

About the Institution of Engineering and Technology (IET)

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

We would be happy to provide you with further detail on this proposal. Please contact policy@theiet.org accordingly.

Summary

An agile workforce needs agile support, **so we are calling on the Government to reform the Apprenticeship Levy**, to give employers more flexibility about how the funds it raises are spent. A flexible approach would better reflect the needs of employers and the modern economy. We estimate that reforming the Apprenticeship Levy could cover the annual training costs of an additional 200,000 employees, generating an estimated £858m in productivity gains.

Upskilling the UK's technical workforce is critical to delivering the government's ambition for an innovative, high-wage economy. Although the Prime Minister has correctly identified this, gross expenditure on employee training continues to flounder alongside productivity. As a result, England faces a shortfall of 2.5 million highly skilled people by 2030.¹

Therefore, the IET is calling for a focus in this budget on upskilling and reskilling in order to facilitate businesses in the UK to be agile and adaptive to new technology.

Currently, most levy contributions are serving an important purpose by funding apprentice training, and that should continue to be fully supported. However, the opportunity to use unspent funds for upskilling and reskilling should not be missed.

Reform the Apprenticeship Levy

Proposal

Reform the Apprenticeship Levy so that employers can spend leftover funds on training to upskill and reskill their employees. This would cover the annual training costs of an additional 200,000 employees, generating an estimated £858m in productivity gains for the UK economy.²

Rationale / Benefits

Over £2bn raised by the Apprenticeship Levy has been returned to the Treasury since its introduction in 2017³. In that time, the number of new apprentices has fallen and employers

¹ [Local Skills Deficits and Spare Capacity, Learning and Work institute, 2019](#)

² Calculated from the following assumptions: annual training costs per (new) employee – £2,500 (Employer Skills Survey 2019, UK government), low-end estimate of productivity gain per worker – 6% (McKinsey), UK productivity per worker (GDP per hour worked) – £43 (OECD)

³ ["DfE forced to finally reveal true amount of apprenticeship funding returned to Treasury", FE News, 2022](#)

are spending less on training per employee in real terms⁴. In many cases, the levy is transferring money away from training opportunities – up to two-thirds of employers are not using their levy entitlements⁵, meanwhile 173,000 vacancies in the UK science, technology, engineering, and mathematics (STEM) sector go unfilled. This employment gap is costing STEM businesses £1.5 bn per year, in addition to opportunity costs.⁶

There is growing evidence that a technical skills shortage is contributing to this gap and holding back the UK economy. For example, in the IET's Skills for Digital Future survey, many employers with a digital skills gap report that it reduces productivity (49%) and harms innovation (35%)⁷.

The Prime Minister is correct to highlight the importance of developing STEM skills from an early age, such as maths. STEM subjects are of vital importance to the UK. As demonstrated by the IET's Engineering Kids' Futures report and its recommendations we need to nurture, develop, and give appropriate opportunities to young people allowing them to make better informed choices about their futures and, this in turn will help to ease the UK's skills gap.

However, it is estimated that more than 80% of the UK's 2030 workforce has already left the education system.⁸ Moreover, the pace of technological change means that there must be a real focus on the agility of the UK workforce.

Therefore, upskilling and reskilling *current* employees is central to closing the UK's technical skills gap, and hence driving the innovation that creates sustained economic growth. 58% of employers report that this would have biggest impact in addressing their skills shortages.⁹ The Apprenticeship Levy should be reformed so that employers can spend leftover funds on training opportunities for their employees. For example, this could take the form of microcredentialing – short-term courses on specific skills that are more responsive to industry changes than traditional education.

In summary, reforming the Apprenticeship Levy in this way would bring three major benefits:

- **Innovation and growth** – upskilling is foundational to an approach which puts innovation 'at the heart of UK economy'. As the Prime Minister identifies, innovation drives growth throughout the economy – yet innovation is being forestalled by a shortage of technical skills.
- **Agility** – as technology develops at an increasing pace, success will mean a real focus on the agility of workers. The next decade presents challenges on national security and Net Zero that will require the mass mobilisation of new digital / sustainability-themed technology skills.
- **Flexibility for employers** – reforming the Apprenticeship Levy would allow employers to upskill in priority areas. Giving employers the flexibility to decide where funds are used will amplify the economic benefits of upskilling.

⁴ [Learning at work: Employer Investment in Skills, Learning and Work Institute, 2021](#)

⁵ "The apprenticeship levy – an untapped opportunity?" – report by Evolve Learning Group Ltd / West London College, 2017

⁶ [STEM Skills Indicator, STEM Learning, 2018](#)

⁷ [Skills for a digital future survey \(theiet.org\), 2022](#)

⁸ [UK Skills Mismatch 2030, Industrial Strategy Council, 2018](#)

⁹ [Skills for a digital future survey \(theiet.org\), 2022](#)

Cost breakdown

On average, £500m raised by the Apprenticeship Levy – already ear-marked for job training – is returned to the Treasury each year. Employers should be able to re-channel that money into upskilling and reskilling their employees.

This would cover the annual training costs of around 200,000 employees and help substantially reduce the £1.5 bn burden STEM businesses are facing due to skills shortages. Upskilling / reskilling 200,000 more workers per year would also boost the productivity of the UK economy. Using a low-end assumption that effective reskilling yields a 6% increase in productivity per worker, a reformed the Apprenticeship Levy would be on track to generate £858m from productivity increases alone.¹⁰

Delivery

By expanding an existing job-training funding mechanism, this recommendation could be delivered at pace without the need for further legislation, and only limited additional administrative oversight.

Conclusion

The IET is calling on Government to support innovation, growth and skills in this budget by reforming the apprenticeship levy to allow for upskilling and reskilling in the digital skill sector.

¹⁰ Calculated from the following assumptions: annual training costs per (new) employee – £2,500 (Employer Skills Survey 2019, UK government), low-end estimate of productivity gain per worker – 6% (McKinsey), UK productivity per worker (GDP per hour worked) – £43 (OECD)