

## London Chamber of Commerce and Industry's response to the London Assembly Economy Committee's investigation into apprenticeships in London

### Introduction

1. London Chamber of Commerce and Industry (LCCI) is the capital's largest independent business advocacy organisation. We represent the interests of firms of all sizes, from micro-businesses and sole traders through to large, multi-national corporates, across all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.
2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and London Assembly, Parliament and media, as well as international audiences. Through business surveys and commissioned research, LCCI seeks to inform and shape debate on key business issues.

### Is the current apprenticeship system delivering outcomes for employers, such as providing a skilled workforce and enabling existing members of staff to upskill?

LCCI has conducted numerous skills and labour surveys over recent years, with the aim of providing information on how the current skills system does – and does not – work for London businesses. LCCI's work with London Councils on the London Business 1000 – an annual survey of London businesses that features skills questions – has repeatedly highlighted that take-up of apprenticeships in London is low: indeed, in the latest survey for 2021, just 7% of London business leaders said their firm employed an apprentice.<sup>1</sup>

There are significant differences in take-up of apprenticeships based on business size, with a clear steer that capacity to manage apprentices within companies is vital to engagement. In the 2021 London Business 1000, 7% of micro businesses said they employed apprentices compared to 30% of medium-sized firms and 42% of larger companies.<sup>2</sup> These differences indicate that the smallest companies in London – who account for 98% of London's business population – are not benefitting from the apprenticeship scheme as nearly all are not engaged.

It is clear that for those businesses who do employ apprentices, their satisfaction with the scheme is high.<sup>3</sup> The benefits for employers ranged from developing skills relevant to the business, increased productivity, and staff morale. Most businesses who employed an apprentice felt satisfied with the quality of applicants. Nevertheless, if most London businesses do not use the scheme, these benefits will not be realised.

### What has the overall impact of the apprenticeship levy been? What has worked well and what needs to improve, particularly for small and medium-sized businesses?

The apprenticeship levy remains for a large section of London businesses a confusing mechanism. According to LCCI and London Councils research, 38% of businesses did not know whether their firm was required to pay the levy.<sup>4</sup>

<sup>1</sup> London Business 1000, November 2021, <https://www.londonchamber.co.uk/news-and-insights/news/press-releases/new-report-finds-fear-of-another-lockdown-looms-la/>

<sup>2</sup> In the London Business 1000 survey, micro / small firms are defined as having 1-49 employees, medium-sized firms as having 50-249 employees, and large firms as having 250 or more employees.

<sup>3</sup> Apprenticeship evaluation 2018 to 2019: employer survey, Department for Education

<sup>4</sup> London Business 1000 2021

Only 9% of London firms said they intended to use the available apprenticeship funding over the next 12 months, with more than three-fifths (62%) saying they did not intend to use the available funding.<sup>5</sup> Again, there are significant variations based on business size: 8% of micro / small firms said they would access the funding, compared to 28% of medium-sized firms and 29% of large businesses.

Assessing the impact of the levy, the London Business 1000 2021 report showed 39% of London firms who do intend to use available apprenticeship funding will do so to employ a greater number of apprentices. Close to a third (31%) said they would use the funding to employ the same number of apprentices as they do currently, while 24% would train existing employees as apprentices.

Encouragingly, research from Centre for Vocational Education Research (CVER) points to the levy having a positive impact on engagement with apprenticeships, with levy-paying businesses more likely to employ an apprentice compared to their non-levy paying counterparts.<sup>6</sup> However, changes need to be made to levy system in order to maximise the benefits for London's small and medium-sized companies. Of those firms who had planned to use available levy funds, 43% said they would not use more than half.<sup>7</sup> This leaves a significant amount of levy spend that could be reallocated to other companies.

Changes have been made to the levy transfer process, and these are welcome, but there are still restrictions on the actions these transferred funds can be used for. Indeed, employers who use transferred levy funding should be permitted to allocate some of the money for pre-employment training to get people ready for an apprentice.<sup>8</sup> In addition, firms should be able to use levy transfer spend to employ apprentices at level 2. In order to maximise the effect of the apprenticeship levy, particularly in engaging more micro businesses and SMEs, the permitted use of levy funding needs to be widened significantly.

### **What additional barriers are there for employers, particularly small and medium-sized businesses, taking on apprentices?**

In July 2021, LCCI launched its Quarterly Skills Survey to regular assess skills in the capital. In the Q3 2021 Quarterly Skills Survey, businesses were asked if they intended to hire an apprentice in the coming 12 months: only 8% of firms said they planned to hire an apprentice, there were differences based on business size.<sup>9</sup>

Businesses face a multitude of barriers to using schemes such as apprenticeships. More than a third (35%) said that these training schemes do not meet the needs of their company, while a quarter (23%) felt there would be no benefit to their business.<sup>10</sup> The full list of barriers were:

- They do not meet the needs of my business (35%)
- We do not see them as offering a benefit to the business (23%)
- The administration time / workload required (21%)
- The cost of administration and training when employing people through these schemes (18%)
- The management required (15%)
- They do not enable workers to be sufficiently trained (7%)

<sup>5</sup> London Business 1000 2021

<sup>6</sup> The impact of the Apprenticeship Levy on Apprenticeships and other training outcomes, Centre for Vocational Education Research, April 2021

<sup>7</sup> London Business 1000 2021

<sup>8</sup> Reforming Apprenticeships for the Recovery, London Councils

<sup>9</sup> 7% of 'micro' firms said they would employ an apprentice, compared to 27% of 'larger' businesses. In LCCI's Quarterly Skills Survey, micro firms are defined as businesses with 0-9 employees and larger firms are defined as businesses with 10 or more employees.

<sup>10</sup> London Quarterly Skills Survey Q3 2021. Note: businesses were asked 'what, if anything, are the main barriers to your business making use of schemes such as apprenticeships, T-levels, traineeships, internships or the Kickstart Scheme?'

Just over half (51%) of micro businesses said either the costs, administration or management required with employing someone in these schemes was a barrier to engagement.<sup>11</sup> It is clear that in order for the majority of businesses to get the best out of schemes like apprenticeships, more must be offered to help SMEs deal with the additional time and work required. Furthermore, the apprenticeship landscape is a complex one and SMEs need more support in navigating it – understanding the full cost implications, the support that is available, and how to make the most of apprenticeships both for the learner and for the business.

### **What action can the Government and the Mayor take to support the growth of apprenticeships in London?**

The focus of any reforms to apprenticeships must be to make them more attractive to employers. As detailed above, for many firms apprenticeships are not perceived to be a good fit for the business. Firms need to be engaged more proactively on the benefits of taking on an apprentice: indeed, the firms who do use apprenticeships are overwhelmingly positive about the scheme. There must be a focus on the firms who are not engaged with apprenticeships.

One of the key ways to make the scheme more attractive to employers, particularly micro firms and SMEs, is to offload some of the administrative burden that comes with apprenticeships. Many micro firms and SMEs simply do not have the capacity in their business to properly manage an apprentice.<sup>12</sup> The introduction of the London Progression Collaboration is a welcome vehicle for enabling micro businesses and SMEs to navigate the complex apprenticeship system, and efforts should be made to bolster its capabilities as much as possible.

As mentioned previously, the apprenticeship levy should be reformed to allow for more flexibility and enable more firms to make use of available funding. The Government should also consider raising the threshold of transferrable levy funds from 25% to 50%. Given the current skills shortages faced by several industries, the levy could be adapted to focus on priority areas such as social care and hospitality, while also focussing on boosting take-up of groups disproportionately affected by the Covid-19 pandemic – including under 25s, over 50s who have been forced to retrain, and people from minority-ethnic groups.

In addition, the pathways to apprenticeships should be strengthened in order to bring the various training schemes together and enable cohesion in the training system. Traineeships offer such a pathway, and it would be welcome to see that people on the Kickstart scheme are able to transfer easily into an apprenticeship too – even if it is with a different employer. This may be a way of boosting apprenticeship take-up of young people in particular.

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<sup>11</sup> Micro businesses defined as firms with 0-9 employees

<sup>12</sup> Reforming Apprenticeships for the Recovery, London Councils