HRM Assignment 2

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Submission date: 26-Feb-2018 10:56PM (UTC+0000)
Submission ID: 83758490
File name: 6536_Luke_Atherton_HRM_Assignment_2_97439_918645848.docx (80.64K)
Word count: 3620
Character count: 21820

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M6X01291 Human Resource Management

Assignment Title: Identify current legislation of an EU country related to employee training and development and critically evaluate the extent to which the legislation meets its aims

Subject Area: UK Apprenticeship Levy

Submission date: 26/02/2018

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Modern organisations play a key role for improving productivity and economic prosperity by way of providing training and development of employees to increase workforce skill levels (CIPD, 2017). It is essential that an organisation recognises its current and future business needs to enable sustainable and effective planning of 'talent' whilst meeting current legislative aims (CIPD, 2017). According to Lee (2012), improving the skills base of the UK workforce is of crucial importance in today's economic climate. Lee (2012) further proposes that the apprenticeship system in England has provided the cornerstone for industry training and development for many years, and should be placed at the heart of the development skills system as set out by the National Skills Strategy, Skills for Sustainable Growth. This viewpoint was further echoed by Employment and Learning Minister Dr Stephen Farry, who suggests; *'Apprenticeships play a vital role in ensuring that we have a better skilled, modern and dynamic workforce to drive our economy forward. It is important that business invests in high quality training that helps individuals develop fulfilling careers, drives competitiveness and fuels economic growth'* (MENA Report, 2014). It was reported by the Centre for Economics and Business Research (CEBR) in 2017 that apprenticeships contribute a total of £34 billion per year into the UK economy (Cave, 2017).

According to Hoyle (2012); '*An apprenticeship is a competence based skill development programme, designed and endorsed by employers for their employees, which combines independently accredited work based learning, off-the-job training and relevant experience in the job'.* The roots of the apprenticeship system in the UK can be dated back to the 14th century, the era of medieval craft guilds in the Middle Ages (Mirza-Davies, 2015). Families mostly from an upper class background would offer to pay the Guild's Master craftsmen for their child to become an apprentice, of which they were legally bound to that Master for the 5-9 year duration (Aspire Training Team, 2016). Despite a relatively low number of apprenticeships during this era, apprenticeships were deemed as an appropriate and accepted form of training, and in 1563 the Elizabethan Statue of Artificers introduced the first national apprenticeship scheme outlining terms and conditions in order to regulate the apprenticeship system, and forbidding people to work in a specific trade or craft without the completion of a recognised apprenticeship (Mirza-Davies, 2015). This Act was revoked in the early 19th century as the popularity of apprenticeships declined due to factory working conditions and the reported exploitation of young apprentices (Mirza-Davies, 2015). Apprenticeships did however remain a favourable choice in many trades and professions, and during the early 20th century it is estimated that there were approximately 340,000 apprentices in any chosen year during this period (Mirza-Davies, 2015). The popularity of apprenticeships would continue to rise after both World Wars, and the growth of the high technology industry in the UK in the 1950's would see a considerable rise in demand for apprentices to provide fresh skills and talent (Aspire Training Team, 2016). This development lead to the four classifications of apprenticeships of; craft, technician, higher technician and graduate, all with varying lengths of duration and academic study (Aspire Training Team, 2016).

The popularity of apprenticeships in the UK peaked in the 1960's and overall apprenticeships numbers started to decline (Mirza-Davies, 2015), and then in 1964 the UK Industry Training Boards (ITBs) was founded (Aspire Training Team, 2016). It is suggested by Aspire Training Team (2016) that; *'Their aim was to improve the training available, both in terms of the quality and how the cost was to be managed by employers. Consequently, the time period from mid-1960's and mid-1970's saw the highest level of apprenticeship recruitment.'* The impact of the early 1980's recession saw a significant decline in overall employment levels and availability of training courses, and whilst apprenticeship numbers dropped overall, high technology apprenticeships continued to thrive (Aspire Training Team, 2016). In an attempt to address the overall decline in apprenticeship numbers, the National Vocational Qualifications board was formed by the Government in 1986, leading to the creation of the 'Modern Apprenticeship' in 1994 (Aspire Training Team, 2016). The National Apprenticeship Service would be launched in 2009, a resulting outcome of the recently established 'Apprenticeships, Skills, Children and Learning Act 2009' (Mirza-Davies, 2015). It is suggested by Mirza-Davies (2015) that; '*The Apprenticeships, Skills, Children and Learning Act 2009 introduced the apprenticeship offer: a duty to provide an apprenticeship place to all qualified 16 to 19 year olds who did not have one and wanted one. The offer never commenced after it was removed by* the *Education Act 2011*'. After the 2010 Government general election higher apprenticeships were introduced in to the apprenticeship system and the 'Young Apprenticeship Scheme' was scrapped, with financial incentives now becoming available for small businesses hiring apprentices aged 16-24. Notably the number of apprentices aged over 25 doubled between 2009/10, extending to 500,000 by 2011/12 (Mirza-Davies, 2015). Today there are currently four levels of apprenticeships available in the UK;

- *Intermediate apprenticeship – level 2; equivalent to five good GCSE passes*
- *Advanced apprenticeship – level 3; equivalent to two a-level passes*
- *Higher apprenticeship – level 4/5; equivalent to a foundation degree*
- *Degree apprenticeship – level 6/7; equivalent to a Bachelor's or Master's degree*

(Aspire Training Team, 2016)

According to Powell (2018, p.3); *'Almost 900,000 funded apprentices participated on an apprenticeship in the 2015 to 2016 academic year, and the Government has set a target of 3 million new apprenticeships by 2020'* – further highlighting the emphasis the Government has placed on the importance of apprenticeships for the UK economy. In order to achieve this target, the 'apprenticeship levy' funding system was introduced in the UK on the 6th April 2017 (Amin-Smith et al., 2017). The apprenticeship levy is a mandatory tax on all UK employers that have an annual pay bill above £3 million, and is calculated at 0.5 percent of the company's annual pay bill (Gingell, 2018). Gingell (2018) further states; *'All employers will receive a £15,000 annual allowance, to be offset against the bill. This effectively means that employers with an annual pay bill of £3m or less pay no levy.'* Non levy paying employers will pay 10% of training and assessments costs with the Government providing the remaining 90 percent for those aged 19 and over (Powell, 2018), whilst according to Motor Transport Magazine (2017, p.25); *'Employers with fewer than 50 employees will not have to make any contributions. Employers with more than 50 employees, which do not meet the £3m threshold, can access funded apprenticeships at the same 90%/10% rate.'* Furthermore, there is a £1000 incentive for non levy employers who choose to take apprentices aged 16-18, and training costs will be covered 100 percent by the Government up to the maximum funding bracket (Gingell, 2018). This incentive is most likely to benefit sectors such as Horticulture, which is predicted to be one of the largest non-levy paying employers (Horticulture Week, 2017).

The levy is paid into an apprenticeship digital service account and spend is then distributed on apprenticeship training and assessment methods, with the Government committing to provide a further 10 percent top-up per month of funds paid into the levy by employers, therefore for every £1 of levy paid into the account, £1.10 is made available to spend on employee training (Etrust.org.uk, 2017). Employers have 18 months from when the levy is paid in to the account to use it or the funds will effectively expire, although the Government is considering allowing employers to transfer 10 percent of the available funds to another account from 2018, for instances such as when businesses are in the same supply chain (Financial Times Business Limited, 2016). It is suggested by Apprenticeshipmakers.org (2018) that the imposed levy is part of a Government initiative to improve both the number and quality of apprenticeships available in the UK, and is set to generate £3 billion per year, with £2.5 billion for England. Whilst there are potential financial benefits highlighted for employers paying into the apprenticeship levy regarding employee training and development costs, one of the most notable benefits of the levy is deemed to be an increased level of ownership and control of apprenticeship programmes by employers, allowing for a higher quality of tailored apprenticeships and development of skills for specific job requirements to suit the needs of an organisation (Department for Education, 2018). Furthermore, the apprenticeship levy will allow employers the opportunity to upskill its current workforce using the available apprenticeship funding, whilst the funding arrangement changes also mean there is no longer an upper age limit for apprenticeship funding availability (Tuckwood, 2017). It worth noting that the apprenticeship levy structure is likely to financially benefit certain industry sectors more than others, as according to Pozniak (2017); *'There are 15 different bands of funding available ranging from £1,500 to £27,000. Engineering and technology-focused apprenticeships tend to be more expensive, and in the higher bands.*

Despite the published benefits surrounding the Government apprenticeship levy, industry professionals and employers alike have raised concerns relating to the significant expansion and design required of the new apprenticeship system and the risks of it being poor value for money, which could be potentially damaging for the public sector (Amin-Smith et al., 2017). Apprenticeshipmakers.org (2018) also argue that larger businesses are likely to have to fund the additional costs involved for the recruitment of more apprentices. This argument is further supported by Chynoweth (2016) who states*; 'This means employers will need to find money to cover the other costs of an apprenticeship away from their levy pots, which could mean cutting other budgets, such as training or graduate recruitment, or simply hiring fewer apprentices'.* Despite this potential drawback it is also suggested by Apprenticeshipmakers.org (2018) that; *'Others have welcomed the levy as a way to raise funds to increase the quality of apprenticeships across the board and as a mechanism for ensuring apprenticeships are built into the skills plans of all larger businesses'.*

The engineering industry provides an example of a sector that initially treated the news of the apprenticeship levy with a 'frosty reception', with preliminary data from a survey carried out across 70 large employers suggesting that 51 percent of large employers, SMEs, trade unions, colleges and training providers in the engineering industry supported the levy, although only 24 percent believed that the levy funding would cover the entire cost of training (Frost, 2015). The levy was however welcomed in an attempt to plug the ongoing skills shortage it faces within the industry, with reports estimating that the UK will need two million more engineers by 2025 (Watson, 2017). Watson (2017) further states that; *'There are numerous campaigns to tackle the issue, focusing on one issue or another - recruiting more women, encouraging older people to take up apprenticeships and ensuring UK engineering has the right skills supply post-Brexit'.* However, fears have been raised that whilst the apprenticeship levy could well increase the number of apprenticeships for sectors experiencing skills shortages, that quality of training is likely to suffer due to a lack of defined apprenticeship structure (Chynoweth, 2016). Chynoweth (2016) states that; *'The focus on hitting the three million target threatens to further undermine quality',* and further suggests that the reshaping of apprenticeship training will involve fundamental costs which the Government is not likely to have foreseen. Marcus Mason of the British Chambers of Commerce supports the opinion of Chynoweth (2018), simply stating*; 'You run the risk of hitting the target and missing the point*' (Jolly, 2017).

Suspicions have also been raised surrounding the underlining motive behind the levy, which has been branded by many as simply a 'stealth tax' rather than a measure to boost skills and increase apprentices numbers (Jolly, 2018). In response to this, Skills Minister Robert Halfon argued; *'The apprenticeship levy is not a stealth tax or a burden. It will help us close the productivity and skills gap that exists between us and other European countries'* (Halfon 2017). Halfon (2017) instead positions the blame on employers for failing to invest in apprentices, and suggests that the new apprenticeship levy will put funding for apprenticeships firmly in the hands of employers, encouraging them to invest in high quality training for apprentices. However, Seamus Nevin, head of employment and skills policy at the Institute of Directors refutes the opinion of Halfon (2017) claiming it is fundamentally a stealth tax that will damage the reputation of apprenticeships before the apprenticeship levy even takes effect, adding; *'If the money isn't being used for that purpose what is it being used for?'* (Jolly, 2017). Nash and Jones (2015) further probe the idea of the apprenticeship levy's impacts on the tax payer, after it was announced that Government officials were attempting to persuade employers to 're-brand' existing work based training as 'apprenticeships', meaning that the tax payer is likely to foot the bill for basic skills training instead of employers. The Government ministers however argued that without such maneuvering it will fail to meet its pledge to create 3 million apprenticeship starts by 2020 (Nash and Jones, 2015).

Statistically, as of 2016/17 there were a total of 491,300 apprenticeships started in England, down by 18,100 from the previously reported figures from 2015/16 (Powell, 2018). In Scotland there were a total of 26,275 apprenticeship starts in 2016/17, achieving the annual target of 26,000 set by the Scottish Government, and in line with the Scottish Governments independent pledge to increase apprenticeship starts to 30,000 by 2020 (Skills Development Scotland, 2017). The Welsh Government reported a total of 48,900 apprenticeship programmes provided for the 2016/17 academic year (Stats.gov.wales, 2018), whilst Northern Ireland Department for the Economy are yet to publish latest 2016/17 apprenticeship statistics due to exposing data quality and accuracy issues, which are also believed to have affected previously published data (Economy-NI, 2018).

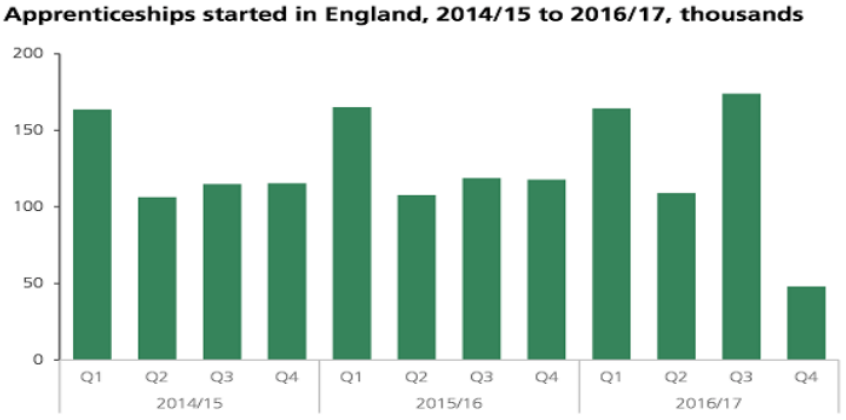


Figure 1 – (Powell, 2018)

Evidently there is a significant drop in apprenticeship starts in England for the fourth quarter of 2016/17 in comparison to the 2014/15 and 2015/16 figures as illustrated in Figure 1, and the apprenticeship levy is deemed largely responsible for the sharp decline in the opinion of Linford (2017). Linford (2017) reports that for the period of May, June and July in 2017 the total number of apprenticeship starts fell by 61 percent when compared to the figures from the same period in 2016. Apprenticeship starts aged over 25 appear to have been particularly affected by the levy. According to Powell (2018, p.3); *'People aged 25 and over accounted for 46% of apprenticeship starts in 2016/17. People aged 19-24 accounted for 29% and those aged under 19 accounted for 25%'.* However, the Department for Education released a statement regarding the figures, claiming; '*We know that the last year has been a period of huge change for employers but it is right that they are taking their time to plan ahead and maximise the opportunities the apprenticeship levy can bring'*, further claiming that the decline in numbers were expected long before the levy was introduced as a result of changes in the funding system (Linford, 2017). However, The Civil Engineering Contractors Association argue that the design structure of the levy system will effectively lead to employers paying twice over to train apprentices due to additional training costs that would not be covered by the levy, and therefore this is likely to have a substantial impact on the amount of apprentices recruited in the industry (Workplace Learning & Skills Bulletin, 2016). The engineering sector however reported 108,000 apprenticeship starts in England for 2017; the highest number recorded for ten years, contributing a total of £486 billion for the UK GDP (Engineeringuk.com, 2018). It can therefore it can be argued that to an extent the apprenticeship levy has been successful for meeting its aims within certain industry sectors in the UK. It is however worth noting that Engineeringuk.com (2018) also highlighted a major skills gap, stating that 15 out of 32 occupations are open for skilled immigration to fill UK shortages in engineering.

Evidence suggests that one of the perceived flaws of the levy system is employer awareness. According to Pozniak (2017); out of 500 organisations surveyed by City & Guilds, only 1 in 3 required to pay the levy were aware of it, potentially missing out on vast funding and training opportunities. Furthermore, Kirton (2017) claims that only 10,500 digital apprenticeship service accounts had been opened by October 2017, despite an estimated 19,150 levy paying companies eligible for the service, and therefore the funds were not being used. This prompted initial speculation that many organisations were considering writing off the expense against tax rather than reinvesting it back in to training (Kirton, 2017). In response to this, David George, apprenticeship standards and frameworks manager at Sector Skills Council for Science Engineering and Manufacturing Technologies (SEMTA), declared: *'Of course with any major reform programme there will be some challenges to overcome, including getting the message out there to employers about the new apprenticeships and the opportunities to develop the whole of the workforce* (Pozniak, 2017).

It can be concluded overall that whilst evidence appears to suggest that certain industry sectors in the UK may benefit from the apprenticeship levy, such as engineering, there is a great deal of confusion and lack of understanding amongst many organisations about how the levy system works and the benefits it brings to employers. As the apprenticeship levy system is still in the early stages of being implemented into organisations, it is difficult to accurately evaluate the extent to which the legislation meets its aims. However, statistical evidence would suggest so far that the apprenticeship levy has negatively impacted the number of apprenticeship starts in the UK since its introduction, and that without a perceived increase in popularity and intervention by the Government, it is unlikely to achieve its target of securing 3 million apprenticeship starts by 2020. In order to achieve this target it is essential that the UK Government improve the current apprenticeship structure framework and educate employers of the levy benefits in order to maximise the system. It is also of vital importance that the Government convince organisations that the levy is not simply a ‘stealth tax’.

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