

Institute of Directors – 14 March 2018

Thank you very much for joining my session today.

It's hard not to be impressed by a building designed by John Nash, purpose built for Service personnel above the rank of Major and Commander, and with special steps – still here I'm delighted to say – designed specifically for the Duke of Wellington to climb off his horse.

I want to talk about how apprenticeships and specifically the apprenticeship levy is working. I want to ensure that training providers and universities like mine respond to the needs of employers like you.

But first I'd like to ask you a few questions:

Who is from an organisation that pays the levy?

Are you getting full value back from the levy?

Who would like to see greater flexibility in the use of the levy?

This morning I'm going to make a number of suggestions about how to improve the levy but I want to make it clear that is not in the spirit of criticism of the levy, its implementation or the people responsible. For a pretty radical approach to training in the UK it is at least up and running and has a well-established standards framework.

The principle that employers should contribute is one that I think many people would support, even if that might be slightly begrudging in some quarters. And the idea that employers should be the prime determinant of what training their levy buys is also broadly supported by public opinion.

But there are risks in creating a training regime where it is the needs of established industry sectors that determine how the future skills of the economy are to be provided. This morning I'd like to suggest how a more flexible approach to the levy can help build future-focussed skills that work for a much wider range of sectors, for employees and for the economy as a whole.

To understand why let's turn back in history to how apprenticeships were established and the advantages and risks that flowed from that...

Eight hundred years ago the High Middle Ages saw the emergence of Guilds - formed to protect and enhance the power, status and skills base around particular crafts. It was here that the structure of learning – from Apprenticeship to Journeyman to Master - began. Guilds ensured standards and stability but also created the power to withstand and prevent change.

And the ancient traces of those now long-forgotten trades are preserved in the marvellous names of the worshipful companies of the City of London.

Skinner's
Tallow chandlers
Girdlers
Bowyers
Loriners.

Where are the bowyers and the loriners now?

In more recent decades:
Information Technologists
Management Consultants

The Worshipful Company of Management Consultants doesn't quite have the same ring as tallow chandlers, does it?

For a guild to establish a training standard it would need to have an industry that is well established, with reliable business models that enable its leaders to have the structures, the time and money to get together to offer an apprenticeship.

So who is in a position to create a trailblazer or a standard now? Well established sectors where there are structures and where there is the time and patience available to put into the bureaucratic processes. So we have standards for a bespoke saddler, bookbinders and clockmakers. But we don't, as far as I can tell, have one for AI technicians, or robotics programmers. And we don't have one that provides SMEs with the scale-up capabilities they so need. (Those business are too busy scaling up to write a "scale-up standard")

So how do we have a vocational training system that doesn't mean that our apprenticeships go the way of the girdlers and the bowyers?

And we are now in a time when sectors will decay, merge and mutate faster than ever. Because of changes in technology and economy.....

Recent Oxford University research identified that almost half of total employment across the US is at high risk from automation within the next fifteen to twenty years. Not only are more traditional roles at risk, so are the livelihoods of those whose first-degree choice now leaves them entirely vulnerable to automation. As machines now learn to teach themselves, any job with an easily identifiable role involving broadly repetitive tasks is a target.

Last week I was hearing from a director at one of our largest supermarket chains. His description of how his workforce is changing seemed to me a parable for the convulsions in the wider economy and why we need to think so carefully about education and training for the whole workforce.

He described how his firm had lost over 10,000 jobs in recent years – due to the impact of automation, particularly in two areas – customer self-scanning and warehouse robotics. And he was finding it hard to recruit in their main growth area: technically-versatile staff who could both manage those automation systems and also manage people effectively.

He was clear that he wasn't looking for coders or people who could design new warehouse robots. What he needed were managers who could handle the computer-human interface. They would need to understand enough about the capabilities of automation to be able to use it in an optimal way. But they also needed to have the people sensitivity and communication skills to be able to oversee the introduction and development of such technologies without undermining staff or customer relations.

What would an apprenticeship for such future managers and supervisors look like? Would it be a digital apprenticeship? Would it be a retail manager apprenticeship? Would it be a junior leadership apprenticeship that focused on people and management skills? Of course it wouldn't be any one of those standards or possible standards. What he would have liked is the ability to draw on the most up-to-date elements of a variety of apprenticeships to be able to put together a package of high quality, on the job learning that meets his firm's requirements.

It's what universities that have focussed on employability call a modular degree and we might now call a modular apprenticeship.

And how would the shop-floor and warehouse staff who have lost their jobs retrain? If they had just done a basic Retailer Level 2 or a Retail Team Leader Level 3 would they have the right skills and flexibility to be able to be resilient in the face of that retail job disappearing?

Amazon put a strong emphasis on the leadership qualities they expect to see today: leadership, ability to think big, common sense, care about the customer – summed up as an 'Amazonian' (their description, not mine) – yet it's more than the 'soft skills' – future workers need to exceed a technical bar and a skill set tailored around helping the company to succeed in an even faster moving environment.

In 2015 the UK Government published "English Apprenticeships: Our 2020 Vision" – a mission statement that led to the establishment of the Apprenticeship Levy and the regulatory body – the Institute for Apprenticeships. Its aim was to build a system that was sustainable for the long-term by both driving and safeguarding improvement in the quality of apprenticeships.

The funding for these apprenticeships was placed on a sustainable footing via the Apprenticeships Levy and a plan was outlined that endeavoured to improve progression routes into apprenticeships and work.

Many of these reforms have been warmly welcomed by employers and experts alike, and together they have the potential to drive a step change in improving England's system of technical education. They should eventually increase both investment in, and the quality and relevance of, Apprenticeships for both employers and apprentices.

The number of OU apprentices in England have increased by 336% (from 101 in 2016-17 to 440 in 2017-18). This growth will continue with new Nursing Associate and Senior Leader (level 7) apprenticeships starting in May. Whilst the DfE's stats for August to October 2017 showed 114,400 (down by 26% on the previous year), the number of Higher and Degree level apprenticeships (levels 4-7) has increased by 27% (to 11,600) compared to last year - demonstrating a clear business demand for higher level skills, somewhat contrary to the current political narrative that skills deficits are primarily at lower levels.

However, there is more that can be done to maximise the contribution that the apprenticeship programme can make to skills and productivity, helping achieve the Government's vision set out in the Industrial Strategy.

The British Chamber of Commerce has raised concerns that the current levy model could lead businesses to "shoehorn" other forms of training into apprenticeships in order to recover their costs. They point to a reduction in investment in other forms of work-based vocational and technical training that do not easily fit within an apprenticeship standard.

The Confederation of British Industry has identified similar risks that employers will explore how their existing training can be "rebadged" to become levy compliant, disrupting successful programmes and risking damage to the apprenticeship brand.

SME's have long been concerned that standards largely designed around the demands of large employers do not fully meet their needs; the Apprenticeship system has only added to that anxiety. As all of you here today know better than anyone, small companies need training that aids their ability to be durable, fast moving and flexible – they simply cannot afford to be trapped in a programme that ties them into historic training patterns that have the opposite effect.

Apprenticeships also need the flexibility both to support new entrants to an occupational role and industry with little or no relevant technical knowledge, and also to support experienced staff who have the detailed technical knowledge but need to update their skills or develop wider management skills across several disciplines. Around two thirds of apprentices are already in their jobs prior to becoming an apprentice. Half are over the age of 25. One in four are over the age of 35. It is critical that the apprenticeship programme can meet the skills needs of both groups of people. Otherwise the risk is that apprenticeships will become, for many apprentices, simply about accrediting their existing knowledge with limited impact on productivity and few benefits to apprentices. That would be a wasted opportunity.

There seems to be a clear consensus among employers that, while the Government's reforms represent a big step forward in improving the quality of work-based learning, more flexibility would help drive transformative change. Employers' representatives are united in calling for increased flexibility in how the apprenticeship levy is used – with many business groups, including of course the Institute for Directors, calling for the ability to use the levy for other forms of high-quality training that currently fall outside of the apprenticeship programme.

The Open University is the UK's largest university by enrolment with 175,000 students from extraordinarily, diverse backgrounds and more than three quarters of them “earning and learning” in full-time or part-time employment. And of course its commitment to education for all, with no entrance requirements.

The OU has always been focussed on the learning outcomes desired by our adult students – and that overwhelmingly means employability and career advancement. From the smallest SME's to sector giants we work with thousands of businesses and organisations across the UK to train and develop their staff. Our work has encompassed almost every aspect of British business from FTSE 100 companies to public sector workers in health and social care. We're not just the leader in part-time education and life-long learning in this country: we're one of the nation's biggest skills providers.

And that commitment to employability is about a recognition that vocational skills are not just about specific technical skills. The employers that I speak to often complain that technical skills can be too narrow and/or insufficiently up to date. What they want, at various levels, are employees with the ability to think for themselves, to communicate, to solve problems. They need the right combination of vocational skills and broader characteristics. And the balance, at least from many employers I speak to, is that they want a greater emphasis on the broader capabilities, but without compromising on the necessary technical skills.

We therefore have to ensure that apprenticeships work both for large companies *and* for staff in SME's. For young people new to an industry and occupation and for more experienced staff looking to update and broaden their knowledge. We must help those companies whose staff effectively cross several occupations due to the lower functional specialisation possible in a smaller business. And we must ensure at all costs that apprenticeships do more than just provide certification of existing skills.

At the heart of any answer must lie one value above all - flexibility.

Employers, understandably, want more control over how they use the Levy – in particular a desire to broaden it, for it to cover not just Apprenticeships, but any kind of in-house training; a “Skills Levy” that can be used for any “high quality” training. It has, for many, natural appeal. However, it could be difficult to reconcile this with the Government's objectives set out in its vision for apprenticeships around increasing the quality of in-work training and ensuring apprentices end up with qualifications which have currency within the labour market.

We need to look further for ways in which the goals of both employers and Government can be achieved. One option is the concept coined by the UK Government's Industrial Digitalisation review of 2017 - "Made Smarter" – led by the Chief Executive of Siemens UK Professor Jürgen Maier.

In the context of the need to upskill a million workers in digital skills over the next five years, the review suggested a model where employers could 'plug-in' additional modules on digital skills and soft skills to an existing "classic" apprenticeship standard, drawing on experience in Scotland with Career Skills for Technical and Professional Apprenticeships. The modules could vary depending on the needs of the employer or the skills gaps of their employees.

The Made Smarter review also floated a more radical possibility – a Modular Apprenticeship – made up of modules covering some specific occupational knowledge, digital skills and wider management and wider employability skills – for instance communication capability, critical thinking and creativity.

This has an obvious attraction – the idea has flexibility at its core and it would remedy a number of the issues that employers have identified with the current model. During the question and answer session I'd like your view on this idea's potential and feasibility

The OU's students are probably the best informed students in terms of knowing what they require to increase their employability. The most popular qualification they select is the OU's highly flexible Open Degree. It enables a mixture of appropriate skills to be chosen – for instance digital, marketing, a language, creative writing, and finance.

Open Degrees give students the opportunity to build a qualification that's unique to them. Not only can they gain valuable skills vital for today's competitive job market – they prove to employers that they're flexible and adaptable too. Students can design their own qualifications to suit their interests or careers; they can change direction quickly and easily to match their ambitions – and significantly they can count credit from university-level studies they may have already completed elsewhere. They're a bespoke model that allows each student to build a path from where they are to where they want to be – a navigational tool to ensure they're perfectly and continually qualified to aid business in a modern, deeply competitive environment.

What then if the same model was provided by employers themselves? Imagine a world where employers could build their own apprenticeship programmes. Imagine the possibilities that would emerge when you could tailor-make a course to suit your staff from a set of Institute for Apprentices-approved modules. Imagine all the possibilities that would come from an industry leading Modular Apprenticeship scheme...

Employers could pick modules relevant to the specific occupational knowledge required, combine these with those connected to the soft skills where they have gaps, add modules built to understand the “meta-skills” their employees particularly need – be it project management, commercial awareness, people management, team work skills or communication skills - and then add any requisite digital skills on top. All of these together could combine to form a personalised apprenticeship – a tailor made course suiting the specific needs of employers and employees alike.

For the concept to work effectively, it would likely need some kind of “wrapper” placed around it to reduce complexity by limiting the ways in which different modules can be combined, ensuring that employers know what they are getting when they hire someone with an apprenticeship qualification. Different themes could be offered – Digital Skills or Commercial Skills Apprenticeships for example. All of this could be regulated by the Institute for Apprenticeships to ensure the highest quality.

The potential benefits of this seem clear.

Employers would have increased flexibility in being able to find a suitable Apprenticeship Standard for their employees that fits well both with them and the skills needs of their businesses.

It would truly put employers in the driving seat – not only in terms of the design of standards (as in the current system) but also by increasing their scope to develop apprenticeships that are tailored to needs of their specific business and the skill needs of their employees. And it would be more future-focussed.

With the flexibility to design a bespoke programme that suits their particular needs SMEs would be more far more likely to come on board as it is more likely they could find an apprenticeship standard that would meet their needs.

The Guilds of 800 years ago were established to preserve a set of unique values forever. However, their demise - through “rent seeking”, through redistribution to the powerful, and their resistance to innovation, technology transfer, and business development meant that within their grand idea lay the seeds of their own destruction. They could not change, or not quickly enough. Guild-based apprenticeships - protected learning - was an inspired idea that initially allowed countries to flourish and economies to boom. But it was a product of the technology of its time. It gave us the first industrial revolution - but will not protect us during the fourth. That protection, for you as employers and our retail managers of the future, is the Modular Apprenticeship. Where companies can combine their own training and skills requirements supported by academic provision to build a future-proof qualification that’s not narrowly focussed on a single occupation.

Some might say the results of short term thinking, and of protecting the status quo are already with us - and the revolution has barely begun. Mothercare, Maplin, Toys R Us, CarpetCare, Debenhams; our high streets and retail parks are littered with casualties - cautionary tales that my supermarket friend is more than aware of. All of you here know that rising automation and artificial intelligence will drown those unable to move swiftly and unable to adapt to the exponential change that propels it. All of you want to maximise your efficiency and flexibility. All of you know that lifelong and career learning is no longer a luxury but an economic necessity – and that with help from government and the education sector you are able to provide it.

The Open University has proved that this new way of learning works, and we know it's workable from a practical perspective. One in three employers have told us they would like to see greater flexibility in the context of apprenticeships. The result? Increased value for money and a rapid closing of the current skills gap.

We are happy – and would be delighted to share – our expertise. 50 years ago, we were integral in bridging a skills gap and fulfilling the potential of an untapped workforce locked outside of traditional learning by traditional habits. Ever since that has been a central pillar of our role – taking raw untapped talent and developing it to meet the ever-changing needs of business and society. I have said before that the “University of the Air” has become the “University of the Cloud”. We have survived and grown through continual adaptation to the country's needs, and as the plates shift beneath us we are here to help you do the same again.

Thank you.