

techUK-NASSCOM
Joint Position Paper on Apprenticeship Levy

14 January 2020

On behalf of our members, we respectfully submit the enclosed joint position paper on the apprenticeship levy. This submission reflects the views and inputs from techUK and NASSCOM members. The paper explores key reforms to the apprenticeship levy that would benefit all stakeholders, including UK-India tech companies, apprentices and the Government.

techUK-NASSCOM Joint Position Paper on Apprenticeship Levy

14 January 2020

1. ABOUT TECHUK & NASSCOM

tech^{UK} techUK is the largest trade body for the technology sector in the UK. We represent the companies and technologies that are defining today the world that we will live in tomorrow. More than 850 companies are members of techUK. Collectively, they employ approximately 700,000 people, representing about half of all tech sector jobs in the UK. These companies range from leading FTSE 100 companies to new innovative start-ups. The majority of our members are small and medium-sized businesses.

NASSCOM[®] NASSCOM, a not-for-profit industry association, is the apex body for the 180-billion-dollar IT BPM industry in India, an industry that had made a phenomenal contribution to India's GDP, exports, employment, infrastructure and global visibility. In India, this industry provides the highest employment in the private sector. Since its establishment in 1988, NASSCOM's relentless pursuit has been to constantly support the IT BPM industry in its continued journey towards seeking trust and respect, even as it reorients itself time and again to remain innovative without losing its humane and friendly touch.

NASSCOM is focused on building the architecture integral to the development of the IT BPM sector through policy advocacy and help in setting up the strategic direction for the sector to unleash its potential and dominate newer frontiers. NASSCOM's 2,800+ membership constitute 90% of the industry's revenue and have enabled the association to spearhead initiatives at local, national and global levels. In turn, the IT BPM industry has gained recognition as a global powerhouse.

2. INTRODUCTION

There are [600,000 digital vacancies](#) at any one time in the UK and it is forecast that by 2020 there will be [one million](#) unfilled jobs in the British IT sector. The apprenticeship levy remains one of the key tenets of the Government's approach to address the skills gap in the UK and develop domestic skills. With the tech sector representing over 10% of the UK economy, and growing nearly three times faster than the rest of UK economy, it is important that technology businesses are enabled to support the growth of apprenticeships in the UK.

Tech companies in the UK, whether British or international, have embraced the opportunities brought by the introduction of the apprenticeship levy in 2017, and welcomed recent Government reforms. However, there is still more that can be done to ensure the levy works for both businesses and apprentices, and that the tech industry continues to be a positive force for apprenticeship development in the UK.

Although not exclusive to British and Indian tech companies, the operational challenges for domestic skills development, particularly related to the utilisation of the apprenticeship levy, have been recently highlighted by techUK and NASSCOM members through our joint work under the UK-India Tech Alliance.

As part of the broader UK-India Tech Partnership formed in April 2018 between both the UK and Indian governments, techUK and NASSCOM have signed a Memorandum of Understanding, under which both associations have formed a new UK-India Tech Alliance (Alliance). The Alliance has been endorsed by former UK Prime Minister, Theresa May, and India's Prime Minister, Narendra Modi.

The Alliance brings selected senior tech leaders from both countries together to offer a sounding board and expert guidance to the UK and Indian governments, advising on collaboration for enhancing skills, advancing new technologies, encouraging innovation and developing policy which ensures that both governments work to promote growth in this sector and beyond.

Given India's increasing role in the UK's tech sector and its contributions to the skills development agenda, techUK and NASSCOM have joined forces to voice our members' views and present a range of proposals that can bring more flexibility to the apprenticeship levy, remove barriers preventing businesses from taking on more apprentices, and unlock the potential that UK-India tech collaboration can bring to skills development in the UK.

We welcome the Government's commitment to consult businesses on the operation of the levy post-2020, and both techUK and NASSCOM are pleased to submit members' views on proposals for long-term reforms.

3. INDIA'S IMPORTANCE TO THE UK ECONOMY & SKILLS DEVELOPMENT AGENDA

The prominence of India in the global economy has changed markedly over the last few decades. Today, India is one of the largest economies and a major trading nation.

India also continues to play one of the most important roles in the UK's investment environment. According to the latest figures, it is ranked as the third largest source of FDI into the UK.¹ There are now a record 842 Indian companies operating in the UK with combined revenues of almost \$48 billion, a number which continues to increase every year. Indian companies in the UK pay over £684 million in corporation tax and employ around 105,000 people.²

With total employment figures in the UK reaching over 30,000 employees, the Indian IT industry's investment in the UK is increasing significantly. A recent survey of NASSCOM members, representing an indicative sample of UK members, found that individual NASSCOM companies have grown their headcount in the UK between 15 and 100 per cent over the past four years. Undoubtedly, India's business community in the UK contributes significantly to the growth of the UK's economy, the vibrancy of our tech ecosystem and generates significant employment.

In addition, Indian companies remain an important driver of innovation and skills development in the UK. Many Indian tech companies have established talent programmes, incorporating apprenticeships, mentoring and skills building. Large, Indian-owned IT companies are

¹Grant Thornton *India Meets India Tracker 2019*, P6 accessible [here](#).

² *Ibid*, P5

particularly strong in this area. For instance, Infosys has set up a Centre of Excellence in Nottingham while also focusing on other academy type initiatives for increasing coding skills. Wipro – another IT giant – is also investing heavily to support skills-building for the future in the UK, most recently, with the establishment of its Talent & Innovation Hub in Reading. Indian companies are making notable investments in local skills development in the UK and their efforts are helping create a pool of skilled workers ready to plug, or at least reduce, the IT skills gap in the long term.

4. OPERATIONAL CHALLENGES FOR UTILISING APPRENTICESHIP LEVY & KEY RECOMMENDATIONS

Our consultations with techUK and NASSCOM members revealed that our members are keen to use the apprenticeship route for skills development. However, a number of operational challenges currently limit their potential scope of engagement. Below, we have highlighted several areas which, if improved, could significantly increase the tech sector's engagement with the development of apprentices in the UK, contributing to the Government's objectives of reducing the skills gap in the UK. The key recommendations are:

- Broaden the apprenticeship levy into a skills & training levy
- Increase the lifetime of apprenticeship levy funds from two to five years
- Increase the percentage of transferable funds to 80 per cent

4.1. BROADEN THE APPRENTICESHIP LEVY INTO A SKILLS & TRAINING LEVY

Currently, apprenticeship levy funds can only be spent on training provided by the Institute for Apprenticeships & Technical Education. Companies are unable to use levy funds for internal training, which is key to ensure employees are able to upskill and retrain. Internal training is also invaluable for apprentices as it is directly relevant to technology sector-specific requirements and prepares apprentices for the operational requirements of their future career.

Unfortunately, the training that is provided through accredited institutions is often not aligned with the training needs of the tech sector. The 20 per cent off-the-job training requirement can place barriers on the quality of training that can be provided for apprentices and the incentive for companies to take on new apprentices. Effective vocational training generally requires several hours of training, combined with hands on experience applying the lessons to actual work situations. This is required to understand business processes and cannot be adequately delivered off-site. For example:

- **In delivery focused roles**, it is not possible to release apprentices who are on a client site to go through off-the-job training. Consequently, the off-the-job requirement severely limits the extent to which apprentices can be exposed to client work.
- **In project work**, it is difficult for an employer to meet the 12-month contract criteria in order to take on an apprentice if they are required to be off-site 20 per cent of the time – so apprentices must, by definition, have limited experience of project work.

In general, businesses report that the scope of available channels to use apprenticeship levy funds is not always aligned to the tech sector requirements. There is also a limited understanding on what is being funded by Government and how businesses' contributions can be spent. This lack of transparency in the apprenticeship system creates confusion. With businesses finding it challenging to see the value of using the available funding to address their direct needs for specialised talent, there is a danger that companies may consider the apprenticeship levy as just another tax on employers, rather than contributing to the Government's goal of skills development.

RECOMMENDATION: techUK and NASSCOM recommend reforming the apprenticeship levy into a broader skills and training levy, and including in scope other forms of accredited training, that are more closely aligned to the practical and operational realities of the job. The broadening of the apprenticeship levy could include training provided in-house by companies and form part of the 'off-the-job' training requirements for apprentices. Such measures would also help to mitigate the costs and operational barriers for businesses presented by the 20% off-the-job requirement, thus increasing the incentive for tech businesses to take on more apprentices and providing a better, more specialised and effective learning experience. Ultimately, a broader skills and training levy would better prepare apprentices for their chosen vocation and align their skillset to the tech sector's priorities.

Given the importance of digital skills to the UK's economy, the apprenticeship levy should aim to maximise the availability of digital skills training. A reduction of the current minimum course length for digital skills to 6-months would significantly increase the availability of digital skills training to the UK workforce, and contribute towards filling the digital skills gap.

4.2. INCREASE THE LIFETIME OF APPRENTICESHIP LEVY FUNDS FROM TWO TO FIVE YEARS

Our members have identified a range of operational constraints on how many apprentices a tech company can take on each year, ultimately, making it difficult for companies to make full use of levy funds within the current two-year period. For example:

- **For technology services companies,** it remains a challenge to expand the number of apprentices on a client site as clients are generally not happy to have apprentices doing the work. Therefore, companies need to balance apprentices with skilled workers on client work. This places strict limits on how many apprentices the company can intake each year to balance them with the needs of client work and the requirements for high skilled staff.
- **Auxiliary costs:** The levy fund only covers costs directly related to apprentice development, but companies note that there are other costs involved within taking on apprentices, including recruitment, support and infrastructure team, line management time and training. This introduces a cost barrier to how many apprentices a business can take on each year.
- **Periods of recruitment:** As apprentices typically start in September/October, some companies have reported a five-six months gap where levy funds are hardly utilised at all.

RECOMMENDATION: Given the above barriers, the two-year time limit for the use of apprenticeship levy funds is problematic for businesses and results in levy funds – which could otherwise have been used to fund apprenticeships – being left unspent. Consequently, techUK and NASSCOM recommend extending the time limit period from two to five years. This would enable a more efficient system where businesses can make full use of the levy funds and optimise their contributions to the skills development agenda.

4.3. INCREASE THE PERCENTAGE OF TRANSFERABLE FUNDS FROM 25 PER CENT TO 80 PER CENT

Since April 2019, the apprenticeship levy system has allowed employers to share up to 25 per cent of their funds with others in their supply chain, that might not have the resources to fund apprenticeships themselves. This reform was wholly welcome and is a positive sign that the Government has been listening to concerns about the efficacy of the levy. This rightly responded to evidence, including an Open University study which found that the vast majority of funds paid in by businesses were not being spent in the ten months since the levy launch. Passing on a portion of the levy funds has meant that companies were able to help fund training in smaller firms or those in their supply chain that might not have the resources to fund apprenticeships themselves.

In 2016, techUK [recommended](#) this very policy – that mechanisms should be put in place to allow levy-paying organisations to divert their levy funds for use within their supply or distribution chain. Our members have shared their views that this measure should go even further to enable them to fund skills development through their ecosystems.

RECOMMENDATION: techUK and NASSCOM believe that the measure to transfer funds should go further – to take on techUK’s recommendation for the transferable funds rate to be set at 80 per cent. This is because a number of large techUK members fund the skills and training efforts of organisations within their ecosystem and into lower growth parts of the economy. Particularly, both techUK and NASSCOM members want to transfer their funds to schools to help train STEM teachers, thus aiding in the growing of the domestic skills pipeline.

5. CONCLUSION

Between May 2017 and April 2019, levy-paying employers spent [18% of the funds available](#) to them on the training and assessment of new apprentices. However, there is much more we can do to enable employers to use all the resources available to them for skills training. The apprenticeship levy has been proven to be a useful tool in boosting investment in workplace training, but the number of barriers preventing it from working at its most effective need to be addressed. We hope that Government will consider our recommendations to further support all employers to make the long-term, sustainable investment in skills development in the UK.

If you would like to discuss our recommendations further, please do not hesitate to get in touch with Nimmi Patel (nimmi.patel@techuk.org) or Shivendra Singh (shivendra@nasscom.in). techUK and NASSCOM stand ready to engage with the UK Government to ensure that the apprenticeship levy works for the tech industry and that both UK and Indian tech businesses are enabled to drive the skills development agenda in the UK.