

## TEST AND ADJUST

Energy and Utilities Employers  
Ready to Lead the Way with  
Further Apprenticeship Reforms

Professor David Way CBE  
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# INTRODUCTION

In September 2019, the Secretary of State for Education in England, Gavin Williamson called Apprenticeships “*one of the greatest successes of the government.*” The key to achieving this has been employer leadership. Employer-led reforms have been introduced primarily through Apprenticeship Standards, End Point Assessment and the Apprenticeship Levy.

The policy intention of “putting employers in the driving seat” has been warmly welcomed by employers in the energy and utilities sector who have seen significant progress having been made. However, while employers do feel they are designing the engine, arranging the driving test and, through the Levy, putting fuel in the tank, they do not yet feel they are truly steering Apprenticeships in the UK.

This review analyses the experiences of the reforms through the eyes of employers in the energy and utilities sector. This is a sector that has been committed to getting behind the reforms from the outset. The review also looks ahead at further changes that are needed and where employers are keen to support government and lead the way through its ‘test and adjust’ approach.

The energy and utilities sector is critical to government plans to boost productivity and will invest more than £100bn in the UK economy over the next decade. The sector, comprising of the environmental infrastructure companies within water, power, gas and waste management / recycling and their top tier of delivery partners, employs over half a million people, generates 5% of GDP and contributes £51m annually to the Levy pot.

Apprenticeships are the dominant form of training in a sector that has a long history of high quality technical training. Most companies operate across England, Scotland and Wales with a number operating in Northern Ireland. Half do business in the European Union. The sector is closely regulated and has very high safety standards.

The sector is especially interested in making Apprenticeships work because the sustainability of the workforce is under pressure. Apart from an ageing workforce, the proportion of vacancies that are hard-to-fill in the sector due to a lack of skilled applicants is 35%, well above the UK average. The sector will also need a different mix of skills to deliver future infrastructure projects as the blend of the work in the pipeline is changing, new technologies and more innovative ways of working are required.







### **This report's messages are important because:**

- ▶ The review contains evidence, analysis and recommendations by employers who are predominantly Levy payers, paying on average in excess of £1m a year.
- ▶ It records fresh insights and perspectives from a sector that has prepared itself well for the Levy and engaged fully with the Apprenticeship reforms.
- ▶ Technical skills dominate Apprenticeship training in this sector and the government's ambitions to overtake Germany (and other international competitors) will need to be realised in sectors like this one.
- ▶ The sector's views are respected and influential. Its evidence-based approach and preparedness to say both what is working well and to ask the right questions of those managing the reforms has given it the 'ear of UK government'.
- ▶ The sector is key to the success of high profile UK government policies including Net Zero Carbon and the £0.6 trillion National Infrastructure Plan.
- ▶ UK businesses and the entire population depend on the sector's performance and its workforce's resilience and skills.

### **The review is timely:**

- ▶ More than two years into implementation of the Apprenticeship Levy, employers have had time to explore and appreciate the improvements, opportunities and barriers within the new arrangements.
- ▶ Unspent Levy funds are being removed from energy and utilities employer accounts at a rate of over two and a half million pounds per month (if Levy recovery rates are 35- 40% on average). This could be spent on further training within the sector to meet high public and government expectations.
- ▶ The current government policy horizon for Apprenticeships is primarily 2020. Consultation on strengthening Apprenticeships beyond that time was announced in the 2018 Budget.
- ▶ There are serious funding decisions to be taken. Apprenticeship spending is projected to exceed current Levy funding.
- ▶ Concerns raised by the National Audit Office (NAO), including linking Apprenticeships success measures more closely to productivity improvements, and by the Public Accounts Committee (PAC) regarding future funding choices, have yet to be fully addressed.
- ▶ The Institute for Apprenticeships and Technical Education (IfATE) is under new leadership and is implementing ambitious plans for technical education in England.
- ▶ Businesses preparing for Brexit opportunities and challenges desire a clear and sustainable UK policy framework for skills.

This review is the product of survey results from employers across the energy and utilities sector; discussions with the sector's Apprenticeship and Technical Education Advisory Group (ATEAG); research that has been commissioned by Energy and Utility Skills; and a literature review of relevant research and reports. Manifesto 2020, setting out sector priorities for workforce renewal and skills, has also informed the review.



# TEST: HEADLINE MESSAGES FROM EMPLOYERS ABOUT PROGRESS

## **The reforms are a significant improvement, especially in delivering higher quality.**

- ▶ The reforms have brought welcome benefits for employers and are seen as a clear improvement on previous arrangements by 75% of businesses.
- ▶ Employers have been especially pleased to leave behind Frameworks that were seen as too prescriptive and more likely to be used to certify existing competence than to develop the skills employers need.
- ▶ Improvements have not come primarily from the Levy but from the other employer-led reforms – the introduction of new Apprenticeship Standards and of End Point Assessment (EPA).
- ▶ 63% of employers report improvements in quality from the reforms.
- ▶ Over 80% of employers saw the new Standards as a better fit for jobs in the sector and 94% considered EPA gave them confidence that individuals could do the job.
- ▶ EPA is seen as more stringent. Training to develop individuals has been more focused on what will be needed to do the job and EPA ensures individuals are able to apply the knowledge and skills required.
- ▶ The expansion of Higher-level Apprenticeships has been an essential aid to progression and to helping the sector attract talent.

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“The business is still identifying the requirement for apprentices via workforce strategy planning, this has not changed since the Levy was introduced.”

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Power employer

## **Employers have now adapted well to the new Apprenticeship arrangements.**

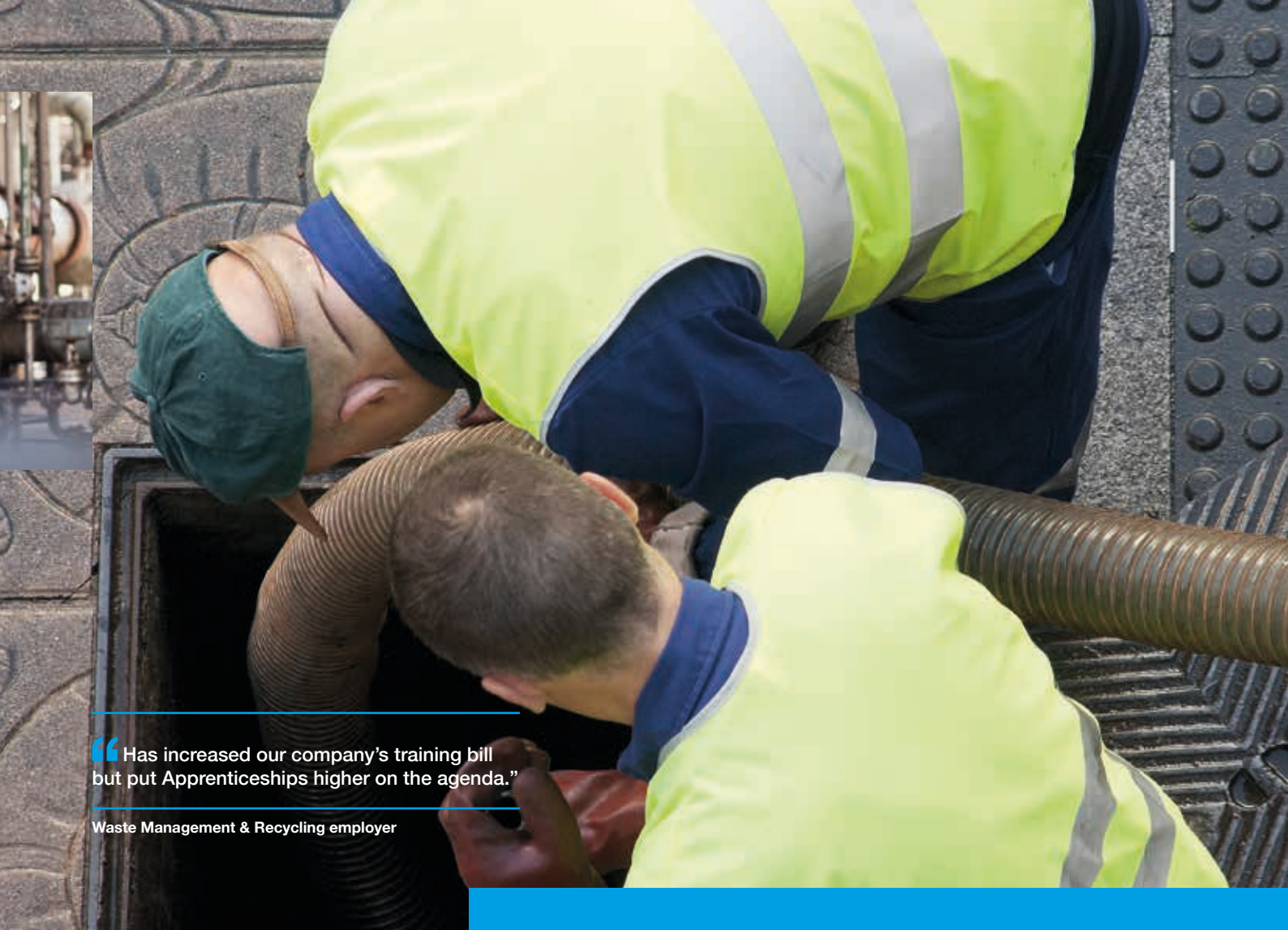
- ▶ Over 80% of employers feel they have adapted well to the new systems. They have introduced new systems and processes and have dedicated resources to manage them.
- ▶ All businesses have developed their response to the Levy, with none any longer adopting a ‘wait and see’ position.
- ▶ Employers are especially happy with their leadership of the Standards process. Every company considered it had the opportunity to influence this work.

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“There is an increased understanding of programmes fundable by the Levy and new programmes have come on board as a result.”

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Power employer



“Has increased our company’s training bill but put Apprenticeships higher on the agenda.”

Waste Management & Recycling employer

**The main impact of the Levy has been to fill the gap in public funding, though there has been some positive impact on employer behaviour and investment with many employers still looking at opportunities to increase the recovery of their Levy payments.**

- Most companies report little direct impact of the Levy on their recruitment and training strategy, continuing to let decisions on Apprenticeships be driven by business need.
- However, about 30% of employers are planning to maximise the recovery of their Levy, while 12% have increased Apprenticeship recruitment since the Levy was introduced.
- Apprenticeships are higher up the training agenda in some companies, with upskilling, non-technical and degree-level Apprenticeships now being considered.
- Some Engineering Training Programmes have been converted to Apprenticeships as well as Leadership and Management and non-accredited training.
- Less than a third of companies report an increase in their training expenditure.
- Very few companies are using the supply chain flexibilities.

**Most companies are recouping 20-50% of the Levy paid.**

- Less than a quarter of employers are recovering more than 50% of the Levy paid.
- Over half of companies expect the share of the Levy recovered to increase in 2020.

“Compared to actual/real cost of training delivery within our business the funding bands are too low.”

Power employer





**Funding is an important but insufficient contribution to training costs and band review reductions threaten quality.**

- ▶ No employer felt that funding rates fully covered their training costs; with the highest claiming they met 75%. Most employers assessed current rates as covering half of their training costs.
- ▶ Over half of employers see funding for training as a subsidy towards their costs.
- ▶ Many companies were concerned about the threat to quality where the employer cannot afford to make up the full costs to deliver to the standard they need. This is especially frustrating when they have unused Levy funds.
- ▶ Recent reviews of funding band rates have only made this worse, affording a reduced service from providers.

**The funding review process was unsatisfactory in many respects.**

- ▶ Employers did not see the funding review method as transparent or open; nor did they consider the outcomes to be fair.
- ▶ IfATE had not responded (or been allowed to respond) well to the concerns of employers.
- ▶ The funding review process was not seen to be employer-led.

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**“More realistic funding caps, particularly in the engineering/technical arena, currently the majority are too low when compared to the actual cost of delivery.”**

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Power & Gas employer





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“ Use unspent funds to up-skill current employees to develop the skills required within their current roles to meet the changing landscape of new technologies.”

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Power employer

**Apprenticeship funding shortages should be addressed through a reduction in the company payroll threshold for the Levy if additional government funding is not forthcoming.**

- The most popular proposal for increasing Levy funding was to lower the payroll threshold below £3m, supported by almost two thirds of employers.
- Employers also strongly supported the idea of allowing greater access to Levy funds for employers in sectors designated as critical to the Government’s Industrial Strategy.
- The funding shortage challenge should not lead to the destruction of vital pieces of the Apprenticeship structure, especially progression pathways from Level 2 up to degree Apprenticeships.
- All levels are vital for job entry, social mobility, productivity and tackling skills shortages. There are many important “high end” Level 2 jobs that are essential for the sector’s service levels.
- Progression pathways to higher and degree Apprenticeships enable the sector to attract and develop more individuals with talent and ambition.
- No government restrictions should be placed on eligibility for Apprenticeships. Eligibility should be determined by employers and based on business need to boost productivity and close skills gaps.

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“ Focus funding on strategically important roles we need in the UK and keep to L2 - 6.”

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Gas employer

**Funding should be more closely linked to skill shortages that hold back productivity.**

- Critical skill occupations have had funding rates cut and risk future quality issues.
- Employers bemoan the loss of Levy funds to the sector when it has so many important training needs.

**Further changes are needed to make employers feel that the Apprenticeship system as a whole is truly employer-led.**

- Employers feel they have little influence over decisions regarding strategy, the use of funding, funding bands and training delivery (which is considered provider-led).
- A number of outstanding issues could be resolved if government applied the same successful employer-led approach adopted in respect of new Standards to all parts of Apprenticeships delivery. These areas are set out on page 15.

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“ That a percentage of unspent funds could be used to support non Apprenticeship training.”

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Contractor employer

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“ More transparency on unspent Levy funding and where this is going.”

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Waste Management & Recycling employer



“The 20% for existing employees is a challenge and sometimes it is quicker and easier to pay for a training course. Sometimes the Apprenticeship is unduly onerous.”

Waste management employer

### **Greater transparency about Levy payment and the use of funds is a vital first step to enable employer leadership.**

- Employers were unable to reconcile information about lower than expected uptake of Apprenticeships with pressures on the budget and reducing funding bands.
- Levy funds disappear into Treasury. Employers then have little influence on how funds are deployed by Department for Education (DfE) and devolved administrations despite obvious needs and opportunities in sectors that are key to productivity such as energy and utilities.
- This lack of real employer influence on decision-making feeds the view of ‘employer engagement’ rather than the ‘leadership’ needed for true transformation of Apprenticeships.
- Transparency of Levy funding plans for the forthcoming Parliamentary term would enable businesses to invest in their workforce with greater confidence and ambition.

### **Wider Apprenticeship issues remain that hold back further investment in training.**

- A more flexible approach to the 20% off-the-job element is needed that has quality and consistency in outcomes at its core rather than rules and processes.
- Businesses face major challenges in respect of up-skilling their existing workforce. This is difficult to fund outside of Apprenticeships and forces employers either to shoehorn training into Apprenticeships or bear the costs of training themselves.
- Employer training providers feel treated in the same way as colleges and training providers who are much more accustomed to the language and bureaucracy of funding agencies. Employers are looking for more support and better communication. The establishment by the Education and Skills Funding Agency (ESFA) of a sector lead manager is a welcome development.



### **Companies operating across the UK face particular challenges.**

- ▶ Employers operating across the UK want the Apprenticeship system to work in a way that is less complex, facilitates best practice, avoids double funding of training costs by employers and recognises a single UK market.
- ▶ Employers have to manage four different policy approaches in the four nations, with differing funding rules, quality standards and methods of funding.
- ▶ Employers highlight that they face two main barriers:
  - A lack of parity around UK funding rules and systems. This is directly affecting Apprenticeship recruitment and training and is an administrative burden for employers to implement.
  - Inconsistency of approach to the format and structure of Apprenticeship programmes. This is creating artificial barriers to skills transfer and exchange within the UK.
- ▶ Employers with workers predominately in UK countries outside of England pay the Levy but cannot get access to funds in the other countries, so end up paying twice for training their apprentices.

### **There is strong support for efforts to boost the flow of young people with technical knowledge and skills; but employers are keen to know more.**

- ▶ Employers want greater clarity about how T Levels will operate and link to Apprenticeships and employment.
- ▶ This vital sector for the UK economy and society wants its own routeway and to apply its 'test and adjust' approach to ensure successful policy delivery.
- ▶ Government's stated ambition to overtake Germany in technical skills will remain simple rhetoric without a proper plan of action to deliver it and a clear narrative and leadership role for employers.

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**“**The reforms need a UK response. The variation between countries is too vast to make it work for UK businesses.”

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Contractor employer



# ADJUST: KEY 'ASKS' BY ENERGY AND UTILITIES EMPLOYERS



# FILLING THE FUNDING GAP

**The funding gap should be filled by a combination of increased public funding and lowering the payroll threshold for the payment of the Levy.**

There is a very strong case to be made within UK government and the devolved nations administrations for increased investment in Apprenticeships as the UK moves to take opportunities arising from Brexit. Global trading success is highly dependent on having a skilled and resilient workforce.

The government's own figures show that investing public money in Apprenticeships gives a very healthy return to the economy. Apprenticeships at Levels 2 and 3 provide a greater economic return per pound of government funding than traditional learning in schools or colleges. Apprenticeships provide a typical return of £26–£28 for every £1 of government investment. NAO estimates of the return on investment for every pound spent on Apprenticeships by government are particularly robust in engineering.

If, however, additional Levy funding needs to be raised, then this should not come from increasing rates above 0.5% of payroll. Such a proposition would be ill-judged while most employers are recovering less than half of the Levy they pay.

International research also indicates the importance of employers maintaining their support for Levy arrangements and not writing them off as a tax that is impossible to recoup. Increasing the rate would increase this risk.

While the Levy arrangements have legal force, the choice of the current payroll threshold at which the Levy is paid is arbitrary. Lowering it would spread the cost across many more large businesses and enable a more level playing field for them. These businesses would also be adopting a system that has already been tried and tested so that entry should be relatively smooth.

Government should resist temptation to weaken other parts of the Apprenticeship system that have been established carefully to ensure the coherence and enhance the reputation of the entire Apprenticeship offer and brand.

Access to higher and degree Apprenticeships enables employers to address higher skills needs and attract more talented people to the vocational route. These opportunities will be vital as T Level graduates enter the workplace.

# LINKING APPRENTICESHIPS TO THE INDUSTRIAL STRATEGY

**Apprenticeship reforms should be more closely linked to the Industrial Strategy.**

The success of the Apprenticeship system cannot be judged solely by traditional DfE metrics as the NAO (2019) report concludes. Success should be more than about the number of starts. Success criteria for the Apprenticeship programme need to be broadened to include proven drivers of productivity and growth; and reflect other requirements made by government and regulators such as their contribution to delivering new large-scale infrastructure projects and reductions in carbon emissions.

There is no serious incentivising of the skills that are needed to deliver the Industrial Strategy and wider policy objectives. The methodology for determining funding rates is linked simply to the minimum costs of provider delivery. This narrow thinking must change.

There must be a change of approach that ensures critical skills delivery is incentivised and quality is increased, not undermined by funding cuts. Funding regulators across the UK must be encouraged to see the bigger national picture, not straightjacketed by the constant need to find savings. This inevitably becomes 'a race to the bottom.'

Aligning Apprenticeships to the broader priorities of the economy would further boost the already very healthy returns on public investment and strengthen the case for increased public funding.

## USING LEVY FUNDS FOR A SECTOR TRAINING POT

**Levy funds should be retained within the sector and create a flexible sector training pot to be used for tackling skill shortages and enhancing productivity.**

Large employers cross-subsidising the training of other employers was never a declared policy intention and is unsustainable.

Organisation for Economic Cooperation and Development (OECD) research makes clear that Levy schemes are more likely to succeed where employers feel a sense of ownership of the Levy funds and can influence their deployment.

Employers in the energy and utilities sector are currently losing up to £2.5 million a month. While projections suggest that this figure will reduce a little over coming years, the sector is very likely to be a net contributor to other sectors at a time when its own skills needs are critical to the UK economy. Funds could instead be directed at skill shortages or parts of the workforce with insufficient levels of technical skills.

The use of funds in this sector pot would need to be agreed by sector employers and would include re-skilling or up-skilling existing employees in new technologies such as AI and digital and higher technical skills. Employers have also made the case for including pre-Apprenticeship training to be eligible for Levy funding where there is a strong track record of progression. However, prioritisation would be for the sector's employers to determine collectively.

This proposal enhances employer leadership. It sits well with the Confederation of British Industry (CBI) recommendation of a flexible skills Levy. It gives employers greater control over how their money is re-circulated to the benefit of the sector and UK productivity. A targeted and carefully managed sector skills pot should have at least as much legitimacy as current ideas for local Levy pots and could be deployed more strategically to meet the challenges of international competition.

There is of course recognition of the need for checks and balances that would ensure this responsibility is not abused by the sector and directly benefits UK productivity.







## EMPLOYER LEADERSHIP OF THE 20% OFF-THE-JOB ELEMENT

**The successful employer-led approach must be extended to all parts of the Apprenticeship system, especially to the 20% off-the-job element.**

Employer leadership has worked well as far as Standards and End Point Assessment are concerned. It is time to extend this approach to transform other parts of the Apprenticeship system. This is essential if the UK is to overtake Germany in technical skills, as is the stated UK government aim and to compete successfully with other international competitors.

Engaging employers directly in solving stubborn problems within the Apprenticeship system is essential as part of the move to secure genuine employer leadership. At present areas such as the 20% off-the-job element feel driven by government or their agencies.

There remains a lack of clarity in guidance about how the 20% can be made up. Employers want a more flexible approach to the 20%. The fear that any change could undermine the quality of Apprenticeships seems to be hampering serious engagement with employers.

We are now in a very different place from when the original inflexible safeguards were introduced. There are other existing and powerful quality protections built into the system, namely employer-led Standards and End Point Assessment.

Employers who have clearly demonstrated the importance they place on quality and supporting government reforms wish to contribute to new arrangements. Trailblazer groups, for example, have done an excellent job on new Standards and could be entrusted with off-the-job training design.



## IMPROVING THE EXPERIENCES OF UK-WIDE EMPLOYERS

**Apprenticeship reforms are needed to improve the experiences of employers who have a UK workforce and their employees.**

Over half of the employers in the energy and utilities sector operate multi-nationally, delivering essential services for around 67 million UK-wide consumers.

Employers appreciate the importance governments have placed on progressing devolution policy and the passionate support of all parts of the UK's government for Apprenticeships.

However, skills policies that should enable businesses to pursue the best human capital practices from across the UK labour market are pulling in opposite directions across the four nations.

This incompatibility of systems and approaches has a major impact on funding and on the consistency of quality Standards. This affects recruitment numbers, especially in the devolved nations. It also adversely affects the costs of managing Apprenticeships when there are different funding systems, qualifications and inspection regimes.

The development of four separate Apprenticeship arrangements across the nations of the UK has led to employers taking a view on where in the UK they can find the best training standards and then undertaking the training in that country. This gives them the consistent high quality they need.

Employers want the Apprenticeship system to work in a way that facilitates moving everyone to the highest Standard. The sector has highlighted the potential benefits of a genuinely UK-wide Apprenticeship policy, with scope for tailored or differentiated elements for each of the nations. There is a clear need for customised options to reflect national individuality and unique social and economic characteristics. However, it must also be within a coherent and UK-wide framework that works for employers.

An employer-led review of Apprenticeships focusing on meeting UK labour market needs, maximising quality and reducing bureaucracy would be very well received by employers in the energy and utilities sector and by businesses operating across more than one nation.

It would also support the UK government's ambition for delivering the Industrial Strategy that states that *"The truly generational challenges and opportunities to which our Industrial Strategy responds apply throughout the UK. We therefore propose to work with the devolved administrations to identify opportunities for improving both the coherence and impact of government interventions."*



## CLEAR PATHWAYS FROM T LEVELS TO APPRENTICESHIPS AND WORK

**Employers want to see clear pathways from T Levels to Apprenticeships and employment.**

While there is strong support for the expansion of technical education, the emphasis must be on progression and meeting skills needs rather than on qualifications.

The best way of describing the sector employers' attitude towards T Levels at present is 'positive anticipation'. They want to play a constructive and participative role, recognising the vital need for increased technical education and skills. But they need to know more.

Employers are keen to build on the current strengths of the vocational system. This means looking at T Levels and Apprenticeships as one continuous process that links to the real needs of employers and enables each individual to progress as far as their potential and application allows.





# NEXT STEPS

**This report concludes that efforts to put the employer ‘in the driving seat’ have met with some significant success but that parts of the car need further work if it is to be driven at top speed. It needs more than additional fuel by way of increased Levy and public funding. It also needs to let employers redesign parts such as the 20% off-the-job element and enable the Apprenticeship vehicle to run smoothly on roads in all parts of the UK.**

The energy and utilities sector remains fully committed to supporting the on-going process of reforming Apprenticeships. To achieve this, it is important that those working with and within energy and utilities have a clear appreciation of the experiences of the sector as a whole.

The report’s findings will be used constructively to remind UK government and devolved administrations of the need for investment in industries that are of strategic importance to the UK economy. No investment is more important than in the skills and resilience of its workforce.

The sector remains keen to act as a trusted monitor of the implementation of government’s employer-led reforms, contributing to future developments and offering a place to ‘test and adjust’ new ideas. This will help the UK develop the skills it needs to deliver the productivity improvements for global economic success.

This report celebrates the progress that has been made through employer leadership of the Apprenticeship reforms, points the direction for further work and enables collaborative working with the UK government, devolved administrations and agencies to continue the job of transforming vocational training.

An employer-led Apprenticeship system working well for all parts of the UK, its employers, young people and its workforce, will boost productivity and enable entry to the post-Brexit world with greater optimism and confidence. An Apprenticeship system that has benefited from the sector’s ‘test and adjust’ approach and is now running smoothly in top gear.

Finally, my thanks to the employers contributing to this review; to the Apprenticeship and Technical Education Advisory Group (ATEAG); and to Nick Ellins, Joan Coe, Carl Jordan and Somia Nasim at Energy and Utility Skills.

The employers contributing to the review were: Affinity Water, Balfour Beatty, Cadent, CPD Powerline, EDF Energy, FCC Environment, GTC, Keltbray Distribution and Transmission, Morrisons Utility Services, National Grid, RENEWI plc, Scottish Power, Siemens, South West Water, SSE Services, UK Power Networks, United Utilities, Veolia, Wales and West Utilities Limited, Wessex Water, Wood T&D.

## **Professor David Way CBE**

Skills Adviser to Energy and Utilities Skills since 2013, former CEO of the National Apprenticeship Service.





# PROFESSOR DAVID WAY CBE

**David Way has been a leading figure in UK skills and Apprenticeships for more than a decade. From 2008 until 2013, David helped design, establish and then run the National Apprenticeship Service as its CEO. David was awarded the CBE for services to Apprenticeships in 2011.**

For the past six years, David has advised a range of organisations on skills and Apprenticeships, including the Energy & Utilities Skills Partnership and has been a Visiting Professor at the University of Winchester. In 2016, David edited and contributed to 'A Race to the Top - Achieving Three Million More Apprenticeships by 2020'. He has carried out a number of reviews in FE and HE at home and abroad, most recently Apprenticeships in Jamaica. David is a regular commentator on skills and Apprenticeships.



**Energy & Utility Skills** brings industry leaders together to identify and address the skills challenges our sector faces.

We provide membership, assurance and skills solutions to help employers attract, develop and retain a sustainable, skilled workforce to ensure the seamless delivery of essential services to 65 million people and UK industry each day.

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