Apprenticeships and SMEs in the UK
The cycle of success - an exploration of barriers and perceptions

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Introduction

SMEs are the lifeblood of the UK economy. Around 5.7 million SMEs are in operation today, equating to around 99%, of UK businesses. Approximately 1 million small businesses operate in construction, making it the largest industrial sector in terms of SME numbers. Apprentices can bring significant benefits to businesses of all sizes and especially SMEs. In the 2017/18 year however, just 22,700 apprenticeship starts were recorded in the construction sector, equating to just 6% of the total number of apprenticeship starts across all industries (375,800). The numbers completing their apprenticeship stood at just 12,400 – a staggering figure that suggests almost half of those who start an apprenticeship in the construction sector do not go on to complete it. Considering we are in the midst of a construction skills crisis, this is cause for concern.

Apprentices are a vital component for the industry, helping to power construction SMEs today and, if successful, may become construction business leaders themselves tomorrow or in the future. In this, our third annual apprenticeships report, we wanted to better understand the vital link between SMEs and apprentices and how to better enable small businesses to recruit and retain apprentices. We have surveyed 1,001 decision-makers with varying degrees of hiring responsibility at small or medium enterprises with fewer than 250 people including 119 SMEs operating in the construction sector, to understand the value they find in apprentices and the barriers to taking more on.

Our research shows barriers exist for SMEs in the construction sector to employing at least one apprentice, and given the prevalence of construction SMEs and opportunities they can provide for aspiring apprentices, and the benefits they can gain from apprentices in turn, we are eager to see some of these barriers reduced or eradicated.

4. The Starts and Achievements statistics should not be used to measure percentage progress within a year. They are independent performance metrics. Typically, apprenticeships can take two years to complete. Source: Department for Education.
Apprentices working through the ranks in businesses today aspire to own their own business in the future. When we asked the apprentices at Redrow, 56% said they have an ambition to set up their own venture in future. With their entrepreneurial streak, apprentices represent the future of SMEs in this country, so it’s vital that we help the 1 million construction SMEs operating in the UK to take on and train more, and that industry and educators are providing rigorous information to young people which helps direct the right people onto the right apprenticeship. With just 6% of all apprenticeship starts in construction-related areas in 2017/2018, we feel there is real opportunity available to encourage more young people into careers in construction via apprenticeships.

Apprenticeships enable businesses to train a person on the job, in a specific skillset, in an environment where they are able to absorb and develop vital soft-skills. Apprentices can bring real value to organisations of all types and sizes and, particularly for small and medium enterprises, the opportunity to grow and retain talent and raise a positive profile in the local community for taking on trainees. In the face of the construction skills crisis, SMEs operating in this sector have access to a highly motivated, malleable stream of talent in apprentices, and certainly within Redrow we see them as a vital component of our workforce.

Karen Jones
Group HR Director, Redrow
Apprentices fuelling the UK’s lifeblood: SMEs

Importance and benefits of employing SMEs

Key findings:

- 56% of Redrow apprentices say they aspire to set up their own business in future.

- Hiring managers within SMEs are most likely to recruit candidates at junior levels with relevant vocational qualifications (29%) and candidates who want to learn on the job, such as apprentices (26%). Only 17% of SME hiring managers are more likely to take a candidate with a relevant university degree.

- “Taking on apprentices leads to a more motivated and satisfied workforce” – the most prevalent perceived benefit of employing apprentices.

SMEs and apprentices: a cyclical relationship

Apprenticeships provide a unique opportunity for SMEs to grow their own talent with the necessary soft-skills to thrive and enrich their workforce with positive, new ideas; as well as build a reputation in their local area for providing vital jobs and training for local people.

We asked our own Redrow apprentices about their ambitions to own their own business in future. Over half of the respondents (56%) said yes, only 7% said no and the rest are undecided. 71% said they would go on to employ apprentices in their own business, should they set one up. There is a cycle here: SMEs employ apprentices, who tend to have ambitions to go on to establish their own business in turn, and employ apprentices.

Apprenticeships have the potential to be a lynchpin of UK business and the economy. Steve Morgan, out-going Redrow chairman, is himself an entrepreneurial businessman who began his career on a building site, rather than going down a more traditional education route. He founded Redrow in 1974 with a £5,000 loan and, 44 years later, has created one of the largest UK housebuilders, delivering in excess of 6,000 homes per year. Last year, Redrow also rolled out workshops to support those apprentices who wish to become self-employed.
Benefits to business

The SMEs we questioned overwhelmingly perceive apprentices as being beneficial to their business. In fact, SMEs questioned by Redrow are more likely to recruit people with relevant vocational qualifications (29%) and candidates who want to learn on the job, such as apprentices (26%) than a candidate with a relevant university degree (just 17%).

Our survey respondents were asked whether they agreed with six statements regarding the positive impact of apprentices in the workplace:

- Apprentices bring a fresh approach and a positive attitude to the workplace
- Taking on apprentices leads to a more motivated and satisfied workforce
- Apprenticeships are less disruptive than other forms of employee training
- Apprentices are more loyal and easier to retain than other members of staff
- Apprentices are more productive than other members of staff
- Apprentices are more engaged than other members of staff

81% of SMEs agreed with at least one of these statements, a number which rose to a hugely significant 97% amongst those whose businesses currently employ apprentices. It is clear that people who do work with apprentices are able to see the benefits they bring to an organisation. The most widely indicated benefit of having apprentices in the business across all SMEs is that taking on apprentices leads to a more motivated and satisfied workforce. This could be driven in large part by the opportunities for mentorship which the presence of apprentices provides. For SMEs working in the construction sector this was also the biggest benefit of taking on apprentices (45% indicated), but this was matched (again, 45% indicating) by the fact apprentices bring a fresh approach and positive attitude to the workplace. There is a general link between the presence of apprentices and an optimistic atmosphere in the workplace.

Conversely, only 10% of SMEs reported that apprentices are more engaged than other members of staff, which was slightly higher amongst construction firms at 15%. Furthermore, 15% of SMEs who do not employ, or do not plan to employ, apprentices said the reason for this is a perception they won’t bring the right skills to their business. In order to improve these perceptions around engagement levels and appropriate workplace skillsets there is a collaborative job to be done by larger organisations who have seen great success with apprentices, alongside their training providers, to showcase the skills and benefits apprenticeships can bring to SME businesses.
Barriers and take-up

Key findings:

- 73% of construction sector SMEs have taken on apprentices in this financial year, compared to 65% of SMEs across all sectors.
- Of those not employing apprentices currently, more than a third (38%) of construction SMEs perceive funding to be the main barrier.
- 53% of construction SMEs agreed that allowing apprenticeship levy funding to pay for apprenticeship salaries would be an improvement to the levy and 43% agreed there should be greater flexibility in how businesses can spend their levy allowance.

Two thirds of SMEs employ apprentices

The majority (65%) of SME hiring managers surveyed as part of Redrow’s research employ apprentices, however a significant minority (35%) currently do not employ any apprentices. SMEs operating in the construction sector are more likely to employ apprentices, with 73% taking on a number of apprentices in the last financial year, demonstrating the relative importance of apprentices to small construction businesses. Across all SMEs the average number of apprentices employed is 9, rising to 10 for businesses in construction. Extrapolating our survey findings across the UK, if the 35% of SME businesses that do not employ apprentices were to take on at least one, this could help create 1,995,000 places for apprentices. There are approximately 1 million construction sector SMEs operating in the UK; if each of these were to take on just one apprentice this could create approximately 270,000 apprentice places.

The biggest barriers: funding and resource

However SMEs are currently facing barriers to employing apprentices. For those SME hiring managers not employing apprentices, the most popular reason given for their decision is lack of funding, which was cited by 29% of respondents as preventing them from taking on apprentices. For SMEs operating in the construction sector this proportion rose to more than a third (38%) and was once again the most frequently cited barrier. Companies with a payroll of over £3 million pay towards the apprenticeship levy, and can access the sum of the funding they have contributed through an online account to spend on apprenticeships. Smaller, non-levy paying companies must contribute 10% of the costs of training an apprentice with the rest being paid for by the government through the apprenticeships budget, which is largely funded by levy contributions.

Recent reports suggest that apprenticeship funding is running low. According to the chief executive of the Association of Employment and Learning Providers (AELP), Mark Dawe, despite the total number of apprenticeship starts falling (by almost a quarter in the third quarter of 2019, compared to the year before, according to the Department for Education) the apprenticeship budget is “running short.” This is partly due to larger employers using more of the budget than anticipated. The upshot is that some SMEs are being turned away by apprentice of training levy providers, because they can't risk not being funded for training due to the dwindling nature of levy fund contributions. Interestingly, even though they could have indicated an alternative reason for not taking on apprentices, 32% of SMEs were not able to give a specific reason why they were not taking on apprentices. This is difficult to interpret, but suggests there could be some preconceptions around apprentice skillsets and their usefulness to a business. Business and government have an opportunity to better work together to convey the myriad benefits of taking on apprentices to small businesses.

59% of construction SMEs say that halving the 10% fee non-levy paying SME businesses pay toward apprentice training will increase the number of apprentices they employ.

62% of construction SMEs support the apprenticeship levy, which is significantly higher than across all sectors (47% support overall).

Reforming the levy

A majority of SMEs operating in construction support the apprenticeship levy (62%) which is significantly higher than across all sectors (47% support overall). Notably, construction focused SMEs are set to benefit particularly from the ability of levy paying entities to transfer up to 10% of their levy money to other organisations; more than half (55%) of construction SMEs questioned are currently engaged with larger businesses with this end in mind. Across all SMEs we surveyed the proportion of SMEs engaging with larger organisations with regard to the transfer of levy funds stood at just 39%. From April 2019 larger businesses will be able to transfer up to 25% of levy funding to smaller organisations, which hopefully will create further impetus amongst SMEs to take on at least one more apprentice.

A partial solution to some of the issues raised in the previous section on ‘barriers’ is a discrete funding pot for non-levy paying SMEs to access to fund apprenticeships each year. Furthermore, in October 2018, the Chancellor announced that the 10% fee that non-levy paying SME businesses must pay will be halved to 5%. 44% of SME businesses in Redrow’s survey said this will encourage them to take on more apprentices; this rose to a significant 59% across the construction sector SMEs. However, at the time of writing, a date for implementation for this reduction for non-levy paying SMEs had not been announced.

A significant number of SMEs Redrow questioned agreed that there should be greater funding in the apprenticeship levy to pay apprentice salaries (44%) and that, generally, businesses should have greater flexibility in how they spend the allowance (33%). This view increased for SMEs operating in the construction sector, with more than half (53%) agreeing that there should be greater funding in the apprenticeship levy to pay apprentice salaries and 43% agreed there should be greater flexibility in how the apprenticeship levy allowance is spent. Given reports that the levy ‘pot’ is not extensive enough already, it seems that such a change will not be implemented any time soon, however doing so could free up the funding for a range of uses. For example, whilst Redrow pays expenses for all its apprentices, this is not true of all businesses employing apprentices, and the costs of covering their travel expenses for an SME might be prohibitive. Allowing greater flex in how levy funds are spent could help to remedy this.

When all SME hiring managers were asked what they think the biggest barriers to SMEs in general employing apprentices is, the barrier most widely indicated is that developing a strategy for apprenticeships is a drain on management’s time. This was cited by 38% of all SMEs and 34% of construction SMEs. This suggests that SMEs may need greater guidance and support in the process of taking on apprentices, particularly as apprentices cannot be expected to immediately slot into an organisation and will need a degree of guidance to do so. Larger businesses which have seen success with apprentices and training providers working together, could help alleviate this burden by setting out clear best practice. There is also a job to be done in better conveying the benefits of apprentices in business; the fresh ideas they provide, the fact that their lower initial salaries can help with cost efficiencies, the view that they motivate colleagues. Whilst apprentices take time to integrate into the business and train on the job, arguably these benefits outweigh the time involved in compiling a plan to engage them sufficiently. Returning to a previous argument, if levy funding can be used to fund the extra staff time needed to train and integrate apprentices, this could reduce this snagging point to an extent.
Redrow’s recommendations for encouraging more SMEs to take on apprentices:

In April 2019, the apprenticeship levy will have been in operation for two years which provides an ideal opportunity to review the current rules and how they might be expanded or improved. Redrow’s recommendations include:

- **Rapid clarity from government** on the implementation of the reduction in the amount non-levy paying organisations have to pay for apprenticeships from 10% to 5%;

- **Expansion** of what levy funds can be used to pay for. Currently the following are excluded: wages, statutory licences to practise, travel and subsidiary costs, work placement programmes or the setting up of an apprenticeship programme. For SMEs at least, this should be reviewed and expanded. Given SMEs identify creating a strategy for employing apprentices as a time-consuming barrier, funding should quickly be considered for setting up an apprenticeship programme.

- **Once the above have been smoothed out**, implementation of a discrete funding pot for non-levy paying businesses to access.

- **Implementation of a government / industry multichannel year-round campaign** focused on highlighting the benefits apprentices can bring to organisations, and specifically SME businesses, outside of apprenticeship week.
Case Study: 
**Barry Mason**

Barry Mason discusses the benefits of employing apprentices at a painting and decorating business in South Wales.

Barry Mason, Apprentice & Training Manager at V & C Limited, a dry lining tiling, painting and decorating company in South Wales, is highly attuned to the benefits that apprentices bring to businesses.

A former apprentice himself, Barry was brought into the business last year to develop a clear strategy to increase apprenticeship uptake within the company and to make sure they employ more aspiring young people than the year before.

Barry said: “Apprentices help our business grow. Training our own staff means that they work to the style that best suits us, and think and act in the interest of our business from the outset. It also ensures our employees have not picked up a bad practice from elsewhere.”

V & C Limited currently work with approximately 15 apprentices every day. This not only includes its own apprentices but also apprentices employed by the main contractor managing projects that they are working on, like Redrow.

Barry continued: “NEET (a person not in education, employment, or training) levels in South Wales are high, so it is really great to be able to do our bit as a business to help young people in the area. By employing apprentices we are also making sure our future local workforce is well-equipped with the necessary skills to help businesses like ours to continue to thrive in the area.

“Whilst you do need patience when teaching young people a new skill, we often find that apprentices bring a great attitude and willingness to learn to the business, that helps spark a boost in overall sentiment and business productivity. And for us, it is truly fantastic to watch them learn and succeed.”

However Barry cites funding as a major barrier for businesses like theirs from taking on more apprentices. On this, Barry said: “For a business like ours, it often seems as if the level of funding granted to SMEs for apprentices is plucked out of thin air, with little thought or reasoning behind it. We rapidly need to see better processes implemented and clearer visibility of the funding pot available.”

Finances are not just a worry for the business, but its apprentices too.

Barry continued: “We are situated in a part of the country where developments are very scattered, and many of our apprentices have to travel miles between different sites we work on using various modes of public transport. This often means that apprentices are travelling for hours a day. For us, a solution would be for the government to offer apprentices subsidies for the cost of learning to drive, which would make working as an apprentice more accessible to others across the country.”
Concluding thoughts:

The apprenticeship levy will be two years old in April, which provides an ideal opportunity to look back at what has worked so far and what can be improved. Construction SMEs are overall supportive of the levy, more so than those operating in other sectors, but our findings show that some reform is needed to provide more extensive financial support to SMEs, in order to encourage them to take on more apprentices. We are also eager to see the Government expedite the reduction in the amount non-levy paying organisations must pay toward training apprentices from 10% to 5%. If all the construction SMEs currently not employing apprentices took on just one apprentice, this could create approximately 270,000 more spaces for apprentices, a not insignificant step toward helping plug our skills gap.

“SME hiring managers we surveyed are more likely to employ a person with relevant vocational qualifications or take on an apprentice, than someone with a relevant university degree, which is very promising. But our industry still has a job to do in terms of communicating the benefits of apprenticeships to young adults.

Karen Jones
Group HR Director, Redrow

This is part one of Redrow’s ‘Apprenticeships and SMEs in the UK – the cycle of success’ report.

Part two of the report, which examines the attitudes and perceptions of apprenticeships and careers in construction, as well as the quality and diversity of careers advice received in schools, will launch in two weeks’ time.
Appendix: Survey findings

An online survey we conducted in February 2019 targeted 1,001 decision-makers with varying degrees of hiring responsibility at small or medium enterprises with fewer than 250 people. The SME respondents included 119 hiring managers at SMEs operating in the construction sector.

- Across ALL SMEs 35% do not currently employ apprentices and 65% employ at least one apprentice. Within the construction sector 73% of businesses employ a number of apprentices.
- Of those SMEs employing apprentices, the average number to have in employment is nine apprentices, whereas for construction focused SMEs this rises to 10.
- 62% of SMEs operating in the construction sector support the apprenticeship levy, just 47% do across all sectors.
- Since May 2018 apprenticeship levy payers have been able to transfer up to 10% of their levy money to other organisations; 55% of construction SMEs have been in discussions with levy paying firms about funds being transferred to them. This falls to just 39% across all sectors.
- In October 2018, the Chancellor announced that the 10% fee that SME businesses must pay toward the training of apprentices will be halved to 5%. 59% of construction SMEs say this will lead to an increase in the number of apprentices they employ; 44% state the same across all SME sector groups.
- Amongst construction SMEs, the most prevalent reason for not employing any apprentices is a lack of funding (38%) followed by concerns about retention (12%). For all SMEs, again funding is most prevalent (29%) and then the concern that they won’t bring the right skills to the business.
- Across all SME sectors, the most widely perceived benefit of employing apprentices is ‘taking on apprentices leads to a more motivated and satisfied workforce’ (indicated by 46% of respondents) and then followed by ‘apprentices bring a fresh approach and a positive attitude to the workplace’.
- For construction SMEs the two jointly most widely perceived benefits were those mentioned in the above bullet point in relation to all SMEs.
- When all SMEs, whether they currently hire apprentices or not, were asked what they generally think the biggest barriers to SMEs employing apprentices are, the most widely indicated was that ‘developing a strategy for apprenticeships is a drain on management’s time’ – this was true of SMEs in construction, as well as SMEs across all sectors.
- 53% of construction SMEs agree that allowing apprenticeship levy funding to pay for apprenticeship salaries would be an improvement and 43% agree that allowing greater flexibility in the way businesses can spend their levy allowance would bring an improvement.
- 44% of all SMEs agreed that allowing apprenticeship levy funding to pay for apprentice salaries would be an improvement and 33% agreed that allowing greater flexibility in the way businesses can spend the allowance would be an improvement.
- Hiring managers within SMEs are most likely to recruit candidates at junior levels with relevant vocational qualifications (29%) and candidates who want to learn on the job, such as apprentices (26%). Only 17% of SME hiring managers are more likely to take a candidate with a relevant university degree.
Redrow was established in 1974 by Steve Morgan CBE with a £5,000 loan from his father and today it is one of the most successful and acclaimed property developers in the country. For the year ended 30th June 2018, Redrow built over 5,900 premium family homes across England and Wales and in October 2018 the company completed its 100,000th home. Over Redrow’s history, spanning more than 40 years, it has earned a unique reputation for quality and building beautiful homes where people want to live. To help achieve this, Redrow has developed three sustainable business themes: Creating Thriving Communities by Building Responsibly and Valuing People. Implementing this strategy, whilst engaging with colleagues and stakeholders, helps Redrow deliver significant value to investors and the wider community.

Redrow is listed on the London Stock Exchange and is a constituent of the FTSE 250 index. For the year ended 30th June 2018, the Group reported record revenues of £1.92 billion. Redrow has twice won ‘Gold,’ and been in the top three every year for the last four years in the ‘Best Large Housebuilder’ category at the What House? Awards. This year, Redrow was named as a UK Top 100 Apprenticeship Employer for the fifth consecutive year. Visit redrow.co.uk for more details.