



Economy, Infrastructure and Skills
Committee

Inquiry into the Apprenticeship Levy

March 2017



National Assembly for Wales
Economy, Infrastructure and Skills Committee

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The Committee was established on 28 June 2016 to examine legislation and hold the Welsh Government to account by scrutinising expenditure, administration and policy matters, encompassing (but not restricted to): economic development; transport; infrastructure; employment; skills; and research and development, including technology and science.

Current Committee membership:



Russell George AM (Chair)
Welsh Conservative
Montgomeryshire



Hannah Blythyn AM
Welsh Labour
Delyn



Hefin David AM
Welsh Labour
Caerphilly



Vikki Howells AM
Welsh Labour
Cynon Valley



Mark Isherwood AM
Welsh Conservative
North Wales



Jeremy Miles AM
Welsh Labour
Neath



Adam Price AM
Plaid Cymru
Carmarthen East and Dinefwr



David J Rowlands AM
UKIP Wales
South Wales East

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Chair's foreword

There is significant evidence that the benefits of apprenticeships accrue to individual apprentices, the employers who employ them, and the wider economy in increased productivity. As a consequence, apprenticeships in Wales are fundamental to the future success of our economy, and command cross-party support in the National Assembly for Wales.

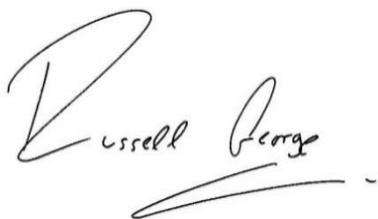
The introduction on 6 April 2017 of an UK-wide Levy has raised a number of issues relating to this important area of public policy. It is a cause for concern that the UK Government has introduced this levy with considerable implications for an area of devolved responsibility, without first consulting the devolved administrations, including the Welsh Government.

Our report looked at the implications of the Levy for Welsh employers. It is clear that the levy has succeeded in raising the profile of apprenticeships, particularly for organisations that have not previously considered that model for developing its workforce.

We heard about the confusion and uncertainty that has surrounded the Levy – particularly in the early days. Although we note that during our inquiry, the Welsh Government published its document – “Aligning the Apprenticeship model to the needs of the Welsh economy” and a toolkit for employers, which fills many of the communication and information gaps that our inquiry had identified.

Our inquiry also heard that this Levy will disproportionately impact the Welsh public purse – resulting in public sector organisations – the NHS, Local councils, the four Welsh police forces – sending millions of pounds from the money allocated to Wales back to the UK Treasury every year. The Committee will wish to monitor this impact over time.

Looking ahead, it is vital that the Welsh Government works with employers - particularly in the public and non-priority sectors - in order to keep their specific needs under review through better dialogue. As a Committee, we intend to return to this issue in the next 12-18 months, to review what impact the levy has had.

A handwritten signature in black ink that reads "Russell George". The signature is written in a cursive style with a long horizontal flourish underneath.

Russell George AM
Chair,
Economy, Infrastructure and Skills Committee

Recommendations

Recommendation 1. The Minister must re-double the efforts of the Welsh Government to ensure that all Levy-paying employers in Wales have the information they need during the Levy’s introductory period. Page 11

Recommendation 2. The Committee believes that a period of stabilisation and certainty is required for the sector in Wales. The Minister should continue to engage with the employers from all sectors in the months ahead and should set out how she intends to do this in her response. Page 11

Recommendation 3. The Committee recommends that the Minister review the effects of the Levy on employers in Wales and report these findings to the Committee no later than one year after its scheduled introduction on 6 April 2017. Page 11

Recommendation 4. The Committee believes that any future levies in areas of devolved competence should not be introduced without the consent of the National Assembly for Wales and urges the Welsh Government to raise this with counterparts in the UK Government. Page 14

Recommendation 5. The Committee believes that better communication between the UK Government and devolved administrations at both Ministerial and official-to-official level is required. The Committee recommends that the Minister continues to raise the issue with her counterparts in the UK Government. Page 14

Recommendation 6. The Committee recommends that the Welsh Government re-doubles its efforts to allay the concerns of non-priority sectors in Wales by working with them to develop training opportunities, including new apprenticeship pathways, in less traditional areas such as financial services, project management, human resources and logistics. Page 18

Recommendation 7. The Committee recommends that the Welsh Government sets out how it intends to ensure that all employers (including those in non-priority sectors who are making Levy payments) are made aware of the opportunities to overcome the issues of ‘no direct return’ via the Welsh model of apprenticeship delivery. Page 18

- Recommendation 8.** The Committee recommends that the Welsh Government identifies good practice and evaluate the proposals for the flexible skills fund in Scotland (known as the Flexible Workforce Development Fund). Page 18
- Recommendation 9.** The Committee recommends that the Welsh Government sets out how it intends to promote and improve the take-up of apprenticeships among employers in Wales, particularly among those sectors that have not traditionally had clear pathways to higher level apprenticeships. Page 18
- Recommendation 10.** The Committee recommends that the Minister work with counterparts to ensure that opportunities for helping businesses to overcome the difficulties associated with operating in four separate systems are identified. Page 22
- Recommendation 11.** The Committee recommends that the Minister explore options for working with businesses and employers to achieve apprenticeships with sectors that do not traditionally employ apprentices. Page 22
- Recommendation 12.** The Committee urgently recommends that the Minister lobby the UK Government to ensure that the number of people employed by local authorities in schools are not included in the overall local authority employee headcount for the purpose of calculating the Levy. This will adversely impact on schools budgets in Wales and is at odds with the treatment of Academy schools in England. Page 25
- Recommendation 13.** The Committee recommends that the Minister work with police forces in Wales and with her counterparts in the UK Government to ensure that the Welsh police forces are not unfairly disadvantaged by the fact that police forces in Wales will have to pay the Levy but cannot access the Levy to contribute to accredited courses in Wales. Page 25

01. Introduction

1. The UK Apprenticeship Levy (the Levy) was announced in the 2015 spending review and autumn statement and is due to come into force from 6 April 2017. The Levy will be paid by employers across the whole of the United Kingdom and will apply to both private and public sector employers.

2. A fundamental principle of the UK Apprenticeship Levy is to encourage employers to review and re-evaluate their apprenticeships, training and skills development policies. Witnesses told the Committee that this aim is sound and that it is already working to some degree. The imminent introduction of the Levy is concentrating employers' minds on training issues. It should also provide opportunities for employers to think creatively about their training needs.

How will the Levy work?

Employers will have to contribute 0.5 per cent of their total wage bill to HM Revenue and Customs. However, employers will have an allowance of £15,000 per year to offset against the Levy. In practice, therefore the Levy will only be payable on pay bills in excess of £3 million a year. The then Department for Education estimated that less than 2 per cent of employers in the UK will pay the Levy.

Background to the inquiry

3. The Welsh Retail Consortium (WRC) wrote to the Economy, Infrastructure and Skills Committee (the Committee) in November 2016 expressing concerns about the introduction of the Levy in Wales. In particular, the WRC feel that Levy payers in Wales will not see a direct return for their contribution.

4. The Committee agreed to undertake a short inquiry into the Apprenticeship Levy on 23 November 2016. The Committee consulted and received ten responses. Detail of how the Committee gathered its evidence for this inquiry can be found on the Committee's website.¹

The Welsh Government's apprenticeship policy

5. The delivery of apprenticeships remains a devolved matter in Wales, Scotland and Northern Ireland.

6. Although wider issues relating to apprenticeships policy in Wales emerged during this inquiry, the Committee decided to focus its efforts solely on the Levy. The terms of reference for the can be found in Annex A.

¹ www.assembly.wales/SeneddEIS

02. Communication and Engagement

Engagement

7. The backdrop to the introduction of the Levy in Wales is characterised by uncertainty, confusion and varying levels of engagement. In both written and oral evidence, the Committee heard that there had been very little direct contact, consultation and engagement between many employers and the Welsh Government about the implications of the Apprenticeship Levy in Wales.²

8. Engagement levels have varied according to sector with priority sectors receiving frequent contact from Welsh Government officials and in some instances, the Minister for Skills and Science herself, particularly more recently.³ On the other hand, non-priority sectors have expressed concerns about the lack of engagement.⁴ Sara Jones of the Welsh Retail Consortium elaborated on this during oral evidence stating that:

“I will say that engagement has improved dramatically over the last month, although, for us, that’s too little, too late, because, quite clearly, the employer voice should be heard at an earlier stage. That’s why we did call for consultation.”⁵

9. Joanne Foster of GE Aviation stated that:

“we’re hugely lucky that we’re a preferred sector, so we do have a dialogue. I know that we can pick the phone up and have found the Welsh Government to be very agile when we have needed them, and vice versa. You know, it’s a partnership. But we are in a preferred sector, so the views of other people might be different.”⁶

10. The varying levels of engagement between the Welsh Government and employers created some confusion in certain sectors and has led to calls for greater clarity. Anne Middleton from Atradius (another non-priority sector) made the point that businesses need to see “stakes in the ground” and stated that:

“It’s a little bit bewildering with all of the information that’s coming out. We seem to be more aware of what’s going on in England than in Wales.”⁷

Consultation

11. The Levy was announced by the UK Government without consulting the devolved administrations. The Minister for Skills and Science (the Minister), Julie James AM, described the decision to introduce a UK-wide Apprenticeship Levy as “out of the blue”.⁸

² [08 Welsh Retail Consortium](#); [10 Colegau Cymru](#); [04 National Assembly for Wales](#); Record of Proceedings, [paras. 145, 150](#), 2 February 2017

³ *Ibid.* [para 84](#), 2 February 2017

⁴ [08 Welsh Retail Consortium](#)

⁵ *Ibid.* [para 83](#), 8 February 2017

⁶ *Ibid.* [para 91](#), 2 February 2017

⁷ *Ibid.* [para. 88](#), 2 February 2017

⁸ *Ibid.* [para 128](#), 8 February 2017

12. Unlike the Scottish and Northern Ireland governments, the Welsh Government did not consult specifically on the Levy having concluded a comprehensive consultation on its approach to apprenticeships earlier in 2015 (and before the UK Apprenticeship Levy had been announced). A number of witnesses contrasted the situation in Wales with elsewhere in the UK and felt that the Welsh Government could have consulted specifically on the Levy after it was announced in the 2015 Autumn Statement.⁹

13. Defending the approach taken by the Welsh Government the Minister stated in evidence that:

“We’d just finished an extensive consultation on apprenticeships at the point when the levy was introduced, so we were quite cross about the fact that we’d literally just finished the consultation. But we’ve also just set up the regional learning skills partnerships as a continuous consultation mechanism. And, honestly, I didn’t think that consulting with—. What would we have been consulting on? We’d already done an extensive consultation about apprenticeship policy. We’d had really good responses across the board. We had good buy-in for our policy. We had good buy-in for all of the things we’ve just been talking about this morning. And then we had the levy introduced. So, what would we have been consulting on—abandoning everything we’ve just talked about in order to give levy-paying employers a different service? I frankly don’t agree that we should consult about things that we have no intention of doing, and I had no intention of doing that. I don’t think it’s the right thing to do and I don’t have any problem with what we did. We’ve been very open about it.”¹⁰

Communication

14. In its written evidence, Colleges Wales called for a clear communications plan setting out what the Levy means for Welsh employers. The Committee heard that employers in England had received information about the introduction of the Levy before employers in Wales.¹¹ During the Committee’s oral evidence session with businesses on 2 February, all four employers representing four different sectors agreed that there needed to be more communication and dialogue between the Welsh Government and employers.¹² The Committee also heard that the Welsh Government is in dialogue with 200 of the estimated 700 Levy-paying employers in Wales.¹³

15. On 7 February 2017, a day before the Minister’s appearance before the Committee, the Welsh Government issued a Written Statement and strategy document on ‘Aligning the apprenticeship model to the needs of the Welsh economy’.

16. A detailed communications toolkit for employers was also published. The toolkit directly addressed the issue of the Levy, provides clarity on aspects of its introduction and signposts employers to more information.

⁹ 08 Welsh Retail Consortium; 01 Centrica; 02 Construction Industry Training Board

¹⁰ Record of Proceedings, para 178, 8 February 2017

¹¹ Ibid. para 83, 2 February 2017

¹² Ibid. paras 161 – 165, 2 February 2017

¹³ Ibid. para 147, 8 February 2017

Conclusion 1. Whilst the Committee welcomes the publication of detailed guidance in the form of the apprenticeship toolkit, the Committee is concerned that employers in Wales have had to wait until February 2017 to receive this information.

Conclusion 2. The Committee is sympathetic to the Minister's view that a wholesale consultation resulting from the UK Government's announcement of the Levy would not necessarily have been desirable. It is evident, however, that not all employers have had an opportunity to express their concerns to the Welsh Government. The Committee understands the frustrations expressed by some that the Welsh Government did not consult following the announcement of the Levy. The Committee believes that the Minister should avoid substituting informal engagement for formal consultation in future, particularly when the level of this engagement has varied from sector to sector.

Recommendations

Recommendation 1. The Minister must re-double the efforts of the Welsh Government to ensure that all Levy-paying employers in Wales have the information they need during the Levy's introductory period.

Recommendation 2. The Committee believes that a period of stabilisation and certainty is required for the sector in Wales. The Minister should continue to engage with the employers from all sectors in the months ahead and should set out how she intends to do this in her response.

Recommendation 3. The Committee recommends that the Minister review the effects of the Levy on employers in Wales and report these findings to the Committee no later than one year after its scheduled introduction on 6 April 2017.

03. Funding

A new system of funding apprenticeships in England

17. In addition to the Apprenticeship Levy, the UK Government is also introducing a new system of funding apprenticeships for England only, in May 2017.

18. Apprenticeship Levy payments made by employers in England will be paid into a “digital account” along with an additional 10% UK government top-up. The amount of the levy paid into digital accounts for employers in England operating in other parts of the UK will be calculated based on employees’ home addresses. Employers in England can then spend “digital apprenticeship vouchers” to procure apprenticeship training. Employers will negotiate the price of the training with training providers.

19. Though not available for the first year of the Levy, the UK Government has committed to allowing Levy-paying employers in England to transfer up to 10% of their annual Levy payments to another employer or an apprenticeship training agency. Unspent digital account funds will expire after 24 months.

20. In addition, an Institute for Apprenticeships is due to commence operations as an independent employer-led body in April 2017, regulating the quality of apprenticeships in England. The UK Government also plans to create a new register of apprenticeship training providers in England that will come into use in May 2017.

The allocation to Wales

21. Many employers assumed that Wales would automatically receive a proportional share of the revenue raised by the Apprenticeship Levy, generating new, additional funding for apprenticeships in Wales for example:

“Investing in skills

Money paid by Welsh construction employers to support training, such as the Apprenticeship Levy, should be used for this purpose. The Apprenticeship Levy offers the opportunity of significant sustainable investment in apprenticeships in Wales that can build on the Welsh Government’s already ambitious programme. There will be an annual grant to Wales of £138m by 2019/20 from the Apprenticeship Levy. This could give thousands more young people the opportunity to benefit from high quality training leading to a career in construction.”¹⁴

22. The Welsh Government was told they would receive a population-based share of the Levy revenue (which would be subject to the Barnett formula). HM Treasury confirmed that Wales would get £128 million in the first year of the Levy on 14 November 2016.¹⁵ The Treasury then subsequently announced a further £13.7 million, having recalculated the settlement slightly differently from the basis of the original settlement, which was included in the Barnett formula.¹⁶

¹⁴ [02 Construction Industry Training Board](#)

¹⁵ HM Treasury Press Release ‘[UK government agrees apprenticeship levy funding deal with devolved administrations](#)’, 14 November 2016

¹⁶ [Record of Proceedings](#) – National Assembly for Wales, 14 November 2016

23. However, as a result of the reduction in apprenticeship funding in England, £90 million was deducted immediately from the Barnett baseline allocation to Wales.

24. Julie James, Minister for Skills and Science, has repeatedly stressed that “with the additional financial burden the levy will place on public sector employers, there will be no noticeable additional funding available to Wales as a result of the levy”.¹⁷ The specific concerns of public sector bodies in relation to the estimated £30 million cost that they will incur as a result of the Levy is dealt with in chapter 6.

25. The Minister told Assembly Members in Plenary on 7 December 2016 that:

“They imply that this is all extra money, but that in fact is not the position. Previously I’ve gone through the statistics, and I’ll do it again. Basically— [Interruption.] No, it’s very straightforward, as I said. Basically, what’s happened is we got £114 million for Wales as a result of the Barnett formula for the apprenticeship levy, and £90 million of that was immediately removed because it had been placed in the baseline for the Barnett formula, and £90 million is the reduction in apprenticeship money funding in England as a result of the move between the apprenticeship levy and general taxation. There’s been an announcement of another £13.7 million as a result of the recalculation of the formula, based on the moneys arising from Wales, after a lot of lobbying from Wales, from both businesses and from the Government. However, the situation still is that this is an employer tax levied by HMRC without consultation with the Welsh Government.”¹⁸

The Welsh Government Budget 2017-18

26. The Welsh Government allocated an additional £15.5 million of revenue funding for apprenticeships in their Final Budget for 2017-18.¹⁹ The total amount of funding on apprenticeships for 2017-18 is set at £126 million.²⁰

Welsh Government response

27. The Welsh Government has expressed frustration at the funding situation that has arisen as a result of the introduction of the Levy by the UK Government. The Minister told Plenary that “HMRC, as you know, is not devolved to Wales in any way, and the money directly contradicts our apprenticeship [policy].”²¹

28. Whilst giving evidence to the Committee the Minister described the way in which:

“that’s part of the problem with the UK Government behaving as a tax authority to raise an employer levy that is then funding a skills policy that is England based and what that does to the power of the devolved nations to be able to carry on with their particular devolution agenda.

¹⁷ **09 Minister for Science and Skills**

¹⁸ **RoP** – National Assembly for Wales, 7 December 2016

¹⁹ **Final Budget 2017-18**, Welsh Government, 20 December 2016

²⁰ *Ibid.* Welsh Government, 20 December 2016

²¹ **RoP** – National Assembly for Wales, 7 December 2016

It's a fundamental principle of devolution that you ought not to have to implement the policy of your neighbours simply because they're bigger than you are..."²²

29. The Minister also stressed the importance of recognising that the Levy will not be hypothecated:

"I think it's important to say, though, that for the apprenticeship levy it's not hypothecated in England. The current Government is saying that they'll spend it in this way but actually it's not collected as a hypothecated tax, it is just a tax. So, it comes to us as just part of our settlement and we're asked to decide how to spend that. This particular Government here in Wales has decided to put a large amount of money into apprenticeships. We'd already decided to do that; we were going to do it anyway. This hasn't really affected that apart from it's made the accounting for it rather more problematic."²³

Conclusion 3. The introduction of a UK-wide Levy in order to fund an area of devolved competence has brought into focus the complexity of the devolution settlement. The Committee shares the Minister's frustrations at the imposition of the Levy without consultation and recognises the negative impact it could have on the policy autonomy of devolved administrations.

Recommendations

Recommendation 4. The Committee believes that any future levies in areas of devolved competence should not be introduced without the consent of the National Assembly for Wales and urges the Welsh Government to raise this with counterparts in the UK Government.

Recommendation 5. The Committee believes that better communication between the UK Government and devolved administrations at both Ministerial and official-to-official level is required. The Committee recommends that the Minister continues to raise the issue with her counterparts in the UK Government.

²² Record of Proceedings paras 135 & 136, 8 February 2017

²³ Ibid. para. 258, 8 February 2017

04. Concerns of non-priority sectors

No “direct return” from Levy payments

30. One of the chief concerns of the WRC is the issue of no “direct return” from Levy payments for Welsh employers. In its initial letter to the Committee, the WRC stated that:

“I would like to draw your attention to the extreme concern of the retail industry over our understanding that the retail industry and other Levy-payers in Wales will not have any opportunity to see a direct return from their contribution to the Apprenticeship Levy.”²⁴

31. Coupled to this, the WRC fears that the Welsh Government’s stated approach of channelling funding into priority sectors (which retail is not) will leave them at a disadvantage leading to a disincentive to invest in Wales. In its written evidence the WRC argued that:

“The key point is that not having access to levy funds would mean that employers would effectively have to pay twice to run apprenticeship programmes in Wales. This could put Wales at a disadvantage vis-à-vis other parts of the UK and lead to lower investment and productivity growth over time, unless retailers can at least indirectly access some of their levy funds in Wales.”²⁵

32. Despite being a priority sector, the similar point of recouping the cost incurred following the introduction of the Levy was also raised by Centrica. In its evidence Centrica contrasted this with the situation in England where they “expect to draw down 100%” of their organisation’s £3.8 million Levy payment.²⁶

33. Traditionally, the bulk of apprenticeships in sectors such as retail have been at Level 2 or below. In its written evidence, the Welsh Government stated that:

“Currently the majority of apprentice starters are at entry level following Foundation Apprenticeships at level 2 (43 per cent); 35 per cent on Apprenticeships (level 3); and 21 per cent on Higher Apprenticeships (levels 4 and above). Of these apprentices the majority are in sectors and occupations that are in non-priority sectors/occupations, for example, in business administration, retail and customer service.”²⁷

34. Responding to a question on the concerns of the retail sector in Wales, Sarah John of the National Training Federation for Wales argued that the retail sector should look to work with training providers to develop new apprenticeship pathways, as an alternative to graduate entry schemes, in areas such as project management, human resources, logistics and ICT. Ms John added that:

“Tesco has a head office in Cardiff and they do financial services and accountancy, so why not create those pathways with us and engage in that way

²⁴ <http://senedd.assembly.wales/ieListDocuments.aspx?CId=446&MId=3795&Ver=4>

²⁵ [08 Welsh Retail Consortium](#)

²⁶ [01 Centrica](#)

²⁷ [09 Minister for Science and Skills](#)

rather than say, ‘We want lots of our existing staff just to do level 2 retail’. Well, they’re probably competent already, if they’re existing staff—let’s look at how we can develop them further. That’s what I’d like us to challenge them with.”²⁸

Flexible skills fund

35. The WRC also contrasted the situation in Wales with the situation in Scotland, where the Scottish Government has announced a flexible skills fund. Sara Jones said that:

“Whereas, in England, we’ll have the opportunity to draw that money back and invest in the skills of our workforce through the apprenticeship system, and in Scotland we have got a flexible skills fund, so, again, our employers will be able to access that flexible skills fund, in Wales, there’s no opportunity there. So, we’re effectively paying into the levy, we’re unlikely to see any return on that levy money in Wales and, consequently, to enable us to continue to invest in the training and skills needs of our workforce, we will continue to pay that money to enable those employees to have the same access as their colleagues across the rest of the UK. But clearly, in Wales, there is that situation where we’re paying twice, unlike the rest of the UK.”²⁹

Welsh Government response

36. The Welsh Government’s stated aim is to “rebalance investment to align to the needs of Welsh businesses”. This entails “shifting apprenticeship training from low cost sectors, where the skills content is relatively low and where there is limited evidence of skill shortages, into high value sectors”.³⁰

37. In oral evidence, the Minister addressed the issue of the potential effects of the Welsh Government’s policy to move away from lower level apprenticeships on sectors such as retail. The Minister stated that:

“I think it’s also important to remember that apprentices are not the only kind of work-based learning. So, just because we’re not offering a level 2 apprenticeship in shelf stacking for retail people doesn’t mean we’re not offering work-based learning to retail people; it’s just not an apprenticeship, because that’s not appropriate. There are lots of other work-based learning arrangements that we have in place, including things like traineeships to get people up to the level of an apprenticeship, but also just standard work-based learning that we also support. I think one of the issues around the apprenticeship levy is that it’s a shame it’s called ‘the apprenticeship levy’ and not ‘the work-based learning levy’, because actually apprenticeships are very important, but they’re not the only kind of work-based learning and, for some areas, not at all appropriate. What we don’t want is to have people, as I say, working happily and then showing up after three years to discover they’ve been an apprentice all this time and are now getting a certificate. I’m not suggesting

²⁸ Record of Proceedings para 267, 2 February 2017

²⁹ Ibid. para 41, 8 February 2017

³⁰ 09 Minister for Science and Skills

that's happening in England, but we're very keen that it doesn't happen here in Wales."³¹

Higher Level Apprenticeships

38. The Committee is supportive of the Welsh Government's overall strategy of moving towards higher level apprenticeships. In the recent strategy document, the Minister confirms the delivery priorities for 2016-2022, including focusing on higher level skills (Level 3 and above).

39. However the Committee was also pleased to hear that:

"We will continue to monitor the effectiveness and relevance of Foundation (level 2) Apprenticeships to determine whether a new approach is required to meet the skills requirement for entry level jobs."³²

40. Furthermore, the Minister told the Committee that:

"The skills content of an Apprenticeship is set at a level to meet the future skills needs of the Welsh economy. Entry level (Foundation Apprenticeships) should normally be achieved on route to completing an Apprenticeship; there should be automatic progression to an Apprenticeship. In future years, the focus will be on delivering Apprenticeships at level 3 and above, where returns tend to be higher, putting in place a phased reduction in entry level Apprenticeships in non-priority sectors."³³

Conclusion 4. The introduction of the Levy will clearly lead to unintended consequences for all sectors, particularly non-priority sectors, in Wales. Whilst the Committee is supportive of the Welsh Government's overall strategy of moving towards higher level apprenticeships, it is concerned that the Welsh Government is not doing enough to allay the concerns of, and work with, key sectors such as retail particularly in terms of promoting the alternative training and work-based learning options that are available to them.

Conclusion 5. The Committee is also concerned that, despite the Skills Gateway for Business, businesses are insufficiently aware of the alternatives that are available to them in terms of support for workplace learning.

³¹ Record of Proceedings, para 149, 8 February 2017

³² Welsh Government: 'Aligning the Apprenticeship model to the needs of the Welsh economy', February 2017

³³ Ibid.

Recommendations

Recommendation 6. The Committee recommends that the Welsh Government re-doubles its efforts to allay the concerns of non-priority sectors in Wales by working with them to develop training opportunities, including new apprenticeship pathways, in less traditional areas such as financial services, project management, human resources and logistics.

Recommendation 7. The Committee recommends that the Welsh Government sets out how it intends to ensure that all employers (including those in non-priority sectors who are making Levy payments) are made aware of the opportunities to overcome the issues of 'no direct return' via the Welsh model of apprenticeship delivery.

Recommendation 8. The Committee recommends that the Welsh Government identifies good practice and evaluate the proposals for the flexible skills fund in Scotland (known as the Flexible Workforce Development Fund).

Recommendation 9. The Committee recommends that the Welsh Government sets out how it intends to promote and improve the take-up of apprenticeships among employers in Wales, particularly among those sectors that have not traditionally had clear pathways to higher level apprenticeships.

05. Cross-border issues, expectations, and portability

Cross-border issues

41. The Committee heard that cross-border issues may feature more prominently following the introduction of the Levy, and as the apprenticeship systems in England and Wales continue to diverge. A number of witnesses highlighted the difficulties associated with operating within two separate regimes which included increased complexity and administrative costs.³⁴

42. The Construction Industry Training Board described some cross-border issues that the construction sector experiences:

“We obviously have major contractors that have a training centre based in England, and they draw Welsh candidates through to that. But we also have the reverse, with the likes of Redrow, that seek to bring their employees into Wales to put a system together that works for them, based out of Coleg Cambria. So, it does work both ways. And it’s that difference across the border, with two different systems, both qualifications and funding, that is causing concern, particularly for some of the smaller businesses that may be based in west Wales that are having ambitions and are now opening offices in Bristol and beyond.”³⁵

43. It is likely that more of these practical cross-border issues will manifest themselves over the next 12 months as the new system in England is implemented.

Enhanced expectations

44. The introduction of the Levy has also enhanced employer expectations across the United Kingdom. In its written submission the National Training Federation for Wales explained that:

“...the advent of the apprenticeship levy will increase the appetite amongst those who pay it, to develop their own apprenticeship programme. We also recognise that some of these employers will be in sectors for which there is currently very little, if any, capacity or capability to provide. The NTfW would ask the Committee to urge the Welsh Government to increase its own capacity and capability in developing apprenticeships for Wales, as with the advent of ‘Trailblazers’ and the more recent post-16 Skills Plan, most UK-wide organisations will be focused on developments in England.”³⁶

45. Colleges Wales echoed this sentiment, but also sought to highlight the potential implications for small and medium size enterprises (SMEs). In their written evidence they said that:

“For small and medium size enterprises (SMEs) who are not eligible to pay the levy, there are also concerns. For instance, if large companies look to recoup their entire levy by training additional apprentices, this could eventually reduce

³⁴ 01 Centrica; 10 Coleg Cambria;

³⁵ Record of Proceedings, para. 78, 8 February 2017

³⁶ 05 National Training Federation for Wales

the scope for SMEs, potentially through means such as imposing stricter eligibility conditions.”³⁷

46. Colleges Wales also said that a positive result of the Levy was a stimulation in demand for apprenticeships on the part of employers.³⁸ A significant number of witnesses expected demand for apprenticeships to increase as a result of the Levy.³⁹

47. Colleges Wales also called for a comprehensive post-16 skills plan in Wales:

“A strategy for post-compulsory education is urgently needed to help address issues of apprenticeships, training and skills at all levels in a coherent manner. This needs to be set against a comprehensive economic strategy for Wales, dealing with the specific circumstances of Wales, and taking account of some of the ideas set out in the 2015 IWA report ‘An Economic Strategy for Wales’.”⁴⁰

48. A policy paper for England, **Post-16 skills plan and independent report on technical education**, was published in July 2016.

49. During oral evidence, the Minister acknowledged that employer expectations had increased as a result of the Levy. However, the Minister also stated that:

“We absolutely agree with the UK Government’s need to drive investment on this, but I don’t think this is the right way to do it. I’ve just said in public many times, and I’ll say it again here, I think that what we’ve got here is a specific employer tax just replacing general taxation, and, actually, we fear that it will not drive extra investment. What it will do is muddy the waters of investment and make those firms that are made to pay the levy resentful and have raised expectations in areas that aren’t necessarily the right areas for the growth of the economy, and may cut off the SME market from those training funds. So, we’ve sought, in Wales, not to do that.”⁴¹

Portability and flexibility

50. In common with the theme of cross-border issues is the question of the portability of qualifications. For example, the Construction Industry Training Board identified “portability” as a key issue for their industry, saying:

“...it’s the portability. So, we have a lot of construction employers that have a very mobile workforce, and that, for us, is a major issue, and that’s something that we’ll be seeking to address as far as access to work across the border.”⁴²

51. A number of witnesses suggested that the Welsh Government should have used the introduction of the Levy to consider making their Frameworks and Apprenticeship eligibility more flexible. Craige Heaney of Centrica said in oral evidence that:

³⁷ **03 Colleges Wales**

³⁸ *Ibid.*

³⁹ **06 Welsh NHS Confederation**; Record of Proceedings **para 184, para 194**, 2 February;

⁴⁰ *Ibid.*

⁴¹ *Ibid.* **para. 131**, 8 February 2017

⁴² *Ibid.* **para 74**, 8 February 2017

“I would add to that in terms of—we don’t necessarily see there’ll be a decline in the number of apprentices that we take on, but where there is a missed opportunity in there are up to 200 to 300 people being recruited in Wales every year on behalf of British Gas, and a small proportion of them are trained through the apprenticeship route. I have an opportunity to train them through the apprenticeship route, but, because of there being different frameworks, it makes it difficult for that to be recognised as an apprenticeship. I recognise that, obviously, the Welsh Government has a target of 100,000, and we feel that there’s a bigger opportunity for us to contribute to that target. So, it’s not necessarily from our perspective that we see there being a reduction in apprenticeships, but, where we are expanding our apprenticeship schemes, I feel that there is a potential missed opportunity.”⁴³

52. On portability, as with cross-border issues there was a consensus among the panel of businesses that it was essential for the Welsh and UK Governments to work together to ensure that the apprenticeships systems can meet the needs of UK employers. Joanne Foster of GE Aviation said that:

“In terms of cross-border issues, which you raised, I think the onus is on the Governments to work together to make this run as smoothly as possible.”⁴⁴

⁴³ Record of Proceedings, [para 31](#), 2 February 2017

⁴⁴ *Ibid*, 2 February 2017

Conclusion 6. It is clear that the introduction of the Levy has led to businesses and employers, particularly in sectors that may not traditionally employ apprentices, to look at how they may capitalise upon apprenticeships as part of their business. The Committee welcomes the increased demand for, and interest in, apprenticeships.

Conclusion 7. The introduction of the Levy, however, has also brought the issue of the increasing divergence of apprenticeships schemes across the nations of the UK into sharper focus. The Committee believes that alignment and portability issues that arise as a result of this divergence needs to be looked at.

Conclusion 8. The Committee is particularly concerned about the impact on the careers of individual apprentices if their apprenticeship certificates are not portable and valued in other parts of the UK.

Conclusion 9. The Committee found that a number of employers were frustrated with the lack of flexibility in the current apprenticeship scheme, particularly as regards industries and sectors that have not traditionally employed apprenticeships such as financial services. Furthermore, the Committee heard different views on the operation and implementation of the ‘Trailblazers’ apprenticeship programme in England. The Committee believes that there is merit in some aspects of this approach.

Conclusion 10. The breadth and depth of issues relating to apprentices including portability, cross-border issues and the flexibility and responsiveness of the system means that the Committee may wish to undertake further work looking at apprenticeships in the main at a later point during the Fifth Assembly.

Recommendations

Recommendation 10. The Committee recommends that the Minister work with counterparts to ensure that opportunities for helping businesses to overcome the difficulties associated with operating in four separate systems are identified.

Recommendation 11. The Committee recommends that the Minister explore options for working with businesses and employers to achieve apprenticeships with sectors that do not traditionally employ apprentices.

06. Impact on the public sector in Wales

53. The estimated cost of the Levy to public sector employers in Wales will be roughly £30 million in the first year. The Levy will affect nearly all public sector employers including the NHS, local government, and the Police. Higher levels of public sector employment in Wales will also mean that the Levy will have a disproportionate effect on Wales.

Impact on public sector budgets

54. The WLGA, for example, say that all local authorities in Wales will have to pay the Levy. The WLGA are concerned that there are already significant pressures on local authority budgets; none of the Levy payments will be returned to local authorities and that local authorities do not have the option of increasing prices, as in the private sector.⁴⁵

55. The NHS representatives also said that there would be implications, due to the size of the public sector in Wales, that the workforce Levy payments will be significantly higher in the public sector than the majority of the private sector. They also draw attention to the already existing pressures on NHS budgets.

Other concerns

56. Several public sector organisations including the WLGA, the Welsh NHS Confederation and the NHS Wales Employers share other employers' concerns that there is no "direct return" from their Levy payments.⁴⁶ The WLGA does not support the Levy and sees this as no more than an additional tax burden and workforce cost.

57. Similarly, there was a level of confusion amongst public sector employers about the impact of the Levy on the delivery of apprenticeships in Wales. In their written evidence, the WLGA say:

"However, it is worth noting that this has been a UK government issue and there has been a sense of reluctance by Welsh Government to issue any formal advice and guidance on this matter unless asked to do so. This has caused some frustration and confusion."⁴⁷

58. The Welsh Government recognises that there is likely to be increased demand for apprentices from the public sector (particularly the NHS, the police and local authorities) and is already working with these organisations on ways to achieve this. The Minister told the Committee:

"We will work with public sector organisations on their workforce planning, to encourage a greater up-take of apprentices, specifically within Local Authorities, the NHS and the 'blue light' services."⁴⁸

Maintained schools in Wales

The Welsh Local Government Association (WLGA) has specific concerns about the impact of the Levy on maintained schools in Wales. The key points made by the WLGA are:

⁴⁵ 07 Welsh Local Government Association

⁴⁶ 06 Welsh NHS Confederation; 04 National Assembly for Wales

⁴⁷ Ibid.

⁴⁸ 09 Minister for Skills and Science

- It is the view of HMRC that local authority maintained schools form part of the local authority staff complement and as such will be liable for payment of the Levy out of the money that is devolved to them;
- The pay bill of individual schools in the vast majority schools in Wales will fall below the £3 million threshold;
- This is stark comparison to academy schools in England and other non-maintained schools who will not be liable to pay the Levy as they will be treated as separate employers for the purposes of the Levy;
- The WLGA would like the Welsh Government to raise this issue with the UK Government as unfair and inconsistent;
- They also note that the career pathway for teachers does not involve apprenticeship schemes.

The Police

59. During oral evidence, the Minister and her officials responded to questions about the impact of the Levy on Welsh police forces, particularly given that the College of Policing is based in England and serves the police forces of England and Wales. The Minister stated that police forces in Wales would receive £0.5 million to “assist them to develop an apprenticeship scheme[...]”.⁴⁹ The Minister’s official, Samantha Huckle, also explained that the Welsh Government is in dialogue with the College of Policing and had meetings in the diary with Welsh police forces, including the Police and Crime Commissioners.

Conclusion 11. The Committee notes that the Levy will have a disproportionate effect on the public purse in Wales due to the higher levels of public sector employment.

Conclusion 12. The Committee is extremely disappointed that maintained schools in Wales will be treated differently to the Academy schools in England for the purposes of calculating the Levy and does not agree with the UK Government’s rationale for doing so. Local authorities are already facing a squeeze on finances and the introduction of the Levy will exacerbate this.

Conclusion 13. The Committee is concerned about the impact of the Levy on police forces in Wales. It is likely that they will lose out financially due to both the location of the College of Policing and the different approaches adopted by the Welsh and UK Governments. The Committee is also concerned that the Minister’s engagement with police chiefs, including Police and Crime Commissioners, is coming late in the day.

⁴⁹ Record of Proceedings, [para. 222](#), 8 February 2017

Recommendations

Recommendation 12. The Committee urgently recommends that the Minister lobby the UK Government to ensure that the number of people employed by local authorities in schools are not included in the overall local authority employee headcount for the purpose of calculating the Levy. This will adversely impact on schools budgets in Wales and is at odds with the treatment of Academy schools in England.

Recommendation 13. The Committee recommends that the Minister work with police forces in Wales and with her counterparts in the UK Government to ensure that the Welsh police forces are not unfairly disadvantaged by the fact that police forces in Wales will have to pay the Levy but cannot access the Levy to contribute to accredited courses in Wales.

Annex A

The Committee looked at the following issues:

- What are the implications of the introduction of the UK Apprenticeship Levy for employers in Wales?
- Will there be different implications for public sector and private sector employers?
- Are there any specific implications for employers who operate both in Wales and also throughout the UK (that you have not previously referred to in your response)?
- If you have concerns about the funding of apprenticeships after the introduction of the UK levy, what would you like the Welsh Government to do to address your concerns?
- What, if any, are the cross-border funding and policy issues which arise from the introduction of the Apprenticeship Levy (that you have not previously referred to in your response)?
- Do you have any views about how the Welsh Government has engaged with employers with regard to the Apprenticeship Levy?
- Do you have any general comments or concerns on the current system of funding of apprenticeships in Wales? What should the Welsh Government be doing to address any concerns you have identified?