IET Spring Budget Representation 2024

Make the Apprenticeship Levy more flexible to increase UK economic growth

Executive Summary

The IET recommends small but significant changes to the Apprenticeship Levy that makes it more flexible for employers and allows its use for reskilling and upskilling the engineering and technology workforce. This will reduce chronic skills shortages, enhance business international competitiveness, and lead to further UK economic prosperity.

The IET fully endorses the UK Government's ambition for a strong and thriving economy underpinned by innovation and technology. We support its focus on investment to ensure the UK remains a technology superpower with world-class industries, and recognise that the science and technology framework provides a strong foundation for growth. Despite this there are small but impactful amendments to current policy that will improve the current strategy.

The UK requires a highly skilled workforce – and the apprenticeship scheme is a valuable way of developing engineers and technology specialists. However, restrictions around the use of the Levy limit the potential of UK businesses.

We urge greater flexibility in the use of Apprenticeship Levy training funds by allowing unused monies to be utilised in establishing an agile skills funding pot, which is accessible for upskilling in areas of technological skill deficit.

Such agile skills development complements the apprenticeship programme, enhancing businesses' ability to thrive in a technologically advanced and competitive economic landscape. Unused funds could train up to **280,000** extra workers in cutting edge skills that the UK is currently lacking. It would reduce the current 173,000 shortage of skilled engineers, which is holding back UK growth and prosperity. 45% of engineering employers say there should be more flexibility to re-allocate unspent money. Repurposing funds to upskill and reskill employees in areas of critical skills deficit would have a major beneficial impact for UK businesses. It would boost the UK economy by over **£1380m**.[1].

The challenge of delivering sustained economic and business growth

It's recognised that the UK needs to increase its business productivity, which currently lags significantly behind other G7 countries such as the US, Germany and France.[2] To do this the UK must ensure it has sufficient technically skilled workers, now and in the future. This can only be achieved if our training programmes facilitate growth in skilled jobs in a high-wage economy.

We know that STEM skills - are of vital importance. Unfortunately, there are an estimated 173,000 engineering vacancies in the UK. This skills shortage is costing STEM businesses £1.5 bn per year in opportunity costs.[3] By 2030, 5 million workers could be acutely under-skilled in basic digital skills; 1.5 million workers are likely to lack STEM workplace skills. It's

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[1] *Using a low-end assumption that effective reskilling yields a 6% increase in productivity per worker (McKinsey), a reformed levy would generate around £1387m from productivity increases alone. Calculated using the following figures: unused apprenticeship levy (2019-2022): £3.3bn; annual training costs per employee: £2,952 (Employer Skills Survey 2022, UK government), UK productivity per worker (GDP per hour worked): £50; UK Average hours per person per year: 1654 (OECD.Stat, Labour productivity levels).*

[2] House of Commons Library - Productivity, 24/11/23

[3] Engineering Kids Futures, 2022, p5

estimated that over 80% of the UK's 2030 workforce has already left the education system[4], which increases future skills challenges.

The 2023 IET international green skills survey[5] revealed that the UK has persistent critical skill gaps in new technologies. 76% of employers with a sustainability strategy report that they need additional skills to implement it. And worryingly, amongst employers in ten countries surveyed, just 15% of UK businesses said they were likely to offer training in new technologies, the lowest across 10 countries.

The UK faces similar issues with digital skills[6]. Among employers reporting a digital skills gap, 49% said this is harming productivity and 35% say it restricts growth.

This gap between the UK's global ambitions and its workforce capabilities threatens to hinder the UK's ability to maximise its economic potential.

In the Spring 2024 budget, the Institution of Engineering and Technology recommends that the Government:

1. **Promotes training in new technologies to maximise the UK's international potential.**
2. **Repurposes unused levy funds to set up a funding pool which would be accessible for broader and more flexible training provision.**
3. **Makes the apprenticeship levy more agile for organisations and individuals, particularly SMEs.**

Upskilling and reskilling employees is critical to close the shortage in technical skills, and drive innovation that creates sustained competitive advantage. In recent IET research 58% of employers report that upskilling and reskilling employees would have the biggest impact in addressing their skills shortages[7].

We recommend support for upskilling and reskilling for lifelong learning via a small funds initiative alongside the apprenticeship levy. We also ask that unused apprenticeship money is reprioritised efficiently and effectively to meet employer skills needs.

Over £3.3 bn of unused apprenticeship levy funds were returned to the Treasury between 2019-22.[8] Recent reports have shown that, on average, employers only spend around 55% of their levy, despite urgent upskilling needs.[9] And only 4% of employers use their full levy allocation[10]. In many cases, the levy is transferring money away from training opportunities. 45% of engineering employers say there should be more flexibility to re-allocate unspent money. Repurposing funds to upskill and reskill employees would have a major beneficial impact for UK businesses. It would cover the annual training costs of around 280,000 workers, boosting the UK economy by over £1380m.[11].

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[4] Industrial Strategy Council, UK Skills Mismatch 2030
[5] IET international green skills 2023 survey
[6] IET skills for a digital future, survey summary 2023
[7] IET skills for a digital future survey, 2023
[8] FE News, July 2022
[9] Personnel Today, Feb 2023
[10] City & Guilds, Feb 2023
[11] *Using a low-end assumption that effective reskilling yields a 6% increase in productivity per worker (McKinsey), a reformed levy would generate around £1387m from productivity increases alone. Calculated using the following figures: unused apprenticeship levy (2019-2022): £3.3bn; annual training costs per employee: £2,952 (Employer Skills Survey 2022, UK government), UK productivity per worker (GDP per hour worked): £50; UK Average hours per person per year: 1654 (OECD.Stat, Labour productivity levels).*

Employers are keen to use unspent levy funds for short-term or modular courses on specific skills (micro-credentialling). This will give them greater control and flexibility over training. Broadening fund usage would lead to new commercial opportunities around the Government's 5 Critical Technologies[12]. 40% of UK businesses surveyed prefer to upskill or reskill employees rather than hire externally[13]. However, only 20% of businesses with a sustainability strategy are upskilling their workforce to improve their own sustainability.[14]

These measures will help reverse the recent decline in employer investment in skills[15]. Businesses should be encouraged to explore the potential of new technologies, for example, to increase productivity or downtime for maintenance. Both managers and employees can undertake short courses to gain greater awareness of the opportunities and whether they are applicable, before undertraining full skill training. This will maintain technical excellence that meets business needs for the future. It is the best way for the UK to innovate and enhance economic growth.

The IET supports the call from businesses to extend the deadline for spending levy funds from two to three years (35%)[16]. £3.3bn of allocated funding expired between 2019-22. Sharing unused levies will enhance collaboration between supply chain firms and develop competence in much-needed skills that may not be easily available in their own organisations. Employers should be able to carry over a greater proportion of unused funds to future years and share unused levy contributions fully with others in their supply chains[17].

The IET also agrees with business calls for the levy funds to support the wage costs of new apprentices (38%)[18] and an increase in the percentage of levy that is available for transfer to the supply chain (41%)[19]. These will drive skills development that improves quality and effectiveness and help to stem the significant drop in apprenticeship starts[20]in addition to reducing the level of dropouts. Expanding eligibility to include later-life apprenticeships would develop the skills and work prospects of the over-50s, who bring significant experience to the workplace.

47% of employers also say there should be greater awareness of how the scheme works[21]. A more streamlined levy payment process would be less complex and time-consuming to administer, catalyzing greater employer buy-in. It would make it easier for people to start and finish training. This could be done without recourse to major legislation or administrative oversight. It would be particularly beneficial for SMEs that use disproportionately more resources to manage schemes.

Summary

[12] The UK Science and Technology Framework
[13] IET skills and demand in industry, 2021 survey, p21
[14] IET skills and demand in industry, 2021 survey, p8
[15] Learning at work: Employer Investment in Skills, Learning and Work Institute, 2021, p7 et al
[16] London First, Survation survey 2022
[17] '*Less than one in 50 apprenticeship starts in the past academic year were funded through transfer from levy-paying organisations to smaller businesses.' S.Malhotra (Lab), Apprenticeship Levy debate, Westminster Hall, 22/11/23)*
[18] Personnel Today, Feb 2023
[19] London First, Survation Survey, 2022
[20] Apprenticeship starts in England dropped by 145,700 in 2021-22 compared with 2016-17; Apprenticeship statistics for England - House of Commons Library (parliament.uk).
[21] IET sustainability skills survey, 2023 summary

The apprenticeship programme is a valued vocational learning and development scheme, enabling individuals to fulfil their potential in high-skilled, high-pay careers. It helps the UK meet today's economic challenges by supporting business needs, making them more innovative, productive and competitive in an international market.

However, there must be more flexibility for training to keep businesses agile in a constantly evolving technological world. This would do much to grow the local and national economy, and create a more prosperous UK.

The IET's key recommendation is for a more flexibly applied Apprenticeship Levy that allows for reskilling and upskilling via a small, flexible funding pot to facilitate training in cutting edge technologies through micro-credential training. This agile training approach will enhance the learning opportunities for individuals. It will amplify the opportunities for business growth and help the UK prosper.

About the Institution of Engineering and Technology (IET)

The IET is a trusted adviser of independent, impartial evidence-based engineering and technology expertise. We are a registered charity and one of the world's leading professional societies for the engineering and technology community with over 155,000 members worldwide in 148 countries. Our strength is in working collaboratively with government, industry and academia to engineer solutions for our greatest societal challenges. We believe that professional guidance, especially in highly technological areas, is critical to good policy making.

We would be delighted to provide you with further details on these proposals. Please contact policy@theiet.org accordingly.