive for an apprentice we employed in September 2017. We invoiced them but did not receive any payment (December 2018). There was no mention of the £1,000 incentive and we were not aware that we could be eligible for this if we employed apprentices. We had no previous or subsequent contact from the training provider and then became aware that they were being investigated for fraud. The apprentice continues to be employed by us and attends the local college.”

FSB member

FSB research shows that only 40 per cent of eligible small business employers of apprentices have received the £1000 incentive for hiring 16-18 year old apprentices. A significant proportion (34%) of eligible small employers say they are not even aware of the incentive.

Small businesses rely completely on training providers to pass on information about incentives and the incentives themselves. The quality and consistency of this service is incredibly variable. Therefore, non-levy-paying employers should be transitioned onto the Apprenticeship Service, and put in control of non-levy apprenticeship funding through the Service. Permitting small businesses to manage apprenticeship funding, including claiming the small business incentive for those eligible, will enable them to take greater ownership and engage with the system in a more efficient manner.

Transfers

Since April 2018, levy-paying employers are able to transfer up to 10 per cent of their levy allowances to one employer and, from July 2018, to multiple employers.⁵³ FSB lobbied for an increase in the transfer limit and welcomed Government’s recent decision to increase it up to 25 per cent.⁵⁴ This has

49 FSB (2016) Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>

50 Department for Education (2017) Apprenticeships evaluation 2017: employers. IFF Research. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659710/Apprenticeships_evaluation_2017_employers.pdf

51 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

52 Department for Education (2019) Apprenticeship funding in England from April 2019. March 2019. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788312/Apprenticeship_funding_in_England_from_April_2019.pdf

53 Ibid.

54 FSB (2018) Good to see Government get serious on late payments. Accessed on 8 April 2019. Link: <https://www.fsb.org.uk/media-centre/press-releases/good-to-see-government-get-serious-on-late-payments>

become effective from April 2019.

Unspent levy funds expire after 24 months. By transferring unspent funds levy-paying employers could help to develop the skills base of small businesses in their supply chains (providers) and sales channels (customers). This would have a significant positive economic impact on local communities. It could also help with development of skills across a sector. Where large employers struggle to fill a class, transferring levy funds to smaller firms could support the building of sufficiently sized cohorts of students required by training organisations. There are encouraging reports of big employers, e.g. Sellafield in Cumbria, funding apprenticeships in small businesses in their local area.⁵⁵

However, additional administrative burden acts as a deterrent to businesses that would otherwise consider transferring their funds. Transferring funds requires multiple points of engagement between sending and receiving employers. The complexity of the transfer mechanism adds to the overall administrative burden of navigating the apprenticeship system. As of February 2019, there were only 150 commitments that materialised into apprenticeship starts.⁵⁶ This is concerning and shows that there are difficulties with administering transfers. The Government must simplify the transfer process, by removing the multiple points of engagement between employers, to reduce the amount of administrative burden on the part of both transferers and recipients.

There are also a limited number of levy-paying and non-levy-paying businesses that are aware of the opportunity to transfer or receive levy funds. Without a platform that matches supply of and demand for transferred funds, small businesses will not be able to benefit from this policy. Such a matching service could be hosted on the digital apprenticeship service, helping businesses to find each other to transfer or receive funds in the appropriate locality and/or sector. The Government should ensure that the Apprenticeship Service hosts such a matching service for transfers between employers.

There have been suggestions for ‘pooling’, whereby transferrable funds are accumulated for use by other employers, including by aggregating demand locally, and administered by third parties who could be regional (LEPs, combined authorities and local authorities) or sectoral players. If pooling is implemented, there must be a safeguarding mechanism that ensures funding is not distributed among larger employers, instead helping small businesses locally. A matching service as described above would alleviate the necessity to use any third parties in the future and help to avoid any costs associated with pooling.

Are the new apprenticeships still attractive to small businesses?

As well as driving a return on investment, increasing productivity of businesses and helping address skills shortages and skills gaps, small businesses are also interested simply in giving young people opportunities. Previous FSB research found that 61 per cent of small businesses are motivated to offer apprenticeships through their ‘commitment to giving young people training opportunities’.⁵⁷ Indeed, 92 per cent of all apprenticeships offered by FSB members are held by 16 to 24 year olds.

As it stands, a very small number of small businesses benefit from the transfer of levy allowances and incentives, which only apply to specific age groups of apprentices. For many smaller firms, the combination of co-investment, 20 per cent off-the-job training and business costs outweigh the benefits. This is especially true for sectors that are particularly exposed to increased employment costs and increasing business rates.

For employers to engage with apprenticeships, the short and long-term benefits of offering an apprenticeship should exceed the costs associated with it.⁵⁸ A study shows that, in most cases, large employers have the highest net benefits from employing apprentices, whereas microbusinesses may even incur net costs.⁵⁹ Therefore, under the current apprenticeship arrangements, an apprentice’s

55 Gov.uk (2019) Cumbria to be boosted by 50 new apprenticeships. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/news/cumbria-to-be-boosted-by-50-new-apprenticeships>

56 Department for Education (2019) Apprenticeships and levy statistics: March 2019 (reported to date). Official statistics. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789653/Apprenticeship-and-levy-statistics-Mar2019_.pdf

57 FSB (2016) Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>

58 Kuczera, M. (2017) Striking the right balance: Costs and benefits of apprenticeship. OECD Education Working Papers No. 153. Link: <https://www.oecd-ilibrary.org/docserver/995fff01-en.pdf?expires=1544450623&id=id&accname=guest&checksum=EF98E5A1DEEDAFFFC4BB965EE7CE04B0>

59 Wolter, S.C. and Joho, E. (2018) Apprenticeship training in England – a cost-effective model for firms? J.P.Morgan, Education Policy Institute and BertelsmannStiftung. Link: https://epi.org.uk/wp-content/uploads/2018/04/Apprenticeships-in-England_2018.pdf

contribution to the employer in the short-term, and the possibility of retaining the apprentice in the long-term, are important factors that determine whether an employer will take on apprentices.

Under the current arrangements, apprenticeships are often not commercially attractive to small businesses. Engaging with apprenticeships is unsustainable for many smaller firms, accounting for 60 per cent of private sector employment. Businesses with more resources are more likely to benefit from using apprenticeships to upskill and address their skills shortages and skills gaps. The Government must act to ensure that all businesses desiring to use apprenticeships are able to do so regardless of their size.

Recommendations

The Department for Education (and the Education and Skills Funding Agency) should:

- **Make training-related travel free for all young (16-24 year old) apprentices working for employers with less than 50 staff to ensure small business employers, particularly those located in rural areas, are not disadvantaged by prohibitive travel costs.** Small businesses often incur extra costs as a result of the travel apprentices must undertake in order to access training providers. Although there are some areas with travel support for apprentices,⁶⁰ we want to see the Government act on the Conservative Party Manifesto commitment to introduce significantly discounted bus and train travel for apprentices across England. Travel costs for apprentices are also likely to be particularly acute for smaller businesses in rural areas.
- **Monitor and evaluate the impact on non-levy payers of the reduction in the co-investment requirement for training and assessment costs (10% to 5%).** This data should be publicly available and broken down by size of business. In the event that this reduction does not demonstrably increase the number of small business apprenticeship starts, Government should remove co-investment completely for microbusinesses taking on 19-24 year olds. For microbusinesses taking on apprentices, 24 per cent find it difficult to meet the 10 per cent co-investment requirement.
- **Establish a set of standards to address the inconsistencies in the delivery of 20 per cent off-the-job training by training providers and ensure that the rules are communicated properly, accurately and consistently.** While the Apprenticeship Commitment Statement produced by the Education and Skills Funding Agency is a step in the right direction, it is not mandatory and there is a need to ensure providers are consistent in their delivery and measurement of this requirement.⁶¹ Many employers are simply encouraged to release their employees from work one day a week, regardless of whether they receive quality training. There is also a common misconception that 20 per cent off-the-job training needs to be time spent outside the workplace. This is not actually the case.
- **Develop a toolkit for small businesses to monitor and track 20 per cent off-the-job training that is undertaken in the workplace.** The effective administration of off-the-job training prejudices smaller employers who lack the monitoring and work-flow management systems to track the amount of training that is categorised as off-the-job, while the apprentice is in the workplace.
- **Inform employers about the possibility of waiving their national insurance contribution for apprentices under 25 years old, amounting to a 13.8 per cent saving in employee costs.** Not all small businesses are aware that they can waive their national insurance contribution for apprentices under the age of 25.
- **In the medium to long-term give serious consideration to allowing flexibility in the amount and structure of the off-the-job training required by different sectors.** Most sectors have varying training needs and some occupations benefit from more practical learning than others. Different sectors should be able to identify and influence the amount of training required.

⁶⁰ For example, Transport for Greater Manchester (TfGM) offers support to apprentices on their commute to work with a free and reduced price ticket offer, or a free bike.

⁶¹ Education and Skills Funding Agency (2019) Apprenticeships: off-the-job training. Accessed on 8 April 2019. Link: https://www.gov.uk/government/publications/apprenticeships-off-the-job-training?utm_source=7dd88fa7-c6d4-44cb-9af9-d7eac57be127&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

TRAINING AND ASSESSMENT PROVISION

Challenges with training and assessment provision

Training organisations play a vital role in the delivery of apprenticeships. Not only do they supply valuable training, but they also provide a ‘guiding role’ to small businesses.⁶² Independent providers deliver around 60 per cent of apprenticeship training, while further education colleges and universities provide the majority of the rest.⁶³ Previous FSB research showed that almost half of small businesses (48%) seek information from their local training organisation.⁶⁴ There are training providers that offer excellent service and support for businesses in a considerate and constructive manner. However, this is not always the case.

“As both a care provider and a training provider, the pressure the reforms have brought us as a business has been negative overall. As a training provider, we have worked hard to support employers to understand and develop robust delivery models to support achievement. However, these have failed to keep employers on board. Over the past 2 years of working with a vast amount of employers regarding apprenticeships, we can confirm that the list of employers we are now working with has dropped by around 67 per cent due to them not being on board with the reforms and the added stress this has brought them.”

Melanie Ulyatt, One to One Support Services

FSB research shows that small businesses encounter a wide range of challenges with regards to training and assessment provision throughout England. These challenges are borne out from the combination of failures in the system and in the wider market. The challenges centre on access to and the quality of training and assessment provision. The following sections discuss these difficulties in more detail.

Access

All organisations providing training for apprentices must be on the Register of Apprenticeship Training Providers (RoATP).⁶⁵ The number of training providers on the RoATP tripled as the result of the introduction of the new funding system.⁶⁶ The register includes a large proportion of dormant organisations.⁶⁷ It has recently been announced that the RoATP will be redesigned to permit registrations throughout the year.⁶⁸ The plan is to make the entry criteria more stringent.⁶⁹ However, this will not address the problems non-levy-paying employers experience in the current system.

All assessment organisations must be on the Register of End-Point Assessment Organisations (RoEPAO).⁷⁰ Employers will not be able to select an end-point assessment organisation for their apprentice ‘until at least one organisation is listed on the register for that apprenticeship standard’.⁷¹ All assessments should be quality assured by an external organisation (an EQAO).⁷²

62 Warner, P. and Gladding, C. (2019) Employers in the driving seat? New thinking for FE leadership. Link: <https://fetl.org.uk/publications/employers-in-the-driving-seat-2/>

63 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

64 FSB (2016). Make or Break: Getting Apprenticeship Reform Right for Small Businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=1>

65 Education and Skills Funding Agency (2019) Register of apprenticeship training providers. Accessed 5 January 2019. Link: <https://www.gov.uk/guidance/register-of-apprenticeship-training-providers>

66 House of Commons Education Committee (2018) The apprenticeships ladder of opportunity: quality not quantity. Sixth Report of Session 2017–19. HC 344. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/344/344.pdf>

67 Tes (2018) A third of apprenticeship providers ‘dormant’. By George Ryan. Accessed on 8 April 2019. Link: <https://www.tes.com/news/apprenticeship-providers-dormant>

68 Education and Skills Funding Agency (2019) Register of Apprenticeship Training Providers redesign. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/news/register-of-apprenticeship-training-providers-redesign>

69 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

70 Education and Skills Funding Agency (2019) Register of end-point assessment organisations. Accessed on 8 April 2019. Link: <https://www.gov.uk/guidance/register-of-end-point-assessment-organisations>

71 Ibid.

72 Institute for Apprenticeships (2019) External Quality Assurance. Accessed on 8 April 2019. Link: <https://www.instituteforapprenticeships.org/quality/external-quality-assurance/>

Availability of training providers and courses

Small businesses, particularly in more remote and rural areas, struggle to find training providers for their apprentices. FSB research found that, of those small businesses that employed apprentices after the 2017 reforms, 22 per cent report ‘finding a training provider’ a major obstacle. Those that do report ‘availability of courses or places at training providers’ (51%), ‘quality of the training provider in my area’ (49%) and ‘distance to the nearest training provider’ (25%) as the main difficulties.

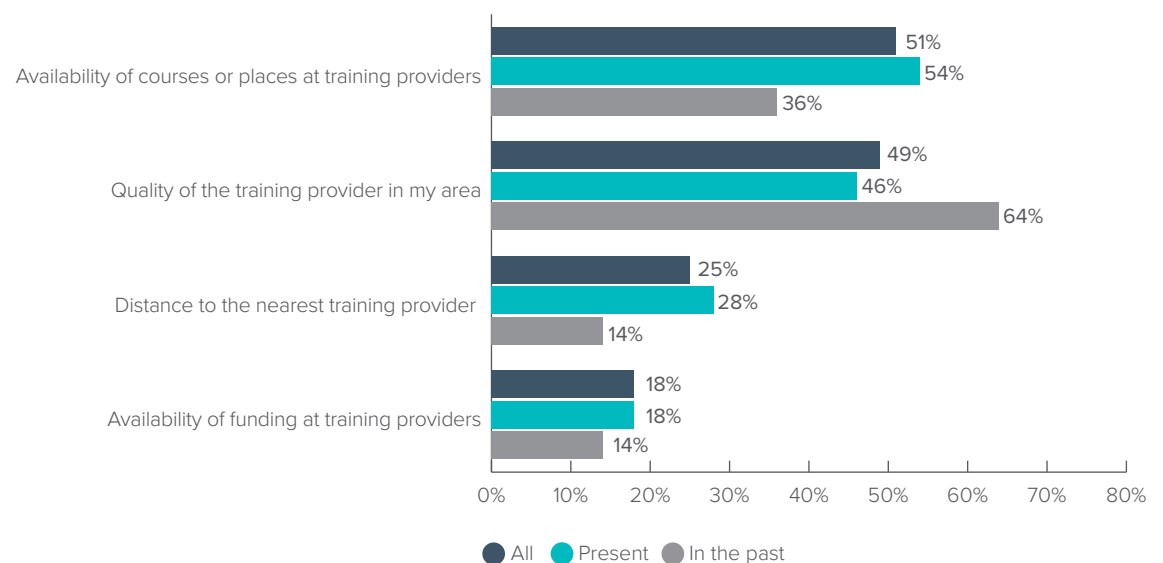
The lack of availability of courses at training organisations is a direct result of Government policies on the allocation and distribution of funding for non-levy-paying organisations. The procurement for non-levy provision identified training organisations who can deliver training to non-levy-paying employers. Government’s focus on providing a functional system for over 17,000 levy-paying employers caused training providers to focus their attention on serving this market at the expense of 5.6 million small businesses, the vast majority of which are not levy payers.⁷³ In many instances, delivering training to smaller firms has simply become financially unviable for training providers.

“We are based in Salisbury. The training provider we’ve worked with before say that they no longer do Level 2 or Level 3 apprenticeships. The closest providers are in Southampton and Bristol both of which are at least an hour and a half away, outside the rush hour. This makes at least 3 hours transport a day with 4 changes in each direction costing a large amount of money. It is completely uneconomic and unsustainable to expect apprentices to travel, if everything works to schedule, at least 3 hours a day and for my business to fund their transport, the time they are not earning and the college fees.”

Adam Woods, The Honest Services Company

As Figure 13 illustrates, 28 per cent of smaller businesses currently employing apprentices say ‘distance to the nearest training provider’ is a challenge, compared to just 14 per cent for those that employed apprentices in the past, prior to the reforms.

Figure 13: Small business difficulties with finding a training provider (past versus present)
 Source: FSB Apprenticeships Survey, 2018



⁷³ Government response to House of Lords Artificial Intelligence Select Committee’s Report on AI in the UK: Ready, Willing and Able? Presented to Parliament by the Secretary of State for Business, Energy and Industrial Strategy by Command of Her Majesty, June 2018, CM 9645. Link: <https://www.parliament.uk/documents/lords-committees/Artificial-Intelligence/AI-Government-Response.pdf>

For those employing apprentices today, concerns around ‘availability of courses or places’ is higher than in the past (54% compared to 36%). Concerns around ‘availability of funding’ are also slightly higher currently (18%) compared to in the past (14%). This reflects the impact of the reformed funding policies and non-levy procurement.

Figure 13 shows that, despite some improvements, poor-quality training provision remains a major concern for small businesses employing apprentices. These concerns are even more acute for those located in rural and remote communities. FSB has long supported better access to training for smaller firms in these areas.

In addition, without the buying power of larger businesses, small firms are less able to encourage providers to offer a particular course, even if the provider has funding available. Lack of suitable courses force many smaller employers to send their apprentices further away to a training organisation that is able to provide the required course. This often leads to administrative burdens and additional expenses, e.g. higher travel costs and loss of employee/employer time. Some areas have travel support for apprentices. However, Government should provide free travel for all young apprentices working for small businesses in England, so that their employers do not bear these costs.

End-point assessments

End-point assessment determines whether an apprentice is capable of carrying out their job before receiving the apprenticeship certificate. All standards include an end-point assessment that should be delivered by organisations independent of the training providers.⁷⁴ The majority of end-point assessments are due to start in 2019. There are widespread concerns that end-point assessment organisations do not have sufficient capacity and capability to cope with the incoming demand.⁷⁵

FSB research shows that small businesses have already started experiencing difficulties with end-point assessments. These difficulties add to the complexity of the apprenticeship system. It is important to ensure a smooth and straightforward delivery of end-point assessment activities, including where there are no end-point assessments registered for standards.

Another concern is the lack of consistency in quality assurance provided by External Quality Assurance Organisations (EQAOs). There are four possible approaches to external quality assurance: employer-led or via either a professional body, the Institute for Apprenticeships and Technical Education or Ofqual.⁷⁶ Consistency can only be achieved by enabling one organisation to quality assure all assessments. FSB believes this role should go to Ofqual.

“Around 5-6 months ago I was looking to change my apprenticeship provider and was contacting different providers. Almost every single provider could not tell me how long an end-point assessment would take. I’m not joking when I say that one provider said that it would take additional three days, another one said an additional 6 months, and the third one told me that it would take an additional year! This was at the stage when the assessments were already announced but no one knew what they would involve. It was unbelievable.”

Dan Benton, Dogsboddy Technology

⁷⁴ Department for Education (2019) Apprenticeship funding in England from April 2019. March 2019. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788312/Apprenticeship_funding_in_England_from_April_2019.pdf

⁷⁵ FEWeek (2018) EPA assessor capacity: Will England be able to cope in the long-term? By Jude Burke. Accessed on 8 April 2019. Link: <https://feweek.co.uk/2018/09/14/epa-assessor-capacity-will-england-be-able-to-cope-in-the-long-term/>

⁷⁶ Institute for Apprenticeships and Technical Education (2019) Developing an end-point assessment plan. Accessed on 8 April 2019. Link: <https://www.instituteforapprenticeships.org/developing-new-apprenticeships/developing-an-end-point-assessment-plan/>

Quality

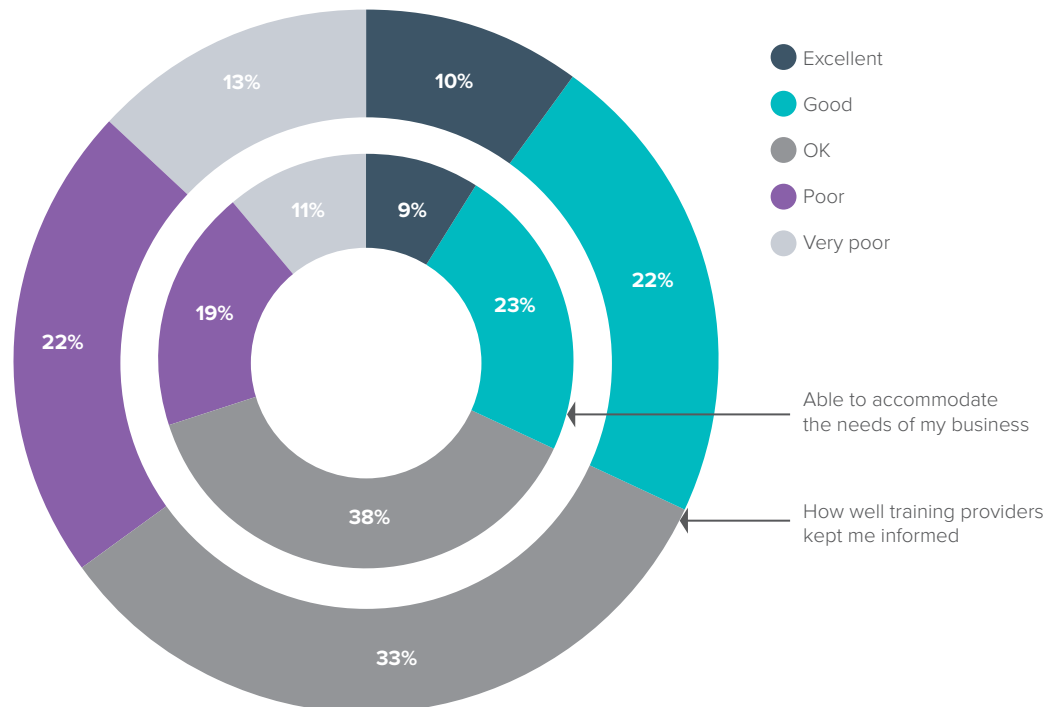
The Department for Education (through the Education and Skills Funding Agency), the Institute for Apprenticeships and Technical Education, Ofsted, Ofqual, the Office for Students and the Quality Assurance Agency for Higher Education (QAA) form the Quality Alliance. The Alliance is led by the Institute and is a means for collaboration for organisations responsible for the quality of the apprenticeship system and apprenticeships. The Department for Education is responsible for funding each of these bodies, with the exception of Ofsted and Ofqual.⁷⁷

Quality of training providers

Ofsted is responsible for inspecting training providers which, if graded ‘inadequate’, should be removed from the Register of Apprenticeship Training Providers (RoATP). It is also responsible for carrying out monitoring visits to new providers.⁷⁸ In 2018, one-fifth of the providers who received these monitoring visits were rated as making ‘insufficient progress’. Around a third of apprentices in 2017/18 were receiving training from providers rated as ‘inadequate’ or ‘requires improvement’ by Ofsted.⁷⁹

Small businesses encounter a variety of problems in their relationship with training organisations. Generally, small employers lack buying power and are unable to negotiate prices with providers.⁸⁰ Provider quality varies across the country with reported issues ranging from provider inflexibility to poor communications. Almost half (49%) of small businesses that employed apprentices after the reforms indicated ‘quality of the training provider in my area’ as the main reason for the difficulties with finding a training provider.

Figure 14: Small business rating of training providers for flexibility and communications
Source: FSB Apprenticeships Survey, 2018



Of those FSB small businesses that employ apprentices, almost a third (30%) report being dissatisfied with the ability of training providers to accommodate their needs and 35 per cent are dissatisfied with their providers’ communications.

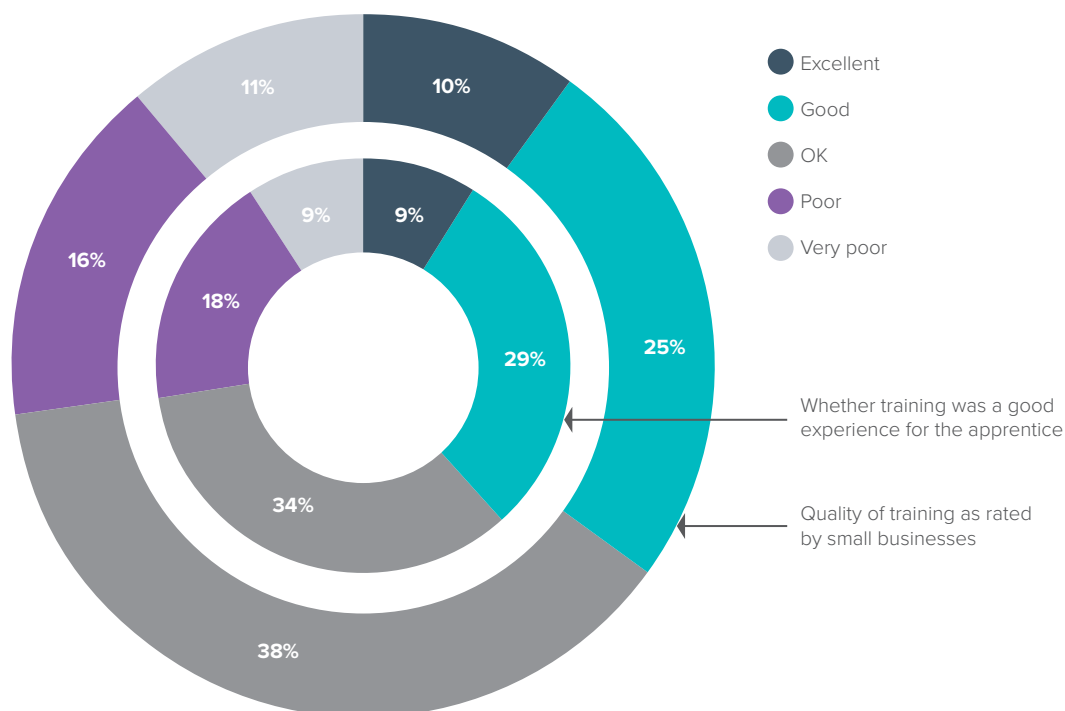
77 Department for Education (2018) Apprenticeship Accountability Statement. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767160/Apprenticeship_Accountability_Statement_1819.pdf
 78 Education and Skills Funding Agency (2018) Removal from register of apprenticeship training providers and eligibility to receive public funding to deliver apprenticeship training. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/publications/removal-from-register-of-apprenticeship-training-providers/removal-from-register-of-apprenticeship-training-providers-and-eligibility-to-receive-public-funding-to-deliver-apprenticeship-training>
 79 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>
 80 FEWeek (2018) Apprenticeship funding bands set to change. By Jude Burke. Accessed on 8 April 2019. Link: <https://feweek.co.uk/2018/02/21/apprenticeship-funding-bands-set-to-change/>

Quality of apprenticeship training

Quality of training sits at the heart of the recent apprenticeship reforms. The minimum 20 per cent off-the-job training requirement is a core principle underpinning the quality of new apprenticeships.

Figure 15: Small business rating of training providers for quality of training and whether training was a good experience for apprentice

Source: FSB Apprenticeships Survey, 2018



Ofsted and the Office for Students share the responsibility for providing assurance of the quality of apprenticeship training.⁸¹ Serious concerns have been raised on the quality of training in a system that is lightly regulated and where a vast number of providers have not yet been inspected or have no record of delivering apprenticeship training. This has been attributed to the capacity and capability of Ofsted.⁸²

FSB research shows that, of those small businesses employing apprentices, 27 per cent were dissatisfied with the quality of training their apprentices received. The same proportion did not think it was a good experience for the apprentice. For those who employed apprentices after the 2017 reforms, this could be partly linked to the challenges identified in the delivery of the explicit requirement for a minimum of 20 per cent off-the-job training requirement.

Furthermore, while some providers use technology for distance learning, a number of employers prefer to provide a classroom-learning environment for their apprentice and are not always able to find providers offering such arrangements. Technologies or systems used by training providers can be unreliable and result in a loss of paperwork.

81 Department for Education (2018) Apprenticeship Accountability Statement. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767160/Apprenticeship_Accountability_Statement_1819.pdf

82 House of Commons Education Committee (2018) The apprenticeships ladder of opportunity: quality not quantity. Sixth Report of Session 2017–19. HC 344. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/344/344.pdf>

“I was keen that our apprentices attend classrooms so that they can join a cohort and learn in a classroom environment rather than spending endless hours in front of the screen watching videos. We are fortunate, in our industry, that there are a number of companies that provide training; however, we’ve had terrible experiences with some providers who have lost our apprentices’ paperwork and homework.”

Marcus Roskill, epiq Marketing

From frameworks to standards

Transition from the apprenticeship frameworks to standards is one of the major reforms to the apprenticeship system. Standards outline the skills, knowledge and behaviours that an individual needs for full competence in an occupation. Standards are developed by employer groups known as ‘Trailblazers’. These groups are required to include small employers.⁸³ Many small and medium-sized businesses believe these standards ‘were developed with larger employers in mind’ and do not meet their needs.⁸⁴

The migration to standards will be completed and all frameworks will be withdrawn by 31 July 2020.⁸⁵ It is unclear how many new standards will be available by this date, given the length of time it has taken to develop existing standards.⁸⁶ One example is the Level 2 Business Administration Framework, where there is currently no standard to replace it.⁸⁷

Quality of standards directly affects the quality of training offered to apprentices. FSB research shows that small businesses are heavily reliant on Level 2 and 3 frameworks. Withdrawal of frameworks before standards are available will have a negative impact on the engagement of small businesses with apprenticeships. This will further increase the challenges experienced by smaller firms with regards to working with training providers.

The Institute for Apprenticeships and Technical Education should ensure that there are suitable standards available to substitute the frameworks that were popular with small businesses. Where standards are not available, the Institute should speed up the process for the development of new standards or extend the deadline for withdrawal of these frameworks beyond 31 July 2020.

How the challenges with the training and assessment provision affect smaller firms?

The Richard Review of Apprenticeships emphasised the importance of building an employer-led system and making apprenticeships relevant to business.⁸⁸ New initiatives, such as trailblazer groups, were introduced with the intention of giving employers an opportunity to align apprenticeships with their needs.⁸⁹ The range of problems experienced by small businesses with regards to training and assessment provision shows that a lot more needs to be done to make the system more employer-led.

83 Institute for Apprenticeships (2019) Forming a Trailblazer Group. Accessed on 8 April 2019. Link: <https://www.instituteforapprenticeships.org/developing-new-apprenticeships/forming-a-trailblazer-group/>

84 The Open University (2018) The apprenticeship levy: one year on. Link: <http://www.open.ac.uk/business/sites/www.open.ac.uk/business/files/files/apprenticeship-levy-one-year-on.pdf>

85 Education and Skills Funding Agency (2018) Withdrawal of apprenticeship frameworks. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/publications/removal-of-apprenticeship-frameworks>

86 House of Commons Education Committee (2018) The apprenticeships ladder of opportunity: quality not quantity. Sixth Report of Session 2017–19. HC 344. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/344/344.pdf>

87 Association of Employment and Learning Providers (2018) AELP throws weight behind trailblazer’s Business Administration level 2 apprenticeship standard - Consultation on new proposals launched. Accessed on 8 April 2019. Link: <https://www.aelp.org.uk/news/news/press-releases/aelp-throws-weight-behind-trailblazer-s-business-administration-level-2-apprenticeship-standard-consultation-on-new-proposals-launched/>

88 The Richard Review of Apprenticeships (2012) Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34708/richard-review-full.pdf

89 Department for Education and Department for Business, Innovation and Skills (2013) The Future of Apprenticeships in England: Next Steps from the Richard Review. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/190632/bis-13-577-the-future-of-apprenticeships-in-england-next-steps-from-the-richard-review.pdf

The accessibility and quality of training organisations, and the quality of their courses and communications, create major obstacles for smaller business engagement with apprenticeships, exacerbated by Government's funding policies. The combination of failures in the system and in the market requires an effective Government intervention to create a market-driven system.

Accessibility is an even bigger challenge for businesses located in rural communities. These small firms incur extra costs because of the travel that their apprentices have to undertake for training. Therefore, Government should provide free travel for all young apprentices working for small businesses in England.

In most cases, small businesses are unable to negotiate terms with providers, particularly around price, timing and type of training. They experience further difficulties if providers need to build a cohort of apprentices for a particular training course. A further challenge for small employers is covering the loss of an apprentice one day a week for off-the-job training. **The provision of high quality training cannot be established or safeguarded by simply introducing an explicit requirement to provide a minimum of 20 per cent off-the-job training if that training is not of sufficient quality.**

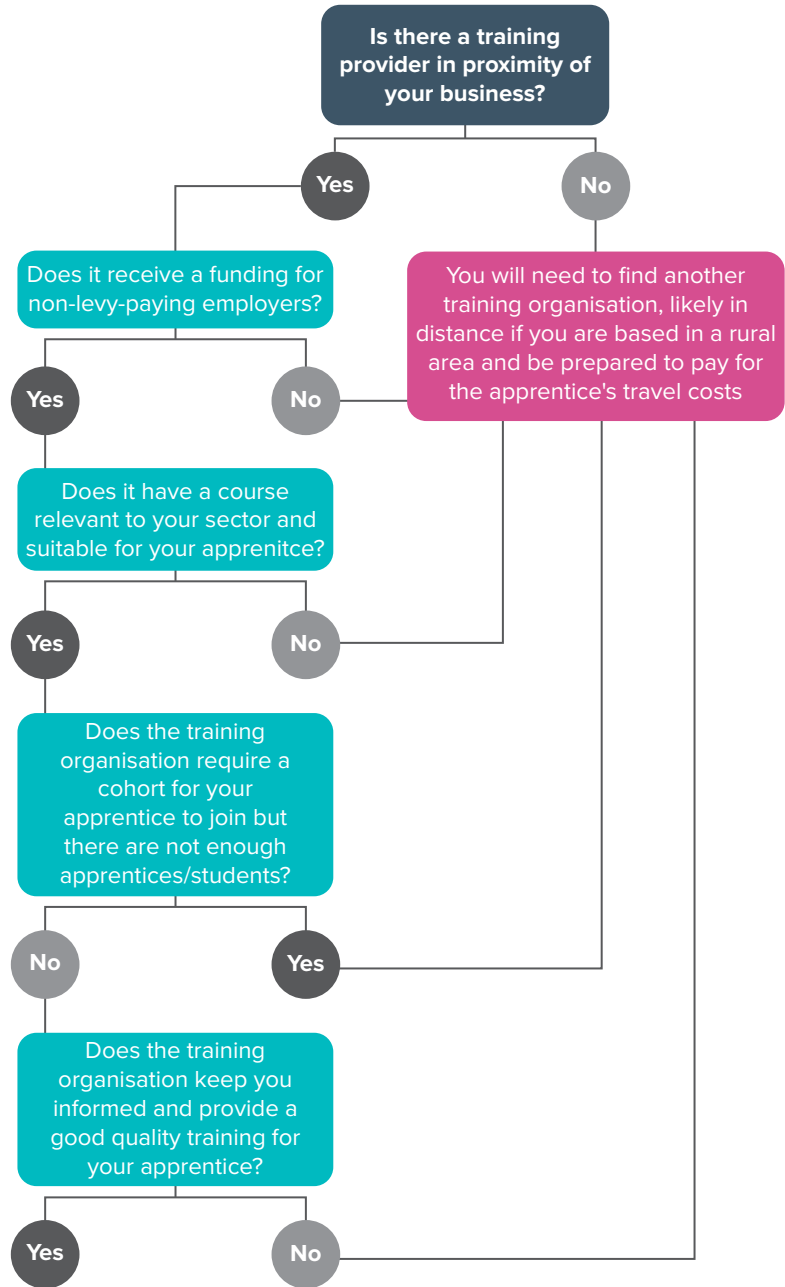
Many businesses experience difficulties with the quality of training at this stage and may even consider changing provider. They may also struggle with provider inflexibility and poor communications and, in some case, training organisations going into administration.

There are clearly existing challenges for small firms seeking to access a provider with good quality training. And these challenges will only increase once the majority of end-point assessment activities commence, further deterring small business engagement with apprenticeships. Government must act quickly, building a system and market for training and assessment provision that is suitable for smaller employers, particularly those in hard-to-reach areas.

There is likely to be a geographical relationship between the level of apprenticeship engagement and the quality and accessibility of training and assessment provision. The Government should review the geographical distribution of sector-specific training provision to ensure that small businesses are able to access a good quality training and assessment wherever they are located.

Oversight of the apprenticeship training and assessment provision must be robust. Bodies responsible for all aspects of training and assessment provision must have the resources and capacity to execute their responsibilities. The Government, through the Quality Alliance, should ensure that all bodies responsible for overseeing the apprenticeships system work well with each other and have adequate capacity.

Figure 16: Small business training provider search



The significant challenges still experienced by many smaller firms shows that, despite the reforms, the apprenticeship system remains provider-led for non-levy-paying employers. Resolving the problems with the training and assessment provision in England would undoubtedly ameliorate the current concerning situation for non-levy paying employers. The Government must, therefore, urgently build a system and a market that will encourage training providers to improve the quality and value of their training.

Recommendations

The Department for Education (and the members of the Quality Alliance where applicable) should:

- **Play a greater stewardship role, working with the Institute for Apprenticeships and Technical Education in promoting the development of a healthy and sustainable provider market. There should be a stable funding environment for good quality training and assessment provision that is easily accessible to smaller employers, as well as larger ones.** Accessing a provider with good quality training has become difficult for many smaller employers as a result of changes in funding policies. Government must steward the development of the provider market to allow all businesses to access good quality training and assessment.
- **Commission analysis of the geographical distribution of sector-specific training and assessment provision.** The distribution of small firms throughout England – including rural communities, fringe towns (where larger businesses are less well represented) and less favoured areas – make them indispensable to the delivery of apprenticeships and the promotion of social mobility. These small firms need access to sector-specific training and assessment, distributed across the whole of England. While Skills Advisory Panels will play a major role in delivering this work locally, feeding into Local Industrial Strategies, there must also be a nationally coherent picture, linking up training and assessment provision in different areas and addressing any gaps.
- **Migrate smaller businesses onto the Apprenticeship Service (whilst allowing for a suitable transition period and offering support for those that lack the digital skills to manage the transition themselves⁹⁰).** The Apprenticeship Service should make the process of finding a training provider easier – particularly for those located in rural communities, fringe towns and less favoured areas. They could do this by listing nearest providers (by subject expertise, methods of teaching and rating of quality) once they migrate to the service. FSB research shows that small employers lack buying power and are unable to negotiate prices with providers. The Apprenticeship Service could empower small businesses to increase their buying power by aggregating together and negotiating more advantageous offers.
- **Make the Institute for Apprenticeships and Technical Education the central body responsible for managing a sustainable provider market. The Institute should develop a clear and vigorous oversight of the apprenticeship training and assessment provision that measures and reports on performance through publicly available data.** The Institute should develop strong expertise in all aspects of vocational education as well as having a formalised role in contributing to the design of future apprenticeship policy. The work of the Institute for Apprenticeships and Technical Education should be supported by the Quality Alliance⁹¹, the members of which, in turn, should work together in a collaborative and coordinated way. FSB welcomed the Institute's decision to establish a sub-group dedicated to understanding the cross-sectoral horizontal issues that generally affect smaller businesses in response to its recommendation.
- **Prevent anticipated difficulties in the delivery of end-point assessment activities and establish consistency in the external quality assurance for assessments.** Difficulties with end-point assessment add to the perceived complexity of the apprenticeship system. Government must ensure that smaller employers are not burdened with the challenges arising from these assessments, including where there are no end-point assessment organisations registered for standards. There is also a lack of consistency in quality assurance provided by External Quality Assurance Organisations. Consistency can be achieved by enabling a single organisation to quality assure all end-point assessments. FSB believes this role should go to Ofqual.

⁹⁰ 26 per cent of business owners in England lack confidence in their basic digital skills. Learning the Ropes: Skills and training in small businesses.

⁹¹ Consisting of the Department for Education (through the Education and Skills Funding Agency), the Institute for Apprenticeships and Technical Education, Ofsted, Ofqual, the Office for Students and the Quality Assurance Agency for Higher Education (QAA).

FUTURE OF APPRENTICESHIPS

Apprenticeship system

The following sections describe the challenges that small businesses are likely to experience in engaging with apprenticeships in the future. While challenges and difficulties continue to emerge, the introduction of the levy is an improvement to the apprenticeship system. That said, the success of apprenticeships in the future will depend on how both the intended and unintended consequences of apprenticeship policies are managed in the present. Both the Apprenticeship Levy Review (announced in the 2018 Budget) and the 2019 Spending Review can play a significant role in reversing the decline in the number of apprenticeships in small businesses and creating a fit-for-purpose system that will meet the skills needs of small businesses.

Levy-based funding

The levy, paid by less than two per cent of employers, subsidises training and assessment of all apprenticeships.⁹² Unspent levy funds from the levy budget are used for financing the training and assessment of apprentices employed by non-levy-paying employers, including small businesses.⁹³ Training and assessment of current apprenticeship standards are undoubtedly more expensive to deliver than that of apprenticeship frameworks, around double what Government expected.⁹⁴

There are concerns that the increased uptake of degree apprenticeships takes funding away from lower level apprenticeships.⁹⁵ Government statistics shows that, in comparison to 2016/17, there has been a six-fold increase in the number of Level 6 and 7 apprenticeship starts in 2017/18.⁹⁶ However, the increase in the number of higher and degree apprenticeships demonstrates the England-wide need for higher level training. Leadership and management skills, such as commercial, project management, financial strategic thinking and managerial skills, are fundamental to the productivity and growth of small businesses.⁹⁷

The UK is behind the majority of G7 advanced economies in terms of its productivity.⁹⁸ Ninety per cent of the businesses in the bottom 10 per cent of the labour productivity distribution are microbusinesses.⁹⁹ The Industrial Strategy acknowledged the need to address ‘the long tail of lower productivity firms’.¹⁰⁰ Driving productivity was an underlying principle of the apprenticeships reforms.¹⁰¹ It is, therefore, vital that the Government does not interrupt the marginal growth of higher level apprenticeships in smaller firms. It should seek alternative ways of funding higher and degree apprenticeships in small businesses to boost their productivity and growth.

That said, there is likely to be significant overspend once all frameworks are withdrawn, even if apprenticeship starts remain at current levels.¹⁰² The fixed levy budget will, therefore, be exhausted at some point in the near future as levy-paying employers gradually utilise more levy funds.¹⁰³ If additional public funding is not allocated in the 2019 Spending Review, small businesses will be required, in most cases, to pay full prices for training and assessment. Smaller firms should not be disadvantaged by the intended or unintended outcomes of the apprenticeship funding mechanisms. They should continue to have access to a minimum annual budget of £1 billion allocated by Government before the reforms.¹⁰⁴ This equates to the level of pre-levy engagement of small firms and would not necessarily

92 HM Revenue & Customs (2016) Apprenticeship Levy. Published 4 February 2016. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/publications/apprenticeship-levy/apprenticeship-levy>

93 FEWeek (2018) Employers use just 14% of their levy in first 18 months. By Pippa Allen-Kinross. Accessed on 8 April 2019. Link: <https://feweek.co.uk/2018/11/10/employers-use-just-14-of-their-levy-in-first-18-months/>

94 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

95 House of Commons Education Committee (2018) The apprenticeships ladder of opportunity: quality not quantity. Sixth Report of Session 2017–19. HC 344. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/344/344.pdf>

96 Department for Education (2019) Apprenticeships and levy statistics: March 2019 (reported to date). Official statistics. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789653/Apprenticeship-and-levy-statistics-Mar2019_.pdf

97 House of Commons (2018) Business, Energy and Industrial Strategy Committee. Small businesses and productivity. Fifteenth Report of Session 2017-19. Link: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/807/807.pdf>

98 Ibid.

99 The Office for National Statistics (2017) Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: ‘the laggards’, 2003 to 2015. Accessed on 8 April 2019. Link: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/understandingfirmsinthebottom10ofthelabourproductivitydistributioningreatbritain/jantomar2017>

100 HM Government (2018) Industrial Strategy: Building a Britain fit for future. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf

101 HM Government (2015) English Apprenticeships: Our 2020 Vision. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/482754/BIS-15-604-english-apprenticeships-our-2020-vision.pdf

102 National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

103 FEWeek (2018) Levy budget bust: Government agency warns of imminent apprenticeship over-spend. By Jude Burke. Accessed on 8 April 2019. Link: <https://feweek.co.uk/2018/12/03/levy-budget-bust-government-agency-warns-of-imminent-apprenticeship-over-spend/>

104 Association of Employment and Training Providers (2018) Effecting a transition to a sustainable apprenticeship system. AELP Submission: #54. Link: <https://www.aelp.org.uk/media/2625/submission-54.pdf>

be sufficient for engaging more small businesses with apprenticeships in the future. Funding and spending challenges might be addressed by:

- lowering the threshold for paying the levy
- increasing the rate to generate more funds (from 0.5%)
- reducing the upper limits of funding bands
- increasing co-investment for higher and degree level apprenticeships
- funding different levels
- introducing contributions from apprentices
- reducing the level of funding for certain types of apprenticeship
- reducing the scope of existing standards

There is also a wider debate about whether apprentices should be funded through the levy or through general taxation. With regard to the latter, FSB is clear that small firms already face unfair burdens related to existing regulatory and tax obligations, particularly the out-dated business rates system. Therefore, the best way to address the problem of apprenticeship funding may be to increase the levy rate, while also finding alternative ways to fund higher and degree level apprenticeships. Whichever approach is taken, Government must ensure:

1. Solutions do not result in limiting the number of apprenticeships taken up by non-levy paying employers – including Level 2 and Level 3;
2. There is no reduction in the applicability threshold of the apprenticeship levy;
3. Funding arrangements are confirmed as soon as possible to give confidence to all stakeholders involved.

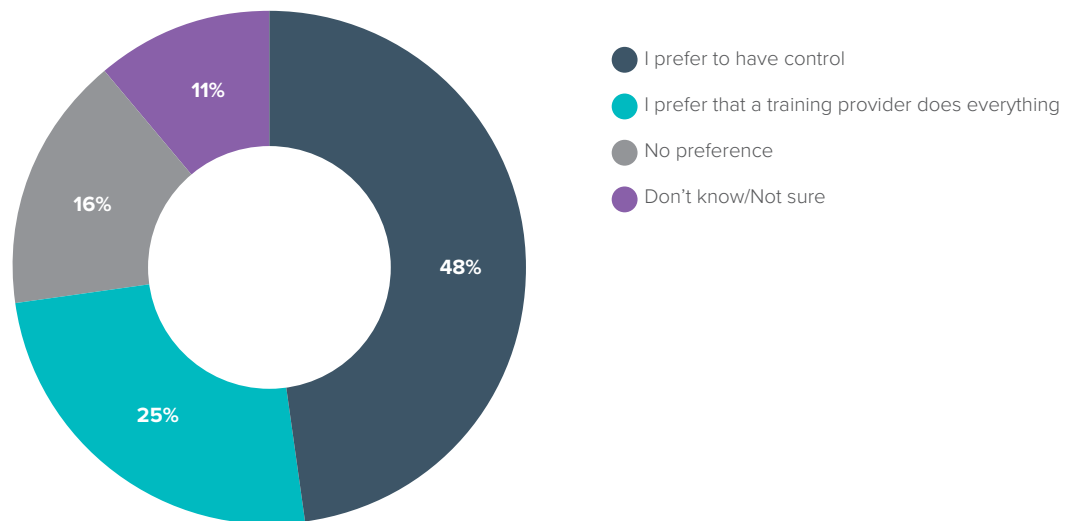
The Apprenticeship Levy Review and the 2019 Spending Review present an important opportunity to examine the apprenticeship funding system and increase the budget to protect the future of apprenticeships in small businesses. As part of these reviews, the Government must ensure that smaller firms are not treated unfavourably and prevented from continuing to engage with apprenticeships.

Apprenticeship Service

The current plan is that non-levy-paying employers will gradually transition to the digital apprenticeship service, which has been recognised as one of the successes of the reformed system.¹⁰⁵ There is a risk that administrative burdens and costs will increase because of the requirement to use technology. Previous FSB research showed that 26 per cent of business owners in England lack confidence in their basic digital skills.¹⁰⁶

Recent FSB research shows that, of those smaller firms that have employed, currently employ, or would consider employing an apprentice, 48% say they would prefer to maintain control over the recruitment and administration process (Figure 17).

Figure 17: Small business views on apprenticeship recruitment and administration
Source: FSB Apprenticeships Survey, 2018



Therefore, the Government should enable the transition of small businesses onto the Apprenticeship Service and put them in control of the non-levy apprenticeship funding, including claiming the incentives for hiring particular age groups for eligible employers, through the Service. Permitting small businesses to manage their funding will enable them to take ownership of apprenticeships and engage with the system in a more efficient manner. The Government should provide support and messaging to non-levy-paying employers to support this transition, especially for those who lack confidence in their digital skills.

The Apprenticeship Service has a significant amount of potential and, if adequately designed and implemented, it could practically address a number of apprenticeship challenges. Firstly, it could provide a matching service for levy-paying and non-levy-paying employers in a specific sector or local area to connect and transfer levy funds. Secondly, it could ease the process of finding a training provider for smaller firms – particularly for those located in rural communities – by listing nearest providers (by subject expertise, methods of teaching and rating of quality). Finally, it could support small businesses coming together to increase aggregate demand in order to get best value from providers. The feedback feature for employers to rate providers on the service and the functionality permitting providers to create cohorts on behalf of employers are welcome improvements.^{107,108} However, more needs to be done to address all the challenges and incorporate new features as the service evolves.

¹⁰⁵ Education and Skills Funding Agency (2018) Apprenticeship Service transition, acting on user feedback. News Story. Accessed on 8 April 2019. Link: <https://www.gov.uk/government/news/apprenticeship-service-transition-acting-on-user-feedback>

¹⁰⁶ FSB (2017) Learning the Ropes: Skills and training in small businesses. Link: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

¹⁰⁷ ESFA Digital (2018) New feedback feature for the apprenticeship service. Accessed on 8 April 2019. Link: <https://sfadigital.blog.gov.uk/2018/09/26/new-feedback-feature-for-the-apprenticeship-service/>

¹⁰⁸ ESFA (2018) New apprenticeship service functionality allows providers to create apprenticeship cohorts for employers. Accessed on 8 April 2019. Link: <http://feconnect.sfa.bis.gov.uk/blog/uncategorized/new-apprenticeship-service-functionality-allows-providers-to-create-apprenticeship-cohorts-for-employers/>

Technical education

The Government would like to ensure that all young people graduating from schools in England are presented with two routes: academic and technical.¹⁰⁹ The technical education will include T levels and apprenticeships, both of which will be based on the same occupational standards. T levels will be two-year classroom-based programmes that will include a minimum 45-day industry placement. The first three programmes in digital, construction and education and childcare will be launched in September 2020. The remaining T levels will be introduced from 2022 onwards.¹¹⁰

FSB research shows that just six per cent of small businesses would offer industry placements as they are currently proposed.¹¹¹ The Government should provide smaller firms with financial assistance, incentives and clear guidance and support in order to encourage their involvement and create enough industry placements to meet the demand. Indeed, research commissioned by the Department for Education found that employers require clear information and support, including financial assistance, to make informed decisions about engagement with T levels.¹¹²

In addition, Government must clarify progression pathways within technical education across apprenticeship levels and T levels, and the interaction between these two technical options. Progression routes for individuals who embark on an apprenticeship journey are unclear. There is a need to explicitly outline these pathways for apprentices.

FSB is concerned that individuals who have completed a Level 3 or higher T level will not be deemed by employers as equally qualified as apprentices who completed Level 3 or higher apprenticeships, given the differences in the time dedicated to on-the-job learning. It might, therefore, be important to permit individuals who complete a T level to start on a Level 2 apprenticeship if needed (not possible under the current rules) until the T levels have a more established position. Government should also review the education system – particularly the interaction between higher education and technical education – and better support smaller firms to develop their apprentices or other employees through education and boost higher level skills.

¹⁰⁹ Department for Education (2017) Post-16 technical education reforms. T level action plan. October 2017. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760829/T_Level_action_plan_2017.pdf

¹¹⁰ Department for Education (2018) T Level Action Plan 2018. December 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766726/T_Level_action_plan_2018.pdf

¹¹¹ FSB, Skills and training survey, April 2017.

¹¹² Department for Education (2018) Employer engagement and capacity to support T Level industry placements. August 2018. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737471/Employer_Capacity_Report.pdf

Recommendations

Government should:

- **Put the apprenticeship funding on a sustainable footing and ensure that small businesses are not excluded from the apprenticeship system.** The Department for Education predicts there will not be an underspend in 2019-20 and that, on the basis of current trends, there could be a significant overspend by 2021.¹¹³ The vast majority of small businesses are non-levy paying employers and rely on unspent funds to cover the majority of their training and assessment costs for the apprentices they take on. To better cope with fluctuations in demand, Government should explore the possibility of taking apprenticeship funding from annually managed expenditure, rather than from departmental expenditure limits. There are three red lines for smaller businesses:

 - Solutions must not result in limiting the number of apprenticeships taken up by non-levy paying employers – including Level 2 and Level 3;
 - There must be no reduction in the threshold for the applicability of the apprenticeship levy; and
 - Funding arrangements must be confirmed as soon as possible to give confidence to all stakeholders involved.
- **Put small businesses (the vast majority of whom are not levy-payers) in control of non-levy apprenticeship funding through the Apprenticeship Service after their migration to the Service.** Permitting small businesses to manage apprenticeship funding, including claiming the incentives for hiring particular age groups for eligible employers, will enable them to take greater ownership and engage with the system in a more efficient manner. Government should allow for an adequate transition period and provide appropriate support to non-levy paying smaller businesses as they are transitioned onto the Apprenticeship Service.
- **Develop a functionality within the Apprenticeship Service to support those non-levy paying smaller businesses who are recruiting an apprentice for the first time.** This could include providing general information and signposting on employment law issues.
- **Develop a ‘matching service’, hosted via the Apprenticeship Service, to support levy-paying employers to pass on unused funds to non-levy-paying employers.** This could help businesses to find each other through the Service to transfer or receive funds in the appropriate locality and/or sector and/or supply chain. More generally, larger employers should be able to use functionality within the Apprenticeship Service to support smaller businesses within their supply chains, for example around queries on employment law or contractual issues. This would be a particularly useful service for those that have not recruited an apprentice before.
- **Clarify progression pathways within technical education across apprenticeship levels, T levels and the interaction between these two technical education options.** There is a need to explicitly outline the pathways between different levels for apprentices, as well as T levels. Government should help businesses to understand how their apprentices or other employees could grow through education and develop higher level skills.

¹¹³ National Audit Office (2019) The apprenticeships programme. Link: <https://www.nao.org.uk/wp-content/uploads/2019/03/The-apprenticeships-programme.pdf>

CONCLUSION

Small businesses are crucial to driving productivity across the country and require skills that will enable them to prosper. Although smaller firms continue to offer apprenticeships to grow their workforce, this report raises serious concerns about the future of apprenticeships for small businesses, which need to be urgently addressed. To begin with, this report highlights that the number of apprenticeship starts at Level 2 and Level 3 has significantly declined.

Secondly, small businesses are heavily reliant on the Level 2 and 3 frameworks (Level 2 and 3 apprenticeships account for 87 per cent of all apprenticeships taken up by smaller businesses). This means that the number of apprenticeships offered by small businesses may further decrease in the next couple of years. The situation will be exacerbated by the complete withdrawal of apprenticeship frameworks on 31 July 2020. Where standards do not replace existing frameworks, small businesses will struggle to find the right training and assessment for their business.

Thirdly, the cost of delivering apprenticeships in small businesses has also increased, which has had an impact on the capacity of small businesses to hire apprentices. 10 per cent co-investment and a minimum 20 per cent off-the-job training act as obstacles that prevent many small businesses from taking on apprentices. The former is a bigger barrier for microbusinesses whilst the rules for off-the-job training are misunderstood by most employers and training providers. The decision to reduce the co-investment down to five per cent is, therefore, welcome but it only addresses a minor part of a major problem. We now need to see a reform of the operation of the explicit requirement for a minimum of 20 per cent off-the-job training. Importantly, the time allocated for the off-the-job training should not be the sole determinant of the quality of apprenticeship.

Fourthly, there has been a deterioration in the quality of training and assessment provision across England. It has become less financially viable for training providers to deliver training to non-levy-paying employers as a result of policy changes. Small businesses struggle with finding a training provider, let alone an organisation with a good quality training that keeps them informed about their apprentices' progression. Small businesses face all the disadvantages of the old provider-led system without any of the advantages of the new employer-led system. The challenges with assessment organisations will further complicate the already concerning situation as most assessments commence in 2019.

Finally, there are legitimate concerns about the future of the apprenticeship funding system, given that standards are more expensive than frameworks. The higher cost of apprenticeship standards will lead to a faster exhaustion of levy funds, which currently cross-subsidises support for small businesses offering apprenticeships, creating further potential barriers for small business engagement with apprenticeships in the near future. If no alternative funding is provided, there will be no commercially viable way for small businesses to sustain employment of apprentices.

There are significant risks that the situation will worsen as the apprenticeship system evolves. It is important that the Government acts quickly to mitigate these risks immediately to ensure small businesses continue to engage with the apprenticeship system. Without smaller firms, which represent a significant proportion of all businesses in England and are spread evenly across the country, apprenticeships will become a commodity accessible only to a limited pool of levy-paying employers that concentrate in urbanised or affluent areas. This will increase skills shortages and skills gaps and have a negative impact on productivity and also lead to restricted social mobility and increased social inequality.

It is safe to conclude that the 'significant scope for growing apprenticeships' has not yet been met. The 2017 reforms this report has focused on, have negatively affected the engagement of small businesses with apprenticeships. Smaller businesses should be at the vanguard of apprenticeships – the Government must act now to make a reality of this.

METHODOLOGY

FSB members in England were surveyed in October/November 2018 to understand the impact of apprenticeship reforms. The research was administered by Verve, an independent market research agency operating on behalf of FSB. The survey was answered by 1665 small businesses, many of which had first-hand experience of the new apprenticeship system.

In addition, FSB hosted two focus groups in December 2018 to explore in greater depth a number of issues that came out of the survey. Some of the issues that emerged in the focus groups are included in the report as case studies.

Finally, this report references a range of secondary sources and was also informed by discussions with a range of key sources over the past six months. These sources included Government Departments, academics, membership organisations and a range of large and small employers.

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