



LONDON BUSINESS 1000

London's Local Business Survey: Assessing the capital's skills challenge



London Chamber of Commerce and Industry (LCCI) is delighted to have partnered with London Councils for the second year to publish the *London Business 1000* survey. This year's survey provides key insights for policy makers, in Westminster, City Hall and our boroughs, on the need to reform the apprenticeship system and priorities for skills and training provision across the capital. Most fundamentally, the survey indicates that the skills system is not providing what London businesses need. Skills challenges remain across a wide range of areas, including for technical and digital positions, while businesses also continue to be concerned about the employability of new applicants – not least for apprenticeships.

While the devolution of the Adult Education Budget to London is a step in the right direction, much more will be required to enable London government, with its local knowledge and accountability, to effectively address the challenges that have been identified. A key aspect of this will be the devolution of unspent apprenticeship levy funds to London which should include support for small businesses to take on apprentices. More broadly, the working of the apprenticeship levy in the capital must be reviewed, to make it far more effective for employers and in terms of labour market outcomes. I look forward to our continued collaboration with London Councils to bring about these important changes to the London skills system, to help London continue to prosper and grow.

Colin Stanbridge, Chief Executive, LCCI



London Councils really values our partnership with LCCI on the *London Business 1000* survey. The survey helps London boroughs understand the main issues for businesses in the capital, so that we can create the right environment for them to prosper. This is particularly important as London boroughs and the Mayor undertake a business rates retention pilot this year. If local government's future income is to be linked to business growth, we need to fully understand its drivers and barriers and do all we can to support business and good growth.

The focus this year on skills, apprenticeships, recruitment and retention highlights an area where giving London government more powers and levers could really help business to prosper. London Councils has long argued that the current skills system is too centralised and does not fully deliver the outcomes businesses want or that Londoners need to progress. The survey results support this view – skills shortages are the main concern for businesses in this area, especially technical and digital skills. Likewise, the different results across London's sub-regions show that we need an agile skills system that reflects the diversity across London's boroughs. London needs a more ambitious devolution deal on skills from the government. I look forward to working closely with LCCI and businesses more widely to see where we can work together to create prosperity that many more Londoners can benefit from.

Cllr Clare Coghill, Executive Member for Business, Europe and Good Growth, London Councils

ABOUT 'LONDON BUSINESS 1000'

This year, for the second time, LCCI and London Councils have commissioned leading polling company ComRes to undertake a *local business survey* of Greater London.

The survey considers a range of topics that affect the capital's business community, including recruitment, training, skills needs and apprenticeships. Data has been collected for London as a whole, as well as the sub-regions of Central, East, South and West London.*

The survey is based on responses from over 1,000 businesses – the *London Business 1000* – spread evenly across the four London sub-regions. The survey will be repeated again in 2019.

METHODOLOGY

ComRes surveyed a total of 1,020 London business leaders between 15 May and 20 June 2018, and a further 1,018 between 27 April and 2 June 2017. All data has been weighted to be representative of businesses both in London and in each of the sub-regions, by borough, company size, and broad industry sector. *Sole traders have been excluded from the analysis.*

Two categories are used for business size segmentation: micro businesses with fewer than 10 employees, and larger (small, medium and large) businesses with 10 or more employees.


ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at www.comresglobal.com. *Any data reproduced from the report should be fully referenced.*

* 'Central' includes Lewisham, Southwark, Lambeth, Wandsworth, Kensington & Chelsea, City of Westminster, City of London, Tower Hamlets, Hackney, Islington, Camden, and Haringey; 'East' includes Enfield, Waltham Forest, Redbridge, Newham, Greenwich, Bromley, Bexley, Barking & Dagenham, and Havering; 'South' includes Croydon, Sutton, Merton, Kingston upon Thames, and Richmond upon Thames; 'West' includes Hillingdon, Harrow, Ealing, Hounslow, Hammersmith & Fulham, Brent, and Barnet.

- This is the second annual survey of a three-year project to help build a more strategic partnership between London boroughs and London businesses. This year's survey asked more than 1,000 London business leaders about the skills and recruitment challenges their companies faced and their views on training and apprenticeships.
- The most common roles identified as facing skills challenges are **skilled manual/technical roles**, followed by professional and managerial roles. The results vary by business size and sector. Technical or job-specific skills, followed by advanced or specialist IT skills are the top workforce skills shortages. Improving employees' digital skills is also a high priority.
- Results about recruitment challenges reinforced this picture, with three in ten companies who tried to recruit over the past 12 months stating job candidates lacked technical or job-specific skills. A lack of literacy and written communication skills and commercial awareness were also prevalent.
- **Access to relevant technical skills, improving digital skills and better employability skills for job candidates should be a focus for London.** National initiatives such as the introduction of T Levels and Institutes of Technology may help to address skills needs, but they do not go far enough. The devolution of the Adult Education Budget to the Mayor of London is an important opportunity to ensure skills provision better meets the needs of business. But it is only a small part of the system. The government should move rapidly to progress devolution of 16-18 skills provision, vocational capital investments, careers information, advice and guidance, as well as the apprenticeship levy, starting with unspent levy funds. **This would give London government the tools it needs to meet the considerable skills challenges identified** throughout this survey.
- The government has set an ambitious target to create three million apprenticeships by 2020. To this end, there have been substantial changes to apprenticeship policy, including the introduction of the apprenticeship levy in April 2017. Compared to last year's survey, **the percentage of London businesses that employ apprentices has increased from 8% to 17%, but there has not been a significant increase for non-levy payers.**
- Measures that businesses identified to help increase the number of apprenticeships include more financial support for training and wages, if candidates were better prepared for work, more and better information about apprenticeships and simplifying the apprenticeship system.
- 14% of respondents said they will have to pay the apprenticeship levy. Worryingly, four in ten of them did not expect to use any of their funds over the next 12 months, with another 40% expecting to spend just 50% or less. This suggests there will be **significant underspend of levy funds in London.** Levy payers stated that simplifying the levy system and turning it into a wider training levy would be the most effective way of improving the system.
- It is clear that at the moment the levy is not working well for London businesses. **The government and Mayor should review the apprenticeship levy in London and introduce more flexibility into the system.**
- London boroughs, business, the Mayor and skills providers should work closely together to address the issues highlighted in this report, increase economic growth and productivity in the capital, whilst making sure more Londoners will be able to benefit from this.

This year's survey aimed to provide a better understanding of business skills needs and challenges in the capital. London local government and business need to work together to understand employer needs – sub-regionally, locally and by type of business and sector. This is particularly important with the devolution of the Adult Education Budget to the London Mayor in 2019, to ensure the capital's skills policy is aligned with the needs of London employers.

Of the main skills and labour market challenges London businesses identified, **skills shortages among job applicants** (28%) was most commonly expected to be an issue over the next twelve months, followed by Brexit (identified by 22%).¹ This was consistent across all sub-regions. In Central London, businesses were more likely to see Brexit as the main challenge in regard to skills and the labour market (28%) compared to businesses in other sub-regions (17%-22%).



Brexit was the second most frequently identified skills challenge among London businesses (22%).

"Skills is the most pressing area where we face challenges in. It has always been a problem in engineering. People who are coming to you for jobs are not suitably qualified, and what they are also not is experienced, now training is being so short. I run a small business, and I cannot fill the vacancies I have, so it does limit your growth – even though we pay well above the going rate. Because the most important thing in the industry we are in, delivering a service, is to get the right people. Otherwise you will fail."

Martin Lewis, Chief Executive, NCPI Solutions

- Some key differences were identified within the business community. For example:
- In most areas that were tested larger businesses² were more likely to expect challenges in terms of skills and the labour market over the next twelve months than micro businesses.³
 - Looking at specific sectors, skills shortages among job applicants was significantly more likely to be seen as a challenge in the property and construction sector (38%) than among businesses in most other sectors.
 - Brexit formed the main skills challenge for the transport, logistics and storage sectors (33%) and the accommodation, food, arts and entertainment sectors (25%).
 - Pressure to increase wages was more likely to be seen as a challenge by businesses in East London (22%), compared to other sub-regions (12-16%).

Just one in five (19%) businesses said they did not foresee any skills and labour market challenges over the year ahead.

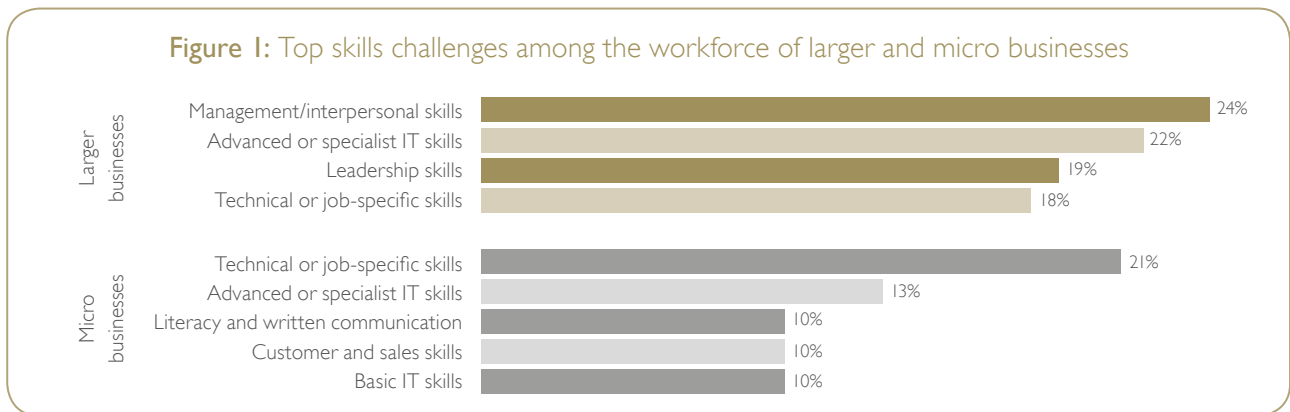
Skilled manual/technical roles were most likely to be identified as roles where businesses faced skills challenges (by 42% of respondents), followed by professional and managerial roles (30%) and unskilled/semi-skilled roles (at 22%).

The results varied by size of business – half of larger firms identified professional and managerial roles as facing skills challenges (51%) compared to only 28% of micro businesses. Larger businesses were also significantly more likely to identify un/semi-skilled roles as being a skills challenge within their business (30%), compared to only 21% of micro businesses.

Again, there were clear differences between sectors. For example, skilled manual/technical roles were significantly more of a challenge in terms of skills for the property and construction sector (51%) than for the finance and business administration sector (35%). The reverse was true for professional/managerial roles.

Looking at the sub-regions, East London businesses differed significantly from those in other parts of the capital – with a particular focus on skills challenges in skilled manual and technical roles (50%, compared to 37-41% elsewhere) and un/semi-skilled roles (30% compared to 16-23% elsewhere).

Three in five (61%) business respondents identified at least one type of skill shortage among their current workforce, with technical or job-specific skills most commonly identified (20% of respondents), followed by advanced or specialist IT skills (13%). Again, skills challenges varied significantly between micro and larger businesses.



¹ Other challenging factors were pressure to increase wages (16%), the time and cost required to recruit new workers (15%) and a lack of applicants for vacancies (14%).
² Small, medium and large businesses with 10 or more employees.
³ Businesses with fewer than 10 employees.

For example, for larger businesses, management skills (24%) were the main challenge, whereas for micro businesses the main concern was technical or job-specific skills (21%). Interestingly, advanced or specialist IT skills were the second most common type of skill where both micro businesses and larger businesses faced challenges (13% and 22% respectively) – supporting the emphasis on digital skills in the Mayor's Skills for Londoners strategy.

These survey results indicate that many London businesses continue to face significant skills gaps in their workforce.

Asked about ways they address these and acquire new skills for the business, more than half of respondents (53%) said they preferred training existing staff, whereas two in five (38%) deemed the recruitment of new staff a more important method. These results were consistent among the four sub-regions and when comparing business size and most of the sectors.

The remainder of this report will discuss both of these vital areas: the need to address businesses' opportunities for training, and strengthen the skills base across the wider London labour market.

PART 2: RECRUITMENT CHALLENGES

Three in five (59%) companies who tried to recruit encountered difficulties recruiting new staff over the past 12 months.

Acquiring a better understanding of the recruitment challenges London businesses face has been a primary aim of this year's survey.

Like last year, 55% of respondents reported that they had been recruiting or trying to recruit staff over the past twelve months.⁴ Of those, the majority (51%) were hiring for skilled manual/technical roles, with no significant differences between larger and micro business. This was followed by professional/managerial positions (43%) – which were more in demand among larger businesses⁵ – and un/semi-skilled (36%) and clerical roles (27%).

Understandably, there were significant differences between sectors. For example:

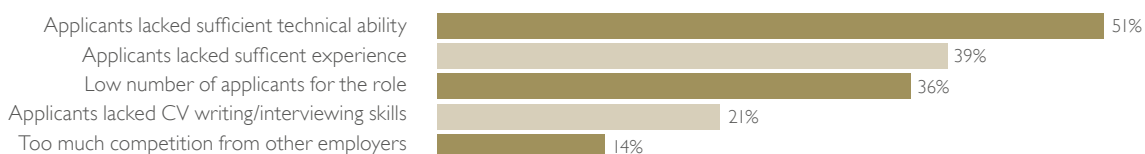
- More than six in ten (63%) companies in the property and construction sector hired for skilled manual/technical roles, compared to four in ten accommodation, food, arts and entertainment companies (37%) or finance and business administration companies (39%);
- Half (52%) of wholesale, transport and storage firms hired for un/semi-skilled roles compared to, for example, three in ten (28%) firms in the ITC and professional/scientific sector.

Looking at the challenges they faced, **businesses were most likely to experience difficulties when hiring for skilled/manual technical roles (59%)**, followed by professional/managerial (55%) and un/semi-skilled positions (53%).

East London businesses were significantly more likely to face challenges when recruiting for both skilled manual/technical (72%), and professional managerial roles (70%) when compared to most other sub-regions.⁶ In contrast, no significant differences could be identified between the broad industry groups.



Figure 2: Main difficulties encountered by London businesses when recruiting



When asked about the *main challenges* businesses faced when recruiting, **half (51%) said they experienced difficulties caused by the lack of sufficient technical ability/skills among applicants**, which was again more likely to be an issue in East London (61%) than for example in South (43%) or West London (45%). Other main difficulties included lack of sufficient experience among applicants (39%), not enough people interested in the role (36%), a lack of CV writing or interviewing skills (21%) and too much competition from other employers (14%).

Looking more specifically at the skills that were lacking among candidates, **31% of companies who recruited or tried to recruit in the past 12 months reported a lack of technical or job-specific skills**, while 18% said applicants were missing literacy and written communication skills and 17% believed candidates lacked commercial awareness. Larger businesses more frequently reported a lack

⁴ Half (53%) of micro businesses made attempts to recruit staff over this period, while for larger business the figure stood at 76%

⁵ 64% among larger businesses compared to 40% among micro businesses.

⁶ For example, in South London 47% experienced difficulties hiring for professional/managerial positions, and 52% for skilled manual/technical roles.

of advanced or specialist IT skills (26%) among their candidates than micro businesses (11%), and overall, **East London businesses significantly more often reported skills deficits among their candidates than businesses in some of the other sub-regions.**⁷

In terms of sectors, finance and business administration and property and construction firms stood out, with significantly more skills gaps among applicants than in some of the other sectors. For example, 24% of finance and business administration firms reported a lack of basic numeracy skills compared to 6% in the accommodation and food industry, 7% in the public administration industry, and 9% in the retail sector (and 12% overall).

What is clear from the above is that London businesses face substantial challenges when recruiting. Some of these are likely to be caused by the current tight labour market conditions, increasing competition among employers and reducing the number of applicants for roles. However, an important part can also be attributed to a lack of skills among many applicants. Foremost, the survey demonstrates that **access to technical skills remains a key challenge amongst the capital's businesses.**

Much is happening in this space already, including efforts to create more high-quality apprenticeships, introduction of T Levels and the establishment of Institutes of Technology across the country.

However, there is concern this will not go far enough to supply London with the skills it needs. For example, apart from ongoing issues with the apprenticeships system as discussed in Part 3 of this report, the introduction of T Levels will place significant capital requirements on providers to deliver on what is required. While the government has announced £500 million funding per year to support the work placement element of the T Levels, there is no recognition of the investment needed to bring parts of the Further Education sector up to industry standard and to create more places. Sufficient funding needs to be provided, in a timely manner, to support this.

More fundamentally, the survey results suggest that the current centralised skills system is not delivering the skill levels businesses need. To address this, **increased devolution of skills funding to the capital is needed.** Local government, with its firm democratic mandate and local knowledge is best placed to respond to the needs of both its local residents and business community. Further devolution will help boost transparency and accountability, and can raise the effectiveness of service delivery, helping to meet London's needs.

The devolution of the Adult Education Budget to London is welcome, but to make a more substantial impact a wider package of skills devolution is required, including 16-18 skills provisioning, all vocational capital investments, careers information, advice and guidance, as well as the apprenticeship levy, starting with unspent levy funds (as discussed in the next part of this report). This will help tailor provision to business needs and boost the skills supply for London businesses, and should enhance productivity levels across the broader economy.

Through the devolved budgets, the Mayor will then have the ability to encourage training providers to work far more closely with businesses to inform vocational training. This is a vital ingredient to ensuring the quality and effectiveness of the programmes and is an area where substantial progress can still be made.

In addition to technical skills, more emphasis is needed on employability skills which should form an integral part of the education and skills system. As highlighted by the survey, there are continued concerns among London businesses about this area, and the Mayor should focus on this as part of his devolved Adult Education Budget, integrating employment and skills support.

SUBREGIONAL RESULTS

Since 2000, London has had two tiers of local government: the Greater London Authority, and 33 local government administrations (32 borough councils and the City of London). Within this system, a new development can now be identified: **the rise of sub-regional groupings** of London's local authorities.

These groupings, or 'strategic partnerships' aim to build on the distinct local insights, networks and capabilities of local administrations, but work together on issues where cooperation can add value to what individual boroughs can achieve on their own, for example in relation to generating efficiencies and growth.

At present, four of these strategic partnerships have been formed throughout the capital:

1. Central London Forward
2. Local London (covering east and parts of North London)
3. South London Partnership; and
4. West London Alliance.



⁷ For example, 20% of East London businesses reported a lack of basic numeracy skills among their candidates, compared to 8% among Central and 7% among South London businesses. For basic IT skills, the figure was 16% among East London businesses, 7% among Central London businesses and 6% among South London businesses.

A key area where the role of the sub-regional partnerships is now on the rise is in relation to London's skills system – in particular the devolution of the Adult Education Budget to the Mayor from 2019. Specific devolved arrangements are still being considered⁸ but it is clear that the Mayor of London recognises that the sub-regional partnerships are in a strong position to understand the skills needs of their residents as well as the demand from their businesses and sub-regional economies and need to play an important role.

To this end, it will be important to know what the priorities are of businesses in the different areas, to ensure the system will be responsive to employment needs, and successful in equipping Londoners to get a job or increase their wages.

The *London Business 1000* aims to contribute towards this goal and collects specific sub-regional data on a wide range of topics as set out in this report.

Throughout the survey, many statistically significant variations were identified between business communities in London's sub-regions, even when controlling for business size and broad industry sector, including:

Skills and labour market challenges

- Pressure to increase wages was identified as a key challenge for 22% of East London businesses, compared to 12% of South, 15% of West, and 16% of Central London businesses. Meanwhile Brexit was identified as a key issue for 28% of Central London firms, and for just 17% of South and 19% of West London respondents.
- Skilled manual/technical roles formed a skills challenge for half of East London firms (50%), compared to between 37% and 41% in the other sub-regions.
- Retraining existing employees for a new role was a high priority for 31% of East London businesses, while this was the case for just 18% of Central London, and 22% of South London firms.

Recruiting new staff

- Seven in ten (72%) East London businesses encountered difficulties when recruiting for new roles compared to between 52% and 57% of businesses in the other sub-regions. These difficulties were particularly pronounced for skilled manual/technical roles.
- 61% of East London businesses listed a lack of sufficient technical ability/skills as a main difficulty when recruiting, compared to 43% in South and 45% in West London.
- When identifying skills lacking among candidates, there were significant differences between sub-regions among those businesses who had recruited over the past 12 months. A fifth (21%) of Central London businesses reported a lack of customer and sales skills, compared to just 6% in South and 9% in West London. Basic numeracy skills were more of an issue in East London (20%) than in Central (8%) or South London (7%).

Training and apprentices

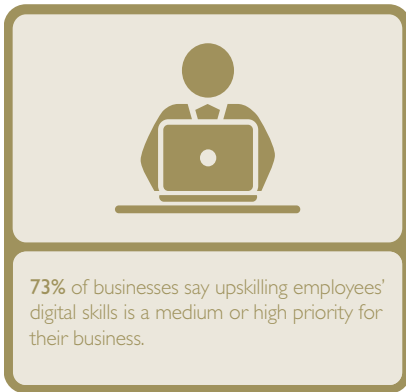
- Just 8% of Central London respondents currently employ an apprentice compared to 22% in West, 21% in East and 17% in South London. Looking forward, three in ten West (31%) and East London firms (31%) expect to use apprenticeship funding over the next 12 months compared to a fifth (22%) of Central London businesses.
- Businesses in South (53%) and East London (51%) more often said that candidates being better prepared for the world of work would make it more likely for them to hire apprentices, when compared to their Central London counterparts (41%).
- When asked about reasons why they were not planning to use apprenticeship funding over the next 12 months, 18% of East London businesses reported providers do not offer suitable training near to the business, compared to 5% of Central London businesses and 10% of South London businesses.

In addition to differences between the sub-regions, further variations can be observed within these groups, including when looking at business size and sector segmentation, and as a result of the wider composition of the sub-regional economies.

These differences will have to be considered when developing tailored approaches for London's sub-regions.

⁸ Mayor of London (2017) *Skills for Londoners: A draft skills and adult education strategy for London*.

PART 3: TRAINING AND APPRENTICESHIPS



17% of London businesses currently employ an apprentice, up from 8% last year.

When it comes to training existing employees, the survey indicates that up-skilling employees is more of a concern than retraining them, helping provide further education or secondment opportunities.

Four in ten London businesses (39%) indicate that up-skilling employees' digital skills is a high priority for their business, and a further 34% say it is a medium priority. Meanwhile, up-skilling employees in other areas is a high priority for a third of respondents (34%) – with a significantly higher figure in East (38%) than in central London (29%).

A quarter of companies (24%) say retraining their employees for a new role is a high priority.

This is a particular priority for the retail sector (identified as a high priority by 34% of retail businesses), compared to sectors such as property and construction (23%) and ITC and technical (21%). This is perhaps a reflection of the pressures on the traditional operating models in the retail sector, including those from automation and online sales.

An important way of training current and new employees which has received renewed attention in recent years is through apprenticeships.

The government has set an ambitious target to create three million apprenticeships by 2020. As part of this, there have been substantial changes to apprenticeship policy, with the introduction of the apprenticeship levy on large firms and a requirement for small businesses to contribute 10 percent towards the cost of apprenticeship training. The reforms aim to put employers at the heart of the policy, including in developing new apprenticeship standards.

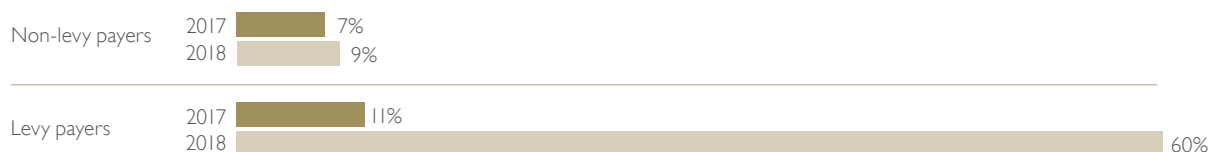
By comparing some questions that were asked in the first year of the survey with this year's edition, we can start to get an understanding of the impact of the changes to the apprenticeship system on businesses' activity and attitudes towards apprenticeships.

One in six London businesses (17%) in the survey currently employ an apprentice, which is an increase of 9 percentage points on last year.⁹

With the introduction of the apprenticeship levy in April 2017, the percentage of firms that employ apprentices went up significantly for levy paying businesses: from 11% last year to 60% this year. Meanwhile, there has not been a significant change for non-levy payers (from 7% to 9%).

Although it is understandable that the majority of levy paying firms now employ apprentices, it is concerning that among non-levy payers, which form the bulk of the capital's business community, there has not been a larger uptake. This is in line with other, mixed results released over the past few months.¹⁰

Figure 3: Employment of one or more apprentices by levy payers and non-levy payers in April-June 2017 and May-June 2018



Looking at the different sub-regions, businesses in Central London were significantly less likely to employ apprentices (8%) compared to between 17% and 22% in the other areas.

Additionally, 30% of larger businesses employed apprentices whereas this was the case for just 16% of micro businesses. However, excluding levy payers there was no significant difference between the two categories (10% among micro businesses and 16% among larger businesses¹¹). In terms of sectors, accommodation, food, arts and entertainment businesses were significantly less likely to employ apprentices (6%) than businesses from other sectors (15-24%). This is a concern, given this sector's high reliance on EU staff. Brexit may result in skills shortages for this sector that it needs to prepare for, but apprenticeships currently do not seem to be an attractive option.

⁹ Although it should be emphasised that these figures are for the number of businesses that employ apprentices, not for the amount of apprentices they employ.

¹⁰ The latest decline in apprenticeship numbers was announced on May 17. Some 232,700 apprenticeships were begun, compared to 309,000 a year ago.

¹¹ This should be treated as indicative due to a low base size for larger businesses excluding those required to pay the apprenticeship levy (n=76).

Looking to the future, a quarter of businesses (27%) plan to use apprenticeship funding over the next 12 months – up from one in five (20%) last year. This goes up to around six in ten for businesses that have to pay the levy,¹² compared to 22% for businesses that do not have to pay the levy. Additionally, the figure is significantly lower for businesses in the accommodation, food, arts and entertainment sector (13%) and finance and business administration sector (21%) than for the other industries (26%-45%).

Of those businesses planning to use apprenticeship funding, the majority (54%) will bring more apprentices into their business and a quarter (27%) will employ the same number of apprentices as before the funding changes. Additionally, a quarter (24%) will use apprenticeships to train existing employees as apprentices (22% last year).

Making the apprenticeship system work for London business

If apprenticeship candidates were better prepared for the world of work, half (48%) of London businesses say it would make them more likely to employ more apprentices.

As highlighted earlier, the apprenticeship system has recently undergone significant reform. The government's ambition to significantly increase the number of apprenticeships is welcome, but this should be delivered in a way that benefits employers as well as learners.

Six in ten (58%) of the businesses surveyed saw a benefit to increasing the number of apprenticeships in the company, with a higher figure for larger businesses (71%) than micro businesses (57%).

This figure increases significantly to 91% for businesses with apprentices (and 89% for businesses that have to pay the levy), which suggests that once businesses employ an apprentice, it is often a positive experience.

East London businesses were particularly positive about the benefits of taking on more apprentices (71%), compared to 52%-58% for the other sub-regions.

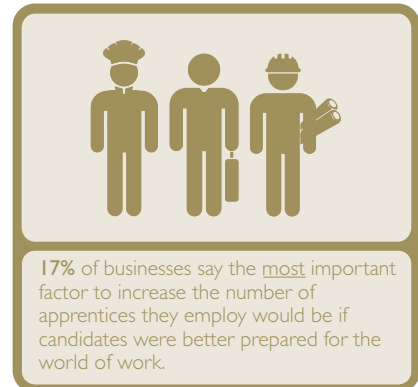
Among businesses that do not plan to use apprenticeship funding over the next 12 months, 36% still thought there would be benefits in employing an apprentice, while 64% did not think there would be any benefits. **Four in ten (42%) businesses that have to pay the levy still did not plan to use apprenticeship funding over the next 12 months.**¹³

The most frequently identified benefit of employing more apprentices was that they offer an easier means of bringing in new staff (identified by 20% of respondents). Other benefits include help with staff retention by offering training opportunities (16%), training and developing existing employees (15%) and addressing skills shortages (14%).

There are a range of incentives which would make London businesses more likely to increase the number of apprentices they employ.

Half of London businesses say they would be more likely to increase the number of apprentices they employ if they received financial support to help pay apprentices' wages or for apprentices' training and development (both 52%). A similar proportion (48%) say that **they would be encouraged to increase the number of apprentices employed if candidates were better prepared for the world of work.**

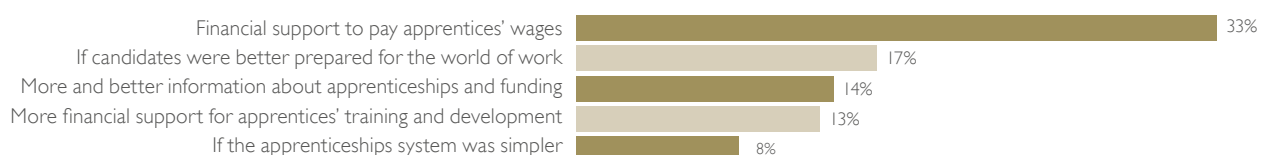
Other key measures would be more and better information about apprenticeships and funding (45%), or if the apprenticeship system was simpler (39%), followed by an increased number of providers offering relevant training (38%), the ability to receive unused levy funds from businesses in the supply chain to cover training costs (37%) and reducing the time apprentices have to spend in off-the-job training (26%). When those who could be encouraged to increase the number of apprentices they employ were asked which of the factors they had selected as incentives was the most important factor, the most common answer was financial support to help pay apprentices' wages in addition to training costs (33%), followed by better preparation of candidates for the world of work (17%).



"Across the country, and most severely in London, there is an acute shortage of skilled labour, which is challenging us to supply the UK marketplace with much needed housing. My own company MACS Plasterboard System has long been aware of this and has actively been working with colleges to develop new talent through apprenticeship programmes. Indeed, MACS have produced two individuals who won Apprentice of the Year awards."

**Tom McLoughlin, Chief Executive,
MACS Plasterboard Systems
Limited**

Figure 4: The top five most important factors to increase the number of apprentices



¹² This figure changes slightly if answers are excluded from respondents who did not know whether they had to pay the levy or whether they plan to use apprenticeship funding over the next 12 months. For more information, please see the apprenticeship levy section on page 11.

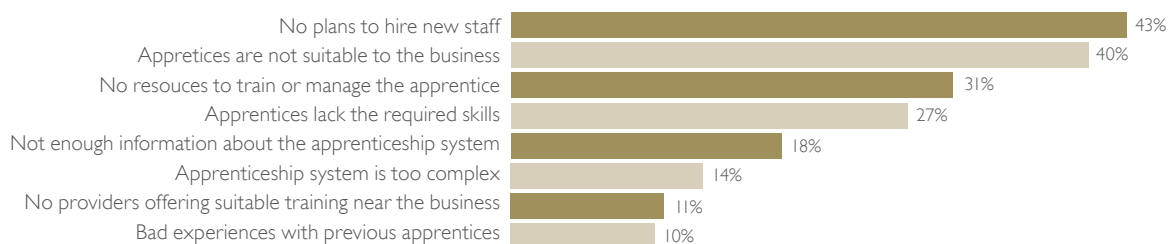
¹³ Excluding those respondents that did not know the answer. See page 11 for more information.

A significant proportion of businesses that do not plan to use apprenticeship funding still identified factors that would make it more likely for them to increase the number of apprentices they employ: better preparation of apprentices for the world of work (41%), financial support for wages (41%), financial support for training and development (40%), and more and accessible information about the system (33%). Among these, 21% identified better preparation for the world of work as the *most important factor*.

While more than half (56%) of London businesses do not plan to use any apprenticeship funding over the next 12 months, a quarter (23%) said nothing would make their business more likely to increase their apprenticeship numbers. Of those not planning to use apprenticeship funding, 43% simply did not have plans to hire new staff while 40% believed apprentices are not suitable to their type of business.¹⁴

Other factors include a lack of resources to train or manage apprentices (31%) as well as a lack of skills among apprentices to fulfil business needs (27%). Similarly, a lack of information about apprenticeship schemes or how to hire an apprentice has been a reason not to use apprenticeship funding over the next 12 months (18%).

Figure 5: Reasons why not to use apprenticeship funding over the next 12 months



"Optimity started employing apprentices about 6 years ago, because we were struggling to fill vacancies with graduates. Since then, apprenticeships have proved to be a really valuable source of talent and have been a real driver of our growth. While we've had some issues with the new apprenticeship system, we've found that it's had a step-change in the quality of training on offer. Members of our team are now studying qualifications that are up-to-date and at the equivalent level to a university degree, to give them really relevant and valuable skills."

Anthony Impey, Founder, Optimity

Whilst it is unlikely that further significant additional funding can be put into the apprenticeship system to respond to concerns about the cost of training and wages, the government could act quickly on the other issues identified.

To start with, the government should look to **reduce bureaucracy and make the apprenticeship system simpler**. The introduction of the apprenticeship levy has moved some of the administrative burden from providers to employers, compared to the previous system. This will act as a barrier to businesses taking up apprenticeships and the government should address this. Additionally, a more accessible platform needs to be developed that brings together information on available courses and training providers, to help both employers and candidates.

A theme that stands out from the survey is that London's businesses want apprenticeship candidates to be better prepared for the world of work. To help address this, **unspent levy funds should be kept in London**, rather than be returned to the national government and be used to support potential apprentices to prepare, including through pre-employment training. In addition, steps need to be taken to bridge the gap between businesses and schools, including through initiatives like the BCC's Young Chamber.¹⁵

Apprenticeships and other training should include a focus on digital skills, which continues to be a main skills challenge among London businesses. This includes promoting digital apprenticeships and T Levels and making digital skills a core competence across other apprenticeship standards.

Finally, a broader review is needed of how the apprenticeship system works in London, including the apprenticeship levy.

"In our case, apprenticeships are for Captains, but the syllabus has been capped at Level Three, thus limiting our ability to fully fund these from our levy. This leads to an overspend from the company of more than £5,000 per candidate per year, whilst leaving money on the levy account which will be lost to us. This situation will be compounded each year. Existing employees do not want to be called Apprentices and the levy cannot be spent on staff training across the company. It should not be necessary to 'manufacture' apprenticeships to upskill staff at all levels. It is evident that this has been the result by the increase in the range of apprenticeships introduced. I strongly believe that the levy should be capable of being used for other training in the company which has now been cut because of the levy. The pressure on SMEs from the levy and increase of pensions puts great strain on SMEs finances and leads to cuts in training across the company and cuts in head count."

Rita Beckwith OBE, Chief Executive Officer, City Cruises PLC

¹⁴ Noting that the latter is significantly more of an issue in for example the accommodation, food, entertainment and arts industries (50%) than in the property and construction (29%), retail (29%) or finance and business administration sector (34%).

¹⁵ A new chamber of commerce initiative to help bridge the gap between education and the workplace, highlighting exciting and rewarding career options for young people. For more information please see <http://www.britishchambers.org.uk/business/young-chamber-membership.html>.

Apprenticeship levy¹⁶

42% of levy payers do not expect to use any apprenticeship funding over the next 12 months.

14% of *London Business 1000* respondents (excluding sole traders) say their company would be required to pay the apprenticeship levy. Asked what proportion of their apprenticeship levy funds they expect to use over the next twelve months, four in ten (42%) did not expect to use any of their funds, with an additional 40% expecting to spend just half or less. This suggests that **London businesses will significantly underspend on the apprenticeship levy in the capital**, meaning this training funding will be lost to London.

When levy payers were asked to rate the effectiveness of potential improvements to the apprenticeship levy, an overwhelming majority (76%) stated that making the system simpler would be effective, including 48% that believed it would be very effective. Eight in ten also stated that making the apprenticeship levy into a wider training levy would be very or somewhat effective (80%), while a clear majority said the same of allowing more transfer of levy funds to other employers they work with (70%) and allowing the levy to contribute to paying apprentice wages (77%).

The government should review the apprenticeship levy in London, working with London Councils, the Mayor, businesses and their representative organisations to consider what reforms could be made to the levy to maximise its use by employers.

These survey results support current concerns as to whether London employers' have the capacity to spend their levy funds within the two-year limit, given the levy lacks flexibility and is highly prescriptive on what the funds it generates can be spent on.

Levy payers should be allowed to use their levy spend for pre-employment training to get people ready for an apprenticeship. This could help target the most disadvantaged Londoners who require more intensive support to help them get 'apprenticeship ready' and responds to the finding in this survey that many businesses would like to see candidates better prepared for the world of work.

More broadly, the government should consider making the apprenticeship levy into a wider training levy.

The government has recently announced some relaxation of the rules around transferring the levy, allowing businesses to transfer levy funding to more than one employer. However, the amount of transferrable levy funding remains capped at 10 percent.

The government should consider further relaxing the rules around the transfer of levy funds to other employers, increasing the proportion of funding that employers can transfer. This would allow large employers to work with their supply chains to develop apprenticeship opportunities.

Finally, rather than be returned to national government, **unspent funding should be devolved to London government** and be used to increase awareness of apprentices, support small businesses to be better prepared to take on apprentices and support potential apprentices to be well prepared for the job. Ultimately the levy should be devolved to London government, in line with the devolved administrations.

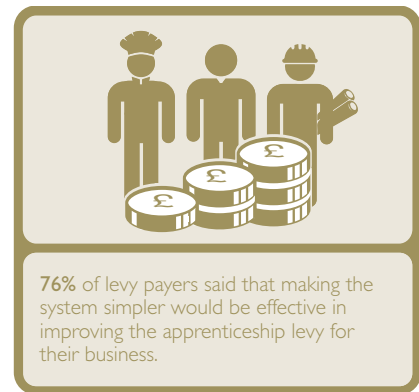
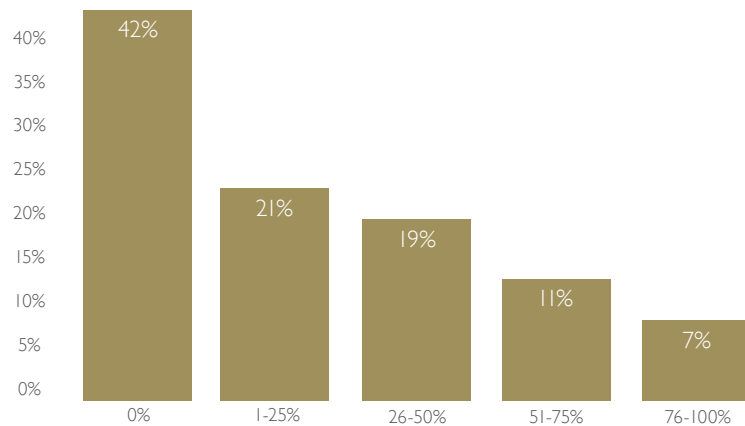


Figure 6: Expected usage of apprenticeship levy funds over the next 12 months (excluding those that don't know)



For further information on this report, please contact

London Councils

E: lcpress@londoncouncils.gov.uk

James Odling-Smee

Director of Communications

E: james.odling-smee@londoncouncils.gov.uk

T: +44 (0)20 7934 9750

Sima Maqbool

Research Manager

E: sima.maqbool@londoncouncils.gov.uk

T: +44 (0)20 7934 9771

London Chamber of Commerce and Industry

E: policy@londonchamber.co.uk

Sean McKee

Director of Policy and Public Affairs

E: smckee@londonchamber.co.uk

T: +44 (0)20 7203 1882

Thomas Wagemakers

Senior Policy Research Manager

E: twagemakers@londonchamber.co.uk

T: +44 (0)20 7203 1925

¹⁶ Within this section, when reporting on questions (1) whether companies will be required to pay the apprenticeship levy; (2) if they plan to use apprenticeship funding over the next 12 months; and (3) how much of their levy funds they expect to use, respondents who said they "don't know" the answer have been excluded from the analysis (which applies to 17% or less of respondents for each of the questions).

