

Reforming the Apprenticeship Levy

Iain Mansfield and Toby Hirst

Foreword by David Blunkett

Policy
Exchange 



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About the Authors

Iain Mansfield is Director of Research and Head of Education and Science at Policy Exchange. He is a former Special Adviser to three Education Ministers, including Education Secretary Gavin Williamson and Universities Ministers Jo Johnson and Michelle Donelan. Prior to that he has held a variety of senior positions in the private and public sector, including as a Senior Civil Servant at the Department for Education, as Director of UK Trade and Investment, The Philippines in the Foreign and Commonwealth Office and as Head of Public Sector at the Association of Chartered and Certified Accountants. He has served as a University Governor and as a Director of a British Chamber of Commerce.

Toby Hirst is a Research Intern at Policy Exchange, graduating in 2022 with a First Class Honours degree in Politics.

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Foreword

David Blunkett

There is cross-party support for a renewed commitment to the apprenticeship route alongside high-quality vocational post-16 qualifications and A-levels. Despite the welcome introduction of the apprenticeship levy, the number of those starting apprenticeships has fallen dramatically, not least amongst young people – as spelt out in this paper.

That is why I welcome, very strongly, the practical recommendations to ensure that we can put the drive to increase apprenticeships on a firm footing, and build consensus for a sustainable programme which will ensure continuity in meeting the needs of both the individual and the UK economy.

It is self-evident that we cannot achieve the goals of increased growth, sustainable economic development in all parts of the country and reverse the decline in productivity without the skills and training required to meet these challenges.

Whether achieving net zero within an acceptable timeframe, or simply filling the vacancies which currently bedevil our economic prosperity, meaningful choices must be available to learners – young and old – with the advice and guidance that make those options a reality.

The Apprenticeship Levy itself has been widely recognised as in need of reform. This paper endorses the widely-held view that there should be sensible flexibility in the use of the Levy to accelerate the take-up of apprenticeships to meet defined skills needs and to provide for a journey of lifelong learning.

It is common sense that where skill shortages have been identified, including by the Migration Advisory Committee, the Levy should be available to invest in meeting those needs, and assist learners in getting a foothold on that ladder to build, incrementally, the qualifications they need to succeed.

As highlighted in this paper, small and medium-size enterprises need greater clarity, more support and incentivisation, and the practical steps needed to make it possible for them to play an even greater role than is currently the case in taking on and nurturing apprentices in key areas of the economy.

Comparisons of public expenditure between apprenticeships, vocational learning more broadly, and higher education (as indicated in the Augar Report) must surely lead us to want a commitment from future governments to put substantial resources into ensuring a balanced and forward-looking approach to meeting the needs of an economy which will require capability and flexibility to match immediate hands-on practical

skills with the challenge of artificial intelligence and robotics.

Removing barriers to young people taking up apprenticeships, such as families being denied child benefit through to the age of 19 for those taking this route, is a logical and immediate anomaly which can be set aside. And, that there should be a rigorous, incremental pathway for young men and women who can't immediately gain a high-level pass at GCSE English and maths to obtain the necessary level of skill to allow them to progress.

This report sets out the current challenges and the route to progress and practical success. I am grateful to Policy Exchange for providing the research capacity to produce a report which should form the basis for urgently needed future policy change.

Endorsements

Rt Hon Nadhim Zahawi MP, former Secretary of State for Education:

“The recommendations in Policy Exchange’s report would give a major boost to skills and productivity. We need an apprenticeship system that works for both businesses and young people. Policy Exchange is therefore right to say that where we have identified shortage occupations, employers should be able to use the levy to train up home-grown talent - including on shorter and more flexible courses - instead of being forced to rely on immigration to fill these vacancies.”

Rt Hon Sir Gavin Williamson MP, former Secretary of State for Education:

“As Education Secretary, I saw the success of the £3,000 incentive scheme in supporting business to provide the apprenticeships this country needs. Policy Exchange’s thoughtful recommendations would enable SMEs to step up to support the growing demand for apprenticeships - and give tens of thousands of youngsters the chance to learn while they earn.”

Lord Bilimoria CBE, founder and Chairman, Cobra Beer and Director, International Chambers of Commerce (ICC) UK:

“There has been a crying out call from Business for Government to reform the Apprenticeship Levy – this report from Policy Exchange is a comprehensive assessment of apprenticeships acknowledging the huge demand for apprenticeships, yet the failure of the existing system to deliver the high volume of high-quality apprenticeships that are needed for young people and to improve the UK’s productivity. The report sets out specific reforms, including flexibility to support employer relevant skills, greater support for SMEs and increasing opportunities for young people. I urge the government to listen to this report and implement its recommendations.”

Non-Affiliated Member of the House of Lords, Lord Austin of Dudley:

“This is a really important report by Policy Exchange. It rightly identifies that we must do much more to create high quality apprenticeship opportunities for young people of all backgrounds. A fairer minimum wage, free transport for young apprentices and ending the travesty whereby child benefit is removed from the parents of apprentices under 18 would make a real difference to those from poorer backgrounds. If we are serious about making apprenticeships a genuine alternative to university and giving more young people a good start to prosperous careers, Policy Exchange is right that we must be prepared to fund more places, by directly supporting SMEs to create more apprenticeships for young people.”

Tina McKenzie, Policy and Advocacy Chair, Federation of Small Businesses (FSB):

“The sharp decline in apprenticeship starts, particularly among young people and SMEs, is alarming. SME apprenticeship funding should not be at the mercy of the availability of funds in the levy pot. Small businesses need a long-term guarantee that, at a minimum, current levels of government funding towards apprentice training costs are maintained.

“Policy Exchange’s proposed incentive of £2,500 for off-the-job training hours, coupled with an additional £500 upon completion, has the potential to revolutionise opportunities for young people and small businesses. We should not jeopardise the future of our economy by neglecting the skills and experiences of our youth.”

David Hughes, Chief Executive, Association of Colleges (AoC):

“I’m pleased to see Policy Exchange making constructive and far-reaching recommendations on how to ensure that the apprenticeship levy truly delivers for young people as well as employers whilst meeting the needs of labour market entrants as well as the re-training of people already in work. The apprenticeship levy has had a positive impact in many ways, but it is not working how it should. A reformed levy system is vital as soon as possible.”

Sarah Howard, Chair of the British Chambers of Commerce.

Apprenticeships are key to resolving skills shortages, creating opportunities for young people and upskilling adults in the workplace - but a complex and rigid system is getting in the way. By removing barriers for employers – through greater flexibility, support and streamlined access – government can help more firms to engage with apprenticeships, and other shorter forms of workplace training, that lead to great jobs and successful businesses.

Alun Francis, Interim Chair of the Social Mobility Commission and Principal and Chief Executive of Oldham College:

“This is a very useful and comprehensive overview of the Apprenticeship Levy, which I would recommend anyone interested in this area of policy to read. It is clear about its many benefits and shines a direct light on areas for improvement. The recommendations are practical and well thought through, particularly in terms of the how the Levy can better meet the needs of SMEs and disadvantaged young people.”

Shirine Khoury-Haq, CEO, Co-op:

“Apprenticeships designed and delivered well can help develop skilled colleagues which employers like the Co-op need but, more importantly, they provide opportunities for people to progress and succeed in their chosen careers – whatever their starting point is.

The Apprenticeship Levy has failed to deliver the opportunities I believe are essential to promote social mobility across the UK. That’s why the Co-op is backing this important new report from Policy Exchange. The report clearly shows how the Levy could deliver more high quality apprenticeships for those who would most benefit and, in turn, transform lives.”

Keith Smith, CEO, Harrow College and Uxbridge College Group:

“The work undertaken in this review reflects a pivotal opportunity to deliver the skills system employers need and rightly demand. It is important we create the right infrastructure to incentivise and deliver more opportunities for people to access an apprenticeship and support employers to invest in the skills they need for economic growth and improving our productivity.”

James Kelly, Chief Executive and Co-Founder, Corndel:

“Corndel recognises the transformative power of high-impact apprenticeships and supports recommendations for greater flexibility to the levy, promoting access for SMEs, young people, those from disadvantaged backgrounds and non-profit organisations which will contribute to greater social mobility and economic growth in the United Kingdom.”

Siobhan Baillie MP, Member of Parliament for Stroud:

“Apprenticeships offer an unrivalled opportunity for young people to gain valuable life skills and qualifications while earning. Policy Exchange is therefore right - we must not let the levy be a cap on our ambition. The recommendations in this report are sensible and practical and, if implemented quickly, they will make a big difference to UK plc, businesses and lives everywhere.”

Executive Summary

The demand for apprenticeships is tremendous. The reformed qualifications are valued by both employers and learners and are helping to support hundreds of thousands of apprentices a year into high quality, skilled employment. They are a crucial part of our skills system.

Yet while the Apprenticeship Levy has had some successes, including in helping to strengthen the quality of apprenticeships and in stimulating the growth of degree apprenticeships, the system is failing to deliver the volume of high quality apprenticeships that are needed to unlock opportunity for young people and increase Britain's productivity. Since its introduction, the number of apprentices has decreased sharply, with particularly severe falls amongst young people, those from economically disadvantaged backgrounds, in SMEs and in the Midlands and North.

- The total number of apprenticeship starts has diminished from a high point of over 500,000 to 349,190 in 2021-22 – and remains significantly below the pre-pandemic starts 393,000 recorded in 2018-19.
- The number of apprenticeship starts for 16-18 year-olds has fallen by 41% since 2015-16, for 19-24 year olds by 31% and for those aged 25+ by only 26%. This represents a clear shift of the apprenticeship programme away from young people.
- The number of starts in SMEs has fallen by almost 50%, while the number of starts amongst large companies – typically levy payers – has only declined by 19%.

This is not primarily a question of demand: over 40% of young people who registered for UCAS indicated they would be interested in doing an apprenticeship. The problem is undersupply.

Much ink and many words have been expended on the Apprenticeship Budget – which suffers from both a lack of transparency and poor understanding about its purposes. The Levy was designed in a way that allowed underspend by levy payers to be recycled to support SME apprenticeships, with Government – in practice, levy-payers – paying 95% of the cost of each apprenticeship initiated by a non-levy-payer.

Accordingly, the Apprenticeship Budget, the money raised by the Apprenticeship Levy, the amount of money in levy-payers' accounts and the money actually spent on apprenticeships are all different things, both in principle and in fact. Nevertheless, the frequent complaint from business that too much of the Levy is clawed back and not spent on apprenticeships is fundamentally correct. Over the last five years, £4.3bn was raised by the

levy but not spent on apprenticeships, but rather kept by or returned to the Treasury, and in 2021-22, the amount raised by the Levy was £750m more than DfE's Apprenticeship Budget, or £280m more after accounting for Barnett consequentials.

Financial Year	Funds raised by the Levy (£ million)	Apprenticeship Budget (£ million)	Funds spent on apprenticeships (£ million)	Difference between funds raised and spent (£ million)
2017-18	2271	2010	1586	685
2018-19	2713	2231	1738	975
2019-20	2798	2469	1919	879
2020-21	2910	2467	1863	1047
2021-22	3213	2466	2455	758
Total				£4,344

Concern from business, then, that the levy system does not give them the flexibility to train workers with the skills they need, is well-founded. Shorter and more flexible courses of high immediate value to the economy – from HGV driving to coding – are ineligible for levy-funding. A survey of over five-hundred mid-sized businesses found that an inability to use the levy for broader costs, the burden and bureaucracy of the programme, the need for shorter and more flexible courses, and the lack of flexibility for off the job training were the biggest barriers that prevented them from using more of their levy. Given the scale of the current claw-back by Treasury, the case for more flexibility is eminently justifiable.

The levy is an important funding contribution to our skills system – but it should not determine the limit of our ambition when it comes to the number or quality of apprenticeships that we are willing to train and fund. This should be determined separately, on the basis of need, value and affordability – in the same way as other education and training budgets.

The benefits of apprenticeships accrue to business, individuals and the wider economy. Yet currently Government considers levy-funding from employers to be a hard budgetary cap in this vital area. Despite repeated commitments to increasing the number of high quality apprenticeships, funding, policies and delivery have not kept pace with ambition. A series of policy choices also raise barriers to apprenticeships from young people from disadvantaged backgrounds – from the arbitrary requirement to pass GCSE-level Maths and English, to the fact that child benefit is removed from 16-19 year olds taking an apprenticeship – though not from their peers taking A-Levels at school or college. New polling has also shown that 3 out of 5 young people aged 11-16 thought it wasn't fair for apprentices to be paid a lower living wage.

It is vital that government takes action to correct market failures in the system. Employers are rational actors – all other things being equal, most would rather employ an experienced 30 year old on an apprenticeship

than a school-leaver of 19. If government wishes employers to provide more apprenticeships, or to preferentially offer apprenticeships to younger, or less experienced, or less skilled individuals, it cannot simply rely on using levy funds, but will need to ensure that funding is in place and sensitively allocated to effectively address market failures and deliver the desired results. More must also be done to support SMEs to re-engage with apprenticeships if apprenticeships are to fulfil their economic and social objectives.

The current approach to apprenticeships stands in stark contrast to other areas of education policy. Higher Education is primarily funded by tuition fees – yet in 2021-22, the Government wrote off 44% of the loans and provided grant funding of £1.6bn for high cost subjects. This represents an effective subsidy of over £10bn – more than triple the Apprenticeship Budget. Similarly, while Higher Education places are uncapped, the Government considers apprenticeship places to be rationed by the funding raised by the Levy – even though apprentices cost the taxpayer less (on average), count positively against the UK’s employment figures, and lead to positive employment outcomes. Although Government rhetoric has championed apprenticeships, the policies on the ground have not followed suit.

Since 2019, the Government has undertaken a number of policies to improve the system, including initiatives supporting the growth in degree apprenticeships, tripling the bursary for care leave apprentices and, through IFATE, introducing flexibilities into off-the-job training and end-point-assessments. While welcome, these have not succeeded in changing the overall trajectory of the programme, with starts remaining below pre-pandemic levels.

Overall, while the Apprenticeship Levy has many strengths, the system is not currently delivering the scale of high quality apprentices that our country needs – with young people, those from disadvantaged backgrounds and SMEs being hit the hardest. We do not propose wholesale upheaval: the system of employer-led Standards is widely recognised as delivering high-quality individuals with the skills that employers need, and the existence of the Levy provides an important incentive, for employers to engage in the system. Nevertheless, significant reforms are needed to improve flexibility, support SMEs and deliver the volume of high quality apprentices our young people – and the country – need.

We set out a series of reforms in three principal areas:

- **Flexibility to support employer-relevant skills.** Transforming the Levy to an Apprenticeships and Skills Levy to better support the training of high quality, employer-valued skills, including on shorter and more flexible courses, that the economy demands. These would not only fulfil immediate skills needs, but could lead on to future apprenticeships at higher level in the future.
- **Greater support for SMEs.** More flexibility, a streamlined process and direct financial support is needed to address market failures

and enable SMEs to play the full role in the apprenticeship system that is essential to deliver high quality apprenticeships at scale.

- **Increased opportunity for young people.** Directly incentivising employers to take on young people, a fairer minimum wage and removing the inequities on child benefit are among measures that will allow young people, whatever their background, to benefit from an apprenticeship.

Collectively, these reforms would increase skills, boost productivity and expand opportunities for people of all backgrounds – increasing growth and apprenticeship-provision across the country.

Recommendations

1. Flexibility to support employer-relevant skills

The benefits of apprenticeships accrue to business, individuals and the wider economy. Levy funding should be a contribution to the system, not a ceiling to ambition. Government must recognise the need to intervene to address market failures and support economically valuable apprenticeships in subjects, or for groups of people, that are not taking place under the current, purely market driven, approach.

- 1. Government should fund all individuals employed by an SME to take an apprenticeship**, at the current 95% rate of contribution, regardless of what proportion of the levy is used by levy payers, just as the Government funds all those who are accepted to take up a university place. This would complement measures, below, that would support levy payers to do more to support their supply chains.
- 2. The Levy should be transformed into an Apprenticeship and Skills Levy, with up to 25% of the levy able to be spent on high quality employer-relevant skills training that relates to occupational standards**, studied at a regulated college, university or training provider. This should include Bootcamps, T-Level placements, approved Higher Technical Qualifications and specified qualifications relevant to the shortage occupation list, as well as pre-employment development for those currently in long-term unemployment. As well as directly supporting the acquisition of valuable skills, many of these qualifications also have the potential to support the apprenticeship pipeline by leading to higher level apprenticeships.
- 3. IFATE should work with the MAC to identify qualifications at Levels 2-5 that would directly enable an individual to perform shortage occupations currently on the list**, on which levy could be spent. It is recognised that not all occupations would have such an associated occupation. Subsequently, levy-payers would be able to draw down levy to spend on these identified qualifications – and, furthermore, non-levy payers could receive a subsidy, funded from of the levy, covering 50% of the training and assessment costs associated with these qualifications. There should be a means whereby employers can present evidence to add additional qualifications to be eligible for the levy, similar to the way qualifications can be added to the Level 3 Free Courses for Jobs list.

4. **Levy payers should be able to draw down £1000 for each T-Level placement they provide. SMEs to also be funded £1000 for each T-Level placement provided**, funded through the underspend of the current T-Level budget.
5. **Government should increase the proportion of the levy transfer from 25% to 35%, reduce the bureaucracy associated with transfer and make it easier for employers to transfer funding outside their supply chain to broad-based schemes operated by regional local authorities, charities or business groups.** We should also permit levy payers to donate unspent levy funds – within the transfer limit – to non-profit organisations, including both charities and public sector education institutions such as schools or colleges, to run pre-apprenticeship programmes.
6. **The Apprenticeship Minister role should be a joint Ministerial role between the Department for Education and His Majesty's Treasury, with responsibility both for Apprenticeship Policy and the Apprenticeship Levy.** Enabling the Apprenticeships Minister to hold responsibility over both the policy, and the financial, elements of the Levy would facilitate effecting the changes and reforms this paper recommend.

2. Greater support for SMEs

SME involvement in the apprenticeship system has plummeted since the introduction of the levy – with wider negative implications, since SMEs historically trained higher proportions of young apprentices and apprentices from disadvantaged backgrounds and areas. More must be done to support SMEs to re-engage with apprenticeships if apprenticeships are to fulfil their economic and social objectives.

Many of the changes that would disproportionately benefit SMEs would also benefit other employers and, unless explicitly specified, recommendations in this section apply to all employers, not only SMEs.

7. **Provide SMEs with a contribution of £2,500 to fund the 'off-the-job' training hours for apprentices under 25, with an additional £500 achievement premium for completion.** We estimate that this would cost approximately £260m a year.
8. **SME Hubs should be established, at FE Colleges, Training Providers, Universities or Business Groups such as Chambers of Commerce to support SMEs accessing apprenticeships.** These would be tasked to provide a hub service for SMEs, supporting them with navigating the complexity of the system, handling the bureaucracy and creating nexuses to assist in recruiting and supporting apprenticeships. These should be allocated on a 'provider-blind' basis, and would be paid by results. This would not restrict the ability of any employer to select any training provider they wished for an apprentice, whether a college, university or ITP.

9. **Capital funding should be more widely available, to aid in the establishment of an effective national skills infrastructure for the delivery of apprenticeships.** ITPs with at least three years' of experience of delivering apprenticeships and a positive Ofsted rating, should be able to bid into capital funding programmes in a similar way to colleges, to purchase capital equipment for the delivery of apprenticeships.
10. **Funding and payment timing rules should be altered to support up to 20% of off-the-job training being front-loaded, as training delivered before the start of an apprenticeship,** to ensure that apprentices can begin their apprenticeship employment ready.
11. **The public sector apprenticeship target should be made binding, with organisations that fail to meet it being required to surrender a proportionate amount of their admin budget to the Treasury.** If all public sector organisations met the 2.3% target – which some already do – this would deliver at least an additional 25,000 apprenticeship starts a year. Meaningful requirements – that are assessed during consideration of bids and incorporated into contracts – on employing apprenticeships should be build into all public sector procurement contracts over £100,000.
12. **IFATE should commission new apprenticeship standards in areas of high employer demand, particularly from SMEs,** where no or insufficient standards currently exist, or where a lack of standards is hindering progression. IFATE must be flexible and fleet of foot in order to ensure standards remain responsive to the rapidly evolving demands of the labour market.
13. **IFATE should publish new guidance on increasing flexibility in the delivery of standards, adopting a 'Core and Flex' approach.** Under such approach, each apprenticeship would need to undertake at least 80% of the standard, but the remaining 20% could be determined more flexibly, with reference to the specific needs of the employer, industry and role.
14. **For use only by employers that wished it, IFATE or DfE should develop a model apprenticeship contract for employers who wish to ensure they retain apprentices after completion, to require an apprentice who completed their qualification to continue with the employer for a period of time, or else repay a portion of their training costs.** This would not impact apprentices who did not complete their apprenticeship. Use of this contract would be entirely optional. We recognise that many employers would not wish to make use of some an arrangement; however, the model contract would be a template that would be of use to employers where concern that apprentices would leave after completion was seen as a barrier to taking on apprentices.

3. Increasing opportunity for young people

Apprentices can be of benefit to people of all age and from all social backgrounds. However, the rapid and severe fall off of apprenticeships among young people must be reversed if we are to increase social mobility, provide high quality training for those not going to higher education, and make apprenticeships a genuine alternative to university. It is also essential to remove the barriers that are currently in place that hold back people from lower income households from taking apprenticeships.

- 15. The separate Apprenticeship minimum wage should be abolished, with minimum wages aligned with the national minimum wage for each age group,** so that low wages do not prevent those from lower income households taking up opportunities.
- 16. The child benefit regulations should be amended so that parents of an apprenticeship aged 16-19 continue to receive child benefit, as they would if the child was at school or college,** ending the unfair discrimination against those who have chosen a work-based training approach which dissuades those from poorer backgrounds from taking an apprenticeship.
- 17. Mayoral Combined Authorities should offer free public transport to all young apprentices (those under 25).**
- 18. Apprentices who are below compulsory school leaving age should be funded through the 16-19 education funding budget, rather than the levy.** It is compulsory for individuals to remain in education until they are 18, and the government would be funding these individuals in this way if they were at school or college.
- 19. The requirement to pass GCSE Level equivalent Maths and English to complete an apprenticeship should be abolished.** This is limiting opportunity for those who are not academically gifted. Apprentices under 21 who do not have this level in Maths and/or English should be required to continue to study towards core skills in maths and/or English and the Department for Education should develop a reshaped route to gaining these skills.

1. A History of the Apprenticeship System

1.1. Modern Apprenticeships (MAs) and New Labour reforms

1. In order to address declining apprenticeship starts, Modern Apprenticeships (MAs) were launched in 1994,¹ with the aim of combining the conventional strengths of apprenticeships – effective training of wide-ranging, transferable skills – while attempting to address the weaknesses of the existing system (for example, a lack of externally monitored standards).² MAs ushered in an era whereby the “emphasis on time serving” was replaced by “competence-based NVQs within training frameworks”, with a focus on building on existing apprenticeship courses and providing opportunities in industries that didn’t traditionally offer apprenticeships.³
2. However, the extent to which the introduction of MAs addressed weaknesses of the existing system is contested, with critics arguing there were issues with variations in quality of training between sectors and low completion rates. In view of these issues, the then Labour Government announced modifications to address this in March 2001:
 - Replacement of National Traineeships with Foundation Modern Apprenticeships (FMAs), designed for school leavers – upon completion the learner was awarded a Level 2 NVQ.
 - Replacement of Modern Apprenticeships with Advanced Modern Apprenticeships (AMAs), designed for those who have already completed an FMA – upon completion the learner was awarded a Level 3 NVQ.
 - Greater emphasis on ‘key skills’ (I.T., communication, working alongside others, problem solving, application of number and improving own learning).
 - Standardisation of payments by sector for training; previously Training and Enterprise Councils (TECs), the body that underwrote apprenticeship agreements between employers and learners, had discretion over how MAs were funded which led to volatility in funding.⁴
3. Furthermore, in November 2001 the Government adopted some of the recommendations from the report of the Modern Apprenticeship

1. FE News, <https://feweek.co.uk/history-of-apprenticeships/>

2. Mike Harris, Modern Apprenticeships: an assessment of the Government’s flagship training programme: Institute of Directors Policy Paper

3. House of Commons Library, Apprenticeships Policy, England prior to 2010 <https://researchbriefings.files.parliament.uk/documents/CBP-7266/CBP-7266.pdf>

4. Mike Harris, Modern Apprenticeships: an assessment of the Government’s flagship training programme: Institute of Directors Policy Paper

Advisory Committee including:

- A national framework for apprenticeships to define and standardise basic standards.
 - An entitlement to a Modern Apprenticeship place for all 16 to 17-year-olds with 5 or more GCSE passes (A*-G).
 - Creation of Technical Certificates, a qualification to test specialised occupational knowledge gained via off-the-job training.⁵
4. Concerns regarding MAs persisted, with the Government expressing concerns about low quality programmes, completion rates, and variation between sectors in the quality of outcomes in their 'Skills Strategy' White Paper.⁶ As a result, in May 2004 the Government engaged in further reforms. Most notably, 'Apprenticeships' took the place of Foundation Modern Apprenticeships as a Level 2 qualification and 'Advanced Apprenticeships' replaced Advanced Modern Apprenticeships at Level 3. Accompanying this change, the upper age limit of 25 was removed and Young Apprenticeships were created for 14-16 year-olds who were still at secondary school.

1.2. Reforms under the Coalition

Wolf Report

5. In March 2011, Professor Alison Wolf published a review on vocational education for people under the age of 19. In this, Professor Wolf identified key issues with the vocational education system at the time, including:
- Around a quarter to a third of 16-19 year-olds are on 'dead end' vocational courses with minimal labour market values
 - Achievement of GCSEs in English and Maths (A*-C) is massively important, but only 45% achieve this at age 16, with achievement rate still below 50% at age 18
 - Access to high quality apprenticeships still difficult, lessons need to be learnt from apprenticeship models in other countries (e.g. France, Denmark, Germany)
6. The Wolf Report concludes that the main priority for reform of apprenticeships must be increasing young people's access, with a greater focus on generalisable and transferable skills. From this principle, Wolf draws specific recommendations⁷:
- Government should evaluate whether apprenticeship frameworks are adequate for 16-19 year-old apprentices, and whether it's suitable that frameworks should be drawn up exclusively by Sector Skills Councils (SSCs).
 - Government should also review whether frameworks are flexible enough, and whether they are responsible enough to local labour markets and conditions.
 - Employers taking on 16-18 year-old apprentices should be in receipt of payments, either direct or indirect, because they bear

5. Department for Education and Skills, The Way to Work: The Report of the Modern Apprenticeship Advisory Committee https://dera.ioe.ac.uk/6323/1/MA_The_Way_to_Work.pdf

6. Department for Education and Skills, 21st Century Skills: Realising Our Potential https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/336816/21st_Century_Skills_Realising_Our_Potential.pdf

some cost of education for an age-group with a right to free full-time education.

- Government should increase efficiency in contracting arrangements for apprenticeships, using best practice internationally, to control unit costs and drive out any frictional expenditure involving middleman activities to have no discernible value.
- Government should also consult urgently on alternative ways for groups of smaller employers to become direct providers of training, and can therefore claim ‘training provider’ payments – possibly through encouragement of Group Training Associations (GTAs).

Access to Apprenticeships

7. Part of a broader £60 million scheme to ‘get Britain working’, the Access to Apprenticeships scheme was launched in May 2011 to help 16- to 24-year-olds who required extra support before they were able to secure an apprenticeship.⁷ It enabled learners to undertake unpaid work experience for a maximum of six months with the expectation being that a full apprenticeship would be secured before the end of the scheme⁸. To be eligible, learners needed to be not in education, employment or training (NEET) or qualified to claim Additional Learning Support.
8. After the Richard Review, the Government announced that the Access to Apprenticeships scheme would be discontinued at the end of the 2012/13 academic year and replaced by a new system of traineeships.⁹

Apprenticeship Grant for Employers of 16- to 24-year-olds

9. In February 2012, the Government launched the Apprenticeship Grant for Employers of 16- to 24-year-olds. This was a payment of £1,500 per apprentice made to employers to encourage them to create new and additional apprenticeships for young people. In order to be eligible, the employer had to employ less than 250 people (subsequently expanded to employers that employed less than 1,000 people) and have not employed an apprentice in the 12 months before applying for the grant. The grant was to be paid in addition to pre-existing government subsidies that covered 100% of the training costs of 16- to 18-year-old apprentices and 50% of the training costs of 19- to 24-year-old apprentices¹⁰.
10. The scheme was regarded as a success in terms of incentivising small businesses to take on young apprentices: across the course of 2012, 74% of small businesses were offering apprenticeships to 16- to 18-year-olds and 19 to 24 year-olds, compared with only 47% offering them to over 25s.¹¹

7. gov.uk, Government vows to get the young into work <https://www.gov.uk/government/news/government-vows-to-get-the-young-into-work-2>

8. House of Commons Education Committee, Apprenticeships and traineeships for 16 to 19 year-olds <https://feweek.co.uk/wp-content/uploads/2015/03/EMBARGO-Apprenticeships-and-Traineeships-report.pdf>

9. House of Commons Education Select Committee, Apprenticeships and traineeships for 16 to 19 year-olds

10. National Apprenticeship Service, Apprenticeship Grant for Employers of 16 to 24 year olds (AGE 16 to 24) <http://www.nsi.org.uk/wp-content/uploads/2013/07/1331201348.pdf>

11. House of Commons Library, Apprenticeships and small businesses <https://dera.ioe.ac.uk/22850/1/SN05997.pdf>

Richard Review

11. Published by Doug Richard in November 2012, the Richard Review had the objective of investigating how apprenticeships could be used more effectively to meet the needs of the economy, ensure that government delivers high quality training, and maximise the impact of government investment.¹²
12. Borne out of the review were ten substantive recommendations to meet these goals, including the following¹³:
 - Apprenticeships should be redefined. Primarily, an apprenticeship should be geared towards those new to a profession who require a substantial amount of continuous training.
 - The focus of apprenticeships should be on the outcome. Standards should replace apprenticeship frameworks, and these standards should set out what apprentices are expected to know and do. These standards should be developed by employers or employer groups to ensure employers are able to affect change where necessary. Furthermore, the Richard Review recommended that there should only be one apprenticeship qualification for each occupation associated with an apprenticeship, with too many pathways in the current system leaving employers confused as to what skills an apprentice had actually gained.
 - The testing and validation process should be independent and genuinely respected by industry.¹⁴ To this end, the Richard Review recommended that a holistic test be taken at the end of an apprenticeship to assess the competency and employability of an apprentice.
 - Government has a role in promoting good quality delivery. The Government should implement minimum requirements for off-the-job learning and a minimum duration for the length of the apprenticeship.
 - Government funding must create the right incentives for apprenticeship training. The Richard Review expressed a preference for this being done by funding apprenticeship training using National Insurance, with a greater emphasis on purchasing power for investing in apprenticeship training being with the employer.

Frameworks to Standards

13. In response to the Richard Review, the government issued an 'Implementation Plan' outlining their plans to make to replace the existing apprenticeship frameworks with standards.¹⁵ The development of standards was employer-driven, with over 1,000 employers involved in developing them for the relevant occupations through Trailblazer groups, which convene employers reflective of those who employ people in the occupation.¹⁶

12. gov.uk, The Richard Review of Apprenticeships https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34708/richard-review-full.pdf

13. Ibid

14. Ibid

15. HM Government, The Future of Apprenticeships in England: Implementation Plan https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/253073/bis-13-1175-future-of-apprenticeships-in-england-implementation-plan.pdf

16. Institute for Apprenticeships and Technical Education (IfATE), Trailblazer Groups <https://www.instituteforapprenticeships.org/developing-new-apprenticeships/trailblazer-group/>

The Differences Between Frameworks and Standards¹⁷

Frameworks	Standards
<ul style="list-style-type: none"> • Qualification-focused, adapts to employer feedback 	<ul style="list-style-type: none"> • Outcome-focused, employer sets standard and assessment from outset
<ul style="list-style-type: none"> • Continuous on-programme assessment 	<ul style="list-style-type: none"> • End-point assessment
<ul style="list-style-type: none"> • Completion of assessment upon achievement of qualifications (pass or fail) 	<ul style="list-style-type: none"> • More granular grading system to encourage learners to strive for excellence (distinction, merit, pass or fail)
<ul style="list-style-type: none"> • Not required to be linked to professional registrations requirements 	<ul style="list-style-type: none"> • Obligated to be linked to professional registration requirements
<ul style="list-style-type: none"> • Government funding direct to provider 	<ul style="list-style-type: none"> • Government funding direct to employer
<ul style="list-style-type: none"> • Portfolio and qualification-focused assessment methods 	<ul style="list-style-type: none"> • Employer-defined assessment methods

14. In order to enhance simplicity, apprenticeship standards are generally no more than 2 pages long and which outline the Knowledge, Skills and Behaviours (KSBs) an apprentice is expected to exhibit in order to prove competency.¹⁸
15. The standards also include a number of minimum requirements in order to ensure the apprenticeship has sufficient rigour, including requirements that the apprenticeship must:
 - Last for a minimum duration of 12 months.
 - Include a minimum of 20% off-the-job training (though, from 1st August 2022 apprentices only have to complete a minimum of 6 hours off-the-job training per week)¹⁹
 - Work a minimum of 30 hours a week, including off-the-job training.
 - Provide English and Maths training up to Level 2.
 - Test apprenticeships against the standard in order to test competency at the end of the course using an End-Point Assessment (EPA).
 - Begin with the signing of an Apprenticeship Agreement between employer and learner which outlines the occupation the apprentice is working towards, and the start and end date of the apprenticeship.²⁰

17. Federation for Industry Sector Skills & Standards, Employer-defined Apprenticeship standards <https://fss.org/wp-content/uploads/2014/05/Facilitator-toolkit-apprenticeship-standards-May2014.pdf>

18. Federation for Industry Sector Skills & Standards, Employer-defined Apprenticeship standards <https://fss.org/wp-content/uploads/2014/05/Facilitator-toolkit-apprenticeship-standards-May2014.pdf>

19. Department for Education, Apprenticeship funding rules: August 2022 to July 2023 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1109628/2223_Summary_of_Changes_V2.0_Final.pdf

20. House of Commons Library, Apprenticeship Policy, England 2010-2015 <https://research-briefings.files.parliament.uk/documents/CBP-7278/CBP-7278.pdf>

Advanced Learner Loans

16. Advanced Learner Loans were introduced by the Coalition Government in April 2013. Under this initiative, employers would cover up to half of a learner’s training costs whilst apprentices would contribute the remaining costs through Advanced Learning Loans to be paid for once the learner had completed their qualification and was earning over £21,000 a year. The policy only affected apprentices over the age of 24 who were studying at Level 3 or above, with the rationale

behind this being that government would be able to direct more funding towards young people and that quality of courses would be driven up as learners who were (partially) covering the cost of their own apprenticeship would demand more from providers.²¹

17. The initiative had a deleterious effect on take up of apprenticeships, with only 2,800 learners aged 25 or over starting an apprenticeship at Level 3 or above between August and October 2013, compared with 25,100 the year before – an 88% drop.²² As a result of this, the policy was discontinued in January 2014.

Sainsbury Review

18. The report of the Independent Panel on Technical Education, otherwise known as the Sainsbury Review, was published in July 2016. Primarily, the panel was tasked with advising the Government on how to improve the quality of technical education provision in England, and specifically to simplify the overly complex existing system.²⁷ To this end, recommendations of the Sainsbury Review included:

- A call for the establishment of two distinct pathways post-16: the academic pathway, which prepares learners for further study, and the technical pathway, which prepares learners for employment.
- ‘Bridging provision’ to facilitate the transfer between the academic and technical pathways, in case learners wish to change their plans at a later stage.
- Two modes of learning within the technical pathway: a college-based mode of learning (including colleges, schools, training providers) and an employment-based pathway.
- The formation of a framework of 15 routes which encompass all technical education at Levels 2-5. Routes are separated into occupations (e.g. agriculture, environmental and animal care; construction; social care). A full qualification programme for route consists of technical qualifications, English and Maths to Level 2, digital skills, pertinent sector-specific learning and a work placement.
- A recommendation that learners would be focusing on occupational preparation, existing apprenticeship standards should be reviewed with this in mind. Preparation for a sector is too broad, preparation for a particular job is too narrow.
- Implementation of a ‘transition year’ programme for learners who desire to enter technical education at age 16 but aren’t ready.²⁸

1.3. Introduction of the Apprenticeship Levy and Subsequent Reforms

19. The apprenticeship levy came into effect on 6th April 2017 and stipulates that employers with an annual wage bill over £3 million have to pay 0.5% of the aforementioned wage bill to HMRC monthly, who then pay the funds into the employer’s digital apprenticeship

21. BIS Research Paper Number 159, Tracking the impact of 24+ Advanced Learning Loans https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/301671/bis-14-721-tracking-the-impact-of-24-plus-advanced-learning-loans.pdf

22. House of Commons Library, No more Advanced Learning Loans for apprentices after low take-up <https://commonslibrary.parliament.uk/no-more-advanced-learning-loans-for-apprentices-after-low-take-up/>

service account. Every month, the Government tops-up the funds by adding 10% of an employer's monthly payment onto their existing levy funds.

20. If an employer's funds are not used after being in an employer's account for 24 months, they expire and return to the Treasury.²³ Initially, levy-payers were able to transfer 10% of their apprenticeship funds to other employers, however in April 2019 the proportion employers are allowed to transfer was increased to 25%.²⁴ If the levy-payer spends more than the amount in their digital apprenticeship service account, they must contribute 5% towards the cost of an apprenticeship, with the government providing 95% of the funding in a system of co-investment.^q
21. Businesses with an annual wage bill below £3 million do not pay the apprenticeship levy. Instead, they cover 5% of the total cost of training and assessment and the government covers the remaining 95% up to the upper limit of the relevant funding band. Additionally, the government covers 100% of the costs of training for 16-18 year-olds who are training at companies who employ less than 50 employees – this has also been extended to apprentices aged 19-24 who have previously been in care, or have an education, health and care (EHC) plan and work for an employer who employs less than 50 employees.

Additional Incentives

- Employers and training providers get £1,000 each for every apprentice they take on aged between 16-18 or between 19-24 and has previously been in care or has an EHC plan.
- If the apprentice requires additional training to reach the Level 2 standard in English and Maths, training providers can claim £471 to cover the additional costs.
- For the first 2 years of the levy training providers received £600 for every apprentice they took on who lived in the most deprived decile (1%-10% most deprived) of the country as per the Index of Multiple Deprivation (IMD), £300 for those who lived second most deprived decile (11%-20% most deprived) and £200 for those who lived in the 21%-27% most deprived areas.²⁵

Funding

22. Under the Apprenticeship Framework system, the proportion of training costs that were paid for by the government was contingent upon the age of the learner. The government would cover 100% of training costs for apprentices aged 16-18, 50% of training costs for apprentices aged 19-23, and up to 50% for apprentices aged 24 and over. The rest of the training costs would be covered by the employer.²⁶
23. However, after the switch to apprenticeship standards the funding

23. gov.uk, Expired funds <https://help.apprenticeships.education.gov.uk/hc/en-gb/articles/360012274859-Expired-funds>

24. gov.uk, Transferring your apprenticeship levy to another business <https://www.gov.uk/guidance/transferring-your-apprenticeship-levy-to-another-business>

25. House of Commons Library, Apprenticeships Policy in England <https://researchbriefings.files.parliament.uk/documents/SN03052/SN03052.pdf>

26. House of Commons Library, Effectiveness of the apprenticeship levy <https://researchbriefings.files.parliament.uk/documents/CDP-2020-0024/CDP-2020-0024.pdf>

system changed. Each apprenticeship standard is allocated a funding band, of which there are 30²⁷. Each funding band has an upper limit, representing the maximum amount of money the government is willing to contribute towards the cost of delivery before it has to be covered by the employer in full themselves.

24. Baroness Wolf of Dulwich, who published the Wolf Report on vocational training provision for 14-19 year-olds and was, until recently the Skills Adviser in No. 10 Downing Street, has considered the apprenticeship levy compared to the best practices of international peers - such as Germany, Austria and France and found that successful apprenticeship systems share a plethora of characteristics.
25. Baroness Wolf has set out what, in her view, are the key characteristics of successful apprenticeship system and whether they currently form part of the English system, which is summarised – and published for the first time – in the table below²⁸.

Key characteristics of successful apprenticeship systems	Part of current English system?
1. Employers control who trains apprentices and final assessments	Yes
2. Employers decide how many apprentices there are – if they take on an apprentice they can take it as given that a training place will be available for the off-the-job element	No (not for SMEs)
3. All employers (except, sometimes, the very smallest) contribute to funding apprenticeships through a tax or levy – sliding scale contributions are common	No
4. The state pays some or all of the off-the-job training costs	No
5. Employers' contributions are hypothecated	No
6. Hypothecated apprenticeship funding is conserved over long periods, so that it can be used to 'smooth' hiring of apprentices and provide extra support to employers in bad periods	No
7 Employer organisations (e.g. Chambers) play an important role in supporting apprentices and encouraging employers to hire them	Only in a few occupational areas

1.4. Comparisons with Other Nations

Germany

26. The German apprenticeship model is known across the world for its rigour and the benefits it offers both employers and apprentices. In Germany, apprenticeships are seen as a crucial part of a pupil's education, where parity of esteem between vocational and academic education is less of an issue compared to the UK.²⁹ The high esteem in which apprenticeships are held in Germany is represented by the

27. House of Commons Library, Apprenticeships Policy in England <https://researchbriefings.files.parliament.uk/documents/SN03052/SN03052.pdf>

28. Interview with Baroness Wolf of Dulwich

29. The Guardian, Apprenticeships are a European rite of passage – what can the UK learn? <https://www.theguardian.com/education/2018/mar/06/apprenticeships-are-a-european-rite-of-passage-what-can-the-uk-learn>

fact that 54.5% of school leavers enter the jobs market via the dual apprenticeship system.³⁰

27. Beginning at age fifteen, two-thirds of German school pupils will be streamed towards vocational study in the dual VET system ('Duale Berufsbildung'). This combines study at vocational school ('Berufsschule' - where costs are covered by the state) with a work-based apprenticeship (where costs are covered by the employer). The high standards for courses are enforced by a range of stakeholders including employers, colleges/universities, regional government, chambers of commerce and national government.³¹ tel Federal Institute for Vocational Education and Training (BIBB) to respond quickly to skills shortages.³²
28. Typically, German apprentices are aged between 16 and 19 and undertake the dual course for two to three years. All German apprenticeships begin with the signing of a contract between the apprentice and the employer, which is registered by the German Chambers of Commerce. It should be noted that the Chambers play a pro-active role in regulating the duration and content of the training to ensure its suitable.³³ The proportion of time spent between the workplace and vocational school is determined by the training standards for each occupation, which tends to vary between 50% and 70% of their time in the workplace, with the remainder of the time spent in the classroom. At the midpoint and endpoint of the apprenticeship, the apprentice undertakes independent examinations to ensure they meet the standards of excellence.

Switzerland

29. The combination of rigorous standards, parity of esteem between vocational and academic education, and VET system the 'gold standard' of vocational education, with the International Institute for Management Development (IMD) concluding that Switzerland has the highest quality apprenticeship system of anywhere in the world in their 'World Talent Ranking 2022'.³⁴
30. Apprentices spend three to four days a week at work and the rest of the time at a vocational school.³⁵ Students have two vocational options at age 14: a federal VET certificate program that takes 2 years to complete, suitable for students who are practically skilled, and a federal VET certificate that typically lasts for 3 to 4 years and leads to specific skilled occupations. Upon completion of the qualification, apprentices receive a nationally recognised certificate conferred by the chambers of industry, which allows the learner to move onto tertiary-level vocational education. The relationship between vocational and academic education in Switzerland is best demonstrated by the principle of "andersartig, aber gleichwertig" ("different but equal") – this is reflected in the popularity of vocational programs, with 64% of school leavers studying in the dual VET system, compared to 29% taking the academic route.³⁶

30. Bundesinstitut für Berufsbildung (BIBB), Datenreport 2020 https://www.bibb.de/datenreport/de/datenreport_2020.php

31. Expatrio, German dual apprenticeship system <https://www.expatrio.com/studying-germany/german-education-system/german-dual-apprenticeship-system>

32. Centre on Labor, Human Services and Population. Bridging German and US Apprenticeship Models. <https://www.urban.org/sites/default/files/publication/104677/bridging-german-and-us-apprenticeship-models.pdf>

33. Ibid.

34. International Institute for Management Development (IMD), World Talent Ranking 2022 <https://imd.cld.bz/IMD-World-Talent-Ranking-2022/91/>

35. Graf, L. The Swiss Apprenticeship System: Its Institutional Specificities and Strengths in International Perspective. https://orbilu.uni.lu/bitstream/10993/18945/1/Graf2014_SwissApprenticeshipSystem.pdf

36. Ibid.

1.5. Differences Between Apprenticeship Systems in England and Scotland

31. The Scottish apprenticeship system is comprised of three different levels of apprenticeships: Foundation Apprenticeships, Modern Apprenticeships and Graduate Apprenticeships.
- Foundation Apprenticeships enable young people to embark on apprenticeships at school alongside studying for Highers, spending part of their week with a local employer.³⁷
 - Modern Apprenticeships are suitable for those aged 16 or over who are pursuing industry-recognised qualifications at college.
 - Graduate Apprenticeships have entry requirements similar to those of undergraduate degrees and allow learners to gain full-time industry experience whilst concurrently attaining a degree-level qualification from a university.³⁸
32. The English system is structured differently. Firstly, there are four levels of apprenticeship:
- Intermediate (Level 2, equivalent to 5 GCSEs),
 - Advanced (Level 3, equivalent to 2 A-Levels),
 - Higher (Level 4/5, equivalent to a foundation degree, Higher National Diploma (HND) or Higher National Certificate (HNC),
 - Degree (Level 6/7, equivalent to undergraduate/postgraduate degree)

Funding

33. In England, funds raised by the apprenticeship levy must be spent on apprenticeships, and cannot be spent on other skills programmes. Levy funding goes directly to the employer, who then negotiates the cost of training with the training provider. Funding for levy-payers comes from the funding in their Digital Apprenticeship Service account, whilst non-levy payers must contribute 5% of the training costs, with 95% of funding provided by the government.
34. Businesses in Scotland still have to pay the apprenticeship levy, but because apprenticeships are a devolved matter the Scottish Government have been able to ensure employers have more flexibility with where their levy funds are spent - employers are free to spend their levy funds on a range of workplace development programmes. Funding for apprenticeships comes from Skills Development Scotland (SDS) who cover the costs of the contract negotiated between employers and training providers.

Assessment

35. In England, after the move from frameworks to standards all apprenticeships have had to include an end-point assessment (EPA), whereby the apprentice's competency is tested by independent examinations at the end of their course. In terms of certification, English apprentices receive either a distinction, merit, pass or fail grade.

37. Scottish Qualifications Authority (SQA), A Brief Guide to Apprenticeships Across the UK https://secure.sqa.org.uk/sqa/files_ccc/guide-to-apprenticeships-leaflet.pdf

38. Apprenticeships.Scot, Graduate Apprenticeships <https://www.apprenticeships.scot/become-an-apprentice/graduate-apprenticeships/>

36. In Scotland, where the apprenticeship system more closely resembles the former frameworks system that was in place in England, apprentices are still subject to continuous on-programme assessment without compulsory EPA. Additionally, certification is less granular with apprentices just receiving a binary pass or fail grade.

Achievement Rates

37. Achievement rates refer to the percentage of apprentices who successfully complete their programme. In the academic year 2021/22 53.4% of learners in England completed their apprenticeships,³⁹ well short of the Government's target achievement rate of 67% by 2025.⁴⁰
38. Interestingly, this is also well short of the rate of achievement in Scotland, with 73% of Scottish apprentices successfully completing their Modern Apprenticeship programmes,⁴¹ representing a clear discrepancy between achievement rates in England compared to Scotland.

Conclusion

39. It is clear that since the introduction of Modern Apprenticeships (MAs) in 1994, the apprenticeship system has undergone a significant amount of reform with a focus on increasing the quality of apprenticeships, and the relevance of apprenticeships to the demands employers. This is exemplified in the move from frameworks to standards, which ushered in an era of outcome-focused, employer-led apprenticeships with employer-defined assessment methods and a compulsory end point assessment. The standards also came with a range of minimum requirements to ensure apprenticeships were of sufficient quality – with minimum requirements in duration, off-the-job training and functional skills.
40. Despite apprenticeships increasing in quality and relevance to employers, there have been concerning trends in the take-up of apprenticeships, especially since the introduction of the apprenticeship levy. The introduction of the levy has failed to stimulate apprenticeship numbers, with the annual number of starts gradually decreasing. In addition to this, concerning trends have been spotted in the profile of apprenticeships, with take-up declining amongst young learners, disadvantaged learners and in SMEs, raising the question of whether apprenticeships are really enhancing opportunities for the individuals and employers they traditionally have done.

39. Department for Education, Apprenticeships and traineeships <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships>

40. Ibid

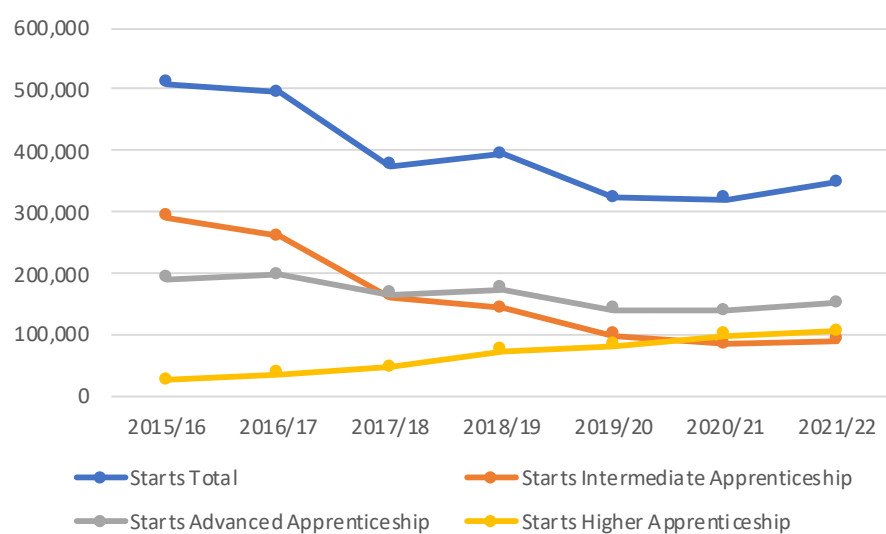
41. Skills Development Scotland (SDS), Modern Apprenticeship Statistics <https://www.skillsdevelopmentscotland.co.uk/media/49981/modern-apprenticeship-statistics-quarter-3-2022-23.pdf>

2. Performance of the Apprenticeship System

2.1. Apprenticeship Starts

41. The last decade has seen the apprenticeship system in precipitous decline. The total number of apprenticeship starts has diminished significantly from a high point of over 500,000 in 2015-16 to 349,190 in 2021-22. Although it is true that this figure is higher than in the two years of the pandemic, it remains significantly below the 393,000 starts recorded in 2018-19, the last pre-pandemic year⁴². Nor do the figures for 2022-23 show any sign of recovery: the latest statistics show that starts were down by 6.2% in the 2022-23 academic year compared to the same period in 2021-22⁴³.

Figure 1 – Apprenticeship Starts by Level



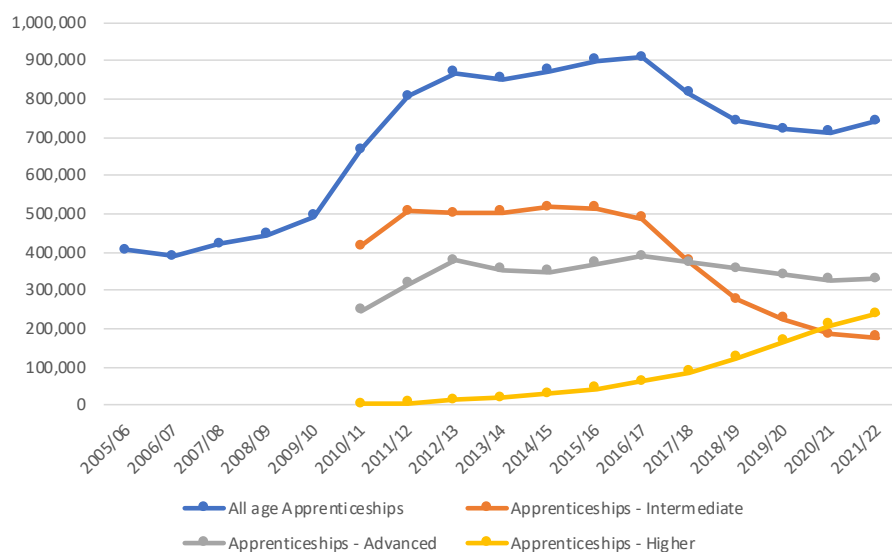
42. Looking back further, at participation rates, we see a consistent story⁴⁴. Apprenticeship participation rose steadily through the New Labour years and the early years of the Coalition, broadly levelled off between 2012 and 2016, and then plummeted to reach a new plateau of between 700,000 and 750,000. The slight increase in recent years, despite declining starts, is caused by the shift to higher level, and frequently longer, apprenticeships.

42. Apprenticeships and Traineeship Data <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships>

43. Ibid, Data correct as of 14 March 2023.

44. Participation rates are higher than starts because many apprentices will take an apprenticeship that lasts for longer than a single year.

Figure 2 – Apprenticeship Participation by Level



43. Ironically, the decline in starts coincides closely with then Prime Minister David Cameron’s pledge to deliver three million apprenticeships over the next five years, first trailed in late 2014⁴⁵ and included in the 2015 Conservative Manifesto⁴⁶. Since then, though the ‘three million’ pledge was quietly dropped⁴⁷, Government has remained repeatedly bullish about its commitment to increasing the number of quality apprenticeships, with frequent statements to this effect from successive Prime Ministers, Chancellors and Education Secretaries (see box, below). The disconnect between Government rhetoric and actual policy and performance on apprenticeships has been stark. This is surprising, because those who we spoke to who have worked closely with the ministers concerned typically agreed that these ministers did genuinely support apprenticeships and wished to increase their availability⁴⁸.
44. Some of the decline in numbers may be justified by the move from Frameworks to Standards. The system of Frameworks had been widely criticised as leading to a proliferation of low quality apprenticeships which were essentially low skilled jobs masquerading as training opportunities. An Ofsted report in 2015 warned that, “The growth in the number of apprenticeships over the last eight years has diluted their quality, with many low-skilled jobs being classed as apprenticeships and used to accredit the established skills of people who have been in a job for some time.”⁴⁹

45. <https://www.theguardian.com/education/2014/oct/20/3m-apprenticeships-david-cameron-welfare-cuts>

46. Conservative Manifesto 2015 <https://www.theresavilliers.co.uk/sites/www.theresavilliers.co.uk/files/conservativemanifesto2015.pdf>

47. <https://www.thetimes.co.uk/article/may-backs-away-from-pledge-of-three-million-apprenticeships-p0mvqhd5c>

48. Series of interviews conducted over the course of the project.

49. <https://www.gov.uk/government/publications/apprenticeships-developing-skills-for-future-prosperity>

Selected Quotes on Apprenticeships by Government Figures

“As a one nation government, we are committed to supporting 3 million quality apprenticeships over the next 5 years – to help strengthen our economy, deliver the skills that employers need and give millions more hardworking people financial security and a brighter future.” – *David Cameron, Prime Minister, 2015*⁵⁰

“Apprenticeships transform lives and are vital in making this a country that works for everyone [...] That is why we are committed to 3 million new apprenticeships by 2020, spending £2.5bn to transform this country’s investment in skills, in our people.” – *Justine Greening, Secretary of State for Education, 2016*⁵¹

“But long ago, our competitors in Germany and the US realised that to compete in the fast-moving global economy, you have to link skills to jobs. And, I am pleased to report, in National Apprenticeship Week, that our apprenticeship route is now, finally, delivering that ambition here, with 2.4 million apprenticeship starts in the last Parliament, and the launch of the Apprenticeship Levy in April supporting a further 3 million apprenticeships by 2020.” – *Philip Hammond, Chancellor of the Exchequer, 2017*⁵²

“It’s important that students who are deciding on the next step in their life are given access to all the opportunities open to them. [...] We are working hard to make sure apprenticeships are a viable option for more young people and just as rewarding as higher education courses.” – *Theresa May, Prime Minister, 2018*⁵³

“We are reforming technical education and apprenticeships are offering excellent options for everyone while helping our country build the skilled workforce it needs for a productive economy.” – *Gavin Williamson, Secretary of State for Education, 2019*⁵⁴

“We will also offer an opportunity guarantee, so that every young person has the chance of an apprenticeship or an in-work placement so that they maintain the skills and confidence they need to find the job that is right for them.” – *Boris Johnson, Prime Minister, 2020*⁵⁵

“With the labour market stronger than ever, apprenticeships are a fantastic way for people to get the skills they need to get on in life and for businesses to get the workers they need in their local area.” – *Simon Clarke, Chief Secretary to the Treasury, 2021*⁵⁶

“Apprenticeships offer people of all ages the chance to earn while they learn and build a successful career, while also delivering the skilled workforce this country needs to build back stronger.” – *Nadhim Zahawi, Secretary of State for Education, 2022*⁵⁷

“Apprenticeships are a great way to get into an industry that you’re passionate about, earn a living and develop great skills for the future [...] We are shining a spotlight on the amazing work done by employers and apprentices to help turn this country into a high-wage, high-skill economy and boost our plans for growth.” – *Jeremy Hunt, Chancellor of the Exchequer, 2023*⁵⁸

45. Accordingly, the Sainsbury Review recommended that, “While it is necessary for Government to design the overall national system of technical education, employer-designed standards must be put at its heart to ensure it works in the marketplace. A single, common framework of standards should cover both apprenticeships and college-based provision. These standards must be designed to deliver the knowledge, skills and behaviours required to perform successfully in specific occupations, not the narrower job role-focused needs of individual employers.”⁵⁹
46. The new Apprenticeship Frameworks were designed to be more robust, better aligned with employer requirements and more challenging, with a set of strict requirements including a new End Point Assessment and requirements for 20% off the job training. The then Skills Minister Anne Milton MP defended the fall in

59. Sainsbury Review, 2016 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/536046/Report_of_the_Independent_Panel_on_Technical_Education.pdf

50. <https://www.gov.uk/government/news/pm-unveils-plans-to-boost-apprenticeships-and-transform-training>

51. <https://www.gov.uk/government/speeches/supporting-apprenticeships>

52. <https://www.gov.uk/government/speeches/spring-budget-2017-philip-hammonds-speech>

53. <https://news.microsoft.com/en-gb/2018/03/14/microsoft-wants-more-students-to-earn-and-learn-in-apprenticeships/>

54. <https://www.fenews.co.uk/skills/news-story-education-secretary-meets-apprentices-on-his-first-visit/>

55. <https://feweek.co.uk/pm-promises-every-young-person-the-chance-of-an-apprenticeship-or-an-in-work-placement/>

56. <https://www.gov.uk/government/news/chief-secretary-to-the-treasury-praises-flourishing-ftse-companies-for-investing-in-skills>

57. <https://www.gov.uk/government/news/national-apprenticeship-week-2022-building-the-future-with-apprenticeships>

58. <https://www.wokingnewsandmail.co.uk/news/chancellor-puts-spotlight-on-mclar-en-apprentices-at-woking-593527>

numbers in 2018, saying, “Apprenticeships in the past were of very variable quality, some being very poor. Similarly with employers: some supported apprentices and gave excellent off-the-job training, but sometimes it was poor. Jobs were sometimes called ‘apprenticeships’ just so employers could pay lower wages. In fact, roughly one in three apprentices didn’t even realise they were doing an apprenticeship!” and that “We won’t sacrifice that quality just to meet the target that was set. It is critical that both apprentices and employers have confidence in an apprenticeship, whether it is at level 2 or level 7.”⁶⁰ It is right to say that some of the decrease in starts reflects the elimination of programmes which were not high quality or aligned with employer needs, and that a direct comparison of Standards and Frameworks is not appropriate.

47. Nevertheless, this cannot justify the almost 15% drop in apprenticeship starts between 2018-19 and 2021-22, nor the fact that starts are continuing to decrease in 2022-23. The current system is not providing the quantity of opportunities required to provide a genuine vocational alternative to young people or to upskill the existing workforce.
48. Although, since 2019, the Government has undertaken a number of policies to improve the system, including initiatives supporting the growth in degree apprenticeships⁶¹, tripling the bursary for care leave apprentices⁶² and, through IFATE, introducing flexibilities into off-the-job training and end-point-assessments⁶³. While welcome, these have not succeeded in changing the overall trajectory of the programme, with starts remaining below pre-pandemic levels.

2.1.1. Apprenticeship starts by Characteristics

49. The situation becomes even more concerning when it comes to considering how the number of apprenticeships has fallen. Apprenticeship starts have fallen most significantly for young people, for those from disadvantaged backgrounds, amongst SMEs and in disadvantaged areas of the country – precisely those groups for whom apprenticeships were meant to support.

Age

50. There has been a clear age differential in the decline of apprenticeships. Although starts have fallen across all age groups, since 2015-16, the number of apprenticeship starts for 16-18 year-olds has fallen by 41%, for 19-24 year olds by 31% and for those aged 25+ by only 26%. This represents a clear shift of the apprenticeship programme to older individuals⁶⁴.

60. <https://www.thetimes.co.uk/article/apprenticeships-have-had-a-bad-press-but-we-are-turning-things-around-xfswg2x5c>

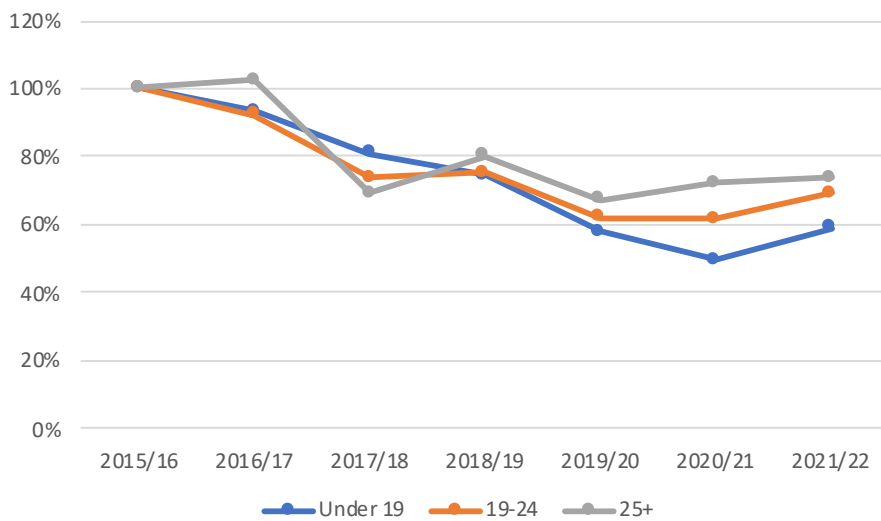
61. <https://feweek.co.uk/only-current-degree-apprenticeship-providers-will-get-slice-of-8m-expansion-fund/>

62. <https://feweek.co.uk/care-leaver-apprentice-bursary-to-triple-to-3000/>

63. <https://www.instituteforapprenticeships.org/about/newshub/news-events/new-framework-explains-how-apprenticeship-flexibilities-will-work-in-long-term/>

64. Apprenticeships and Traineeships Data

Figure 3 – Apprenticeship starts by age



51. The shift to higher level apprenticeships, including degree apprenticeships (see Figure 2) has coincided with a shift to a higher typical age of an apprentice (see There has been a clear age differential in the decline of apprenticeships. Although starts have fallen across all age groups, since 2015-16, the number of apprenticeship starts for 16-18 year-olds has fallen by 41%, for 19-24 year olds by 31% and for those aged 25+ by only 26%. This represents a clear shift of the apprenticeship programme to older individuals.). This need not have been the case: were apprenticeships being used, as they are often portrayed, as a genuine alternative to a degree, a 19 or 20 year old could be taking a Level 4 or 5 apprenticeship, or a degree apprenticeship, as an alternative to a traditional university route. In practice, however, employers are increasingly placing older individuals on apprenticeships: the Sutton Trust found that over half of degree apprenticeships are aged 30 or above, with only 20% under 20⁶⁵. Over 75% of apprenticeships at Level 4 and 5 are taken by those aged 25 or over.⁶⁶ Further research by the Sutton Trust also demonstrated that 1 in 5 Level 5 apprenticeships, and almost half of Degree Apprenticeships, are being taken by those who already hold a Level 5 or 6 qualification, such as an existing degree.⁶⁷
52. There is an important role for apprenticeships in retraining and upskilling older individuals, to equip the existing workforce for the changing skills demands of the economy. We do not believe that apprenticeships should be denied those who are older, or who have an existing qualification which the changing nature of the labour market has made outdated – or which was never fit for purpose in the first place. What is important, however, is that apprenticeships for these individuals do not come at the expense of those who are young or without prior qualifications – in other words, that this is not a zero-sum game.
53. To compare the opportunities available to those in Higher Education, there were just over 183,000 apprenticeship starts for

65. <https://www.suttontrust.com/our-research/levelling-up/>

66. The Recent Evolution of Apprenticeships <https://www.suttontrust.com/wp-content/uploads/2022/12/The-recent-evolution-of-apprenticeships.pdf>

67. Ibid

those aged under 25⁶⁸, compared to over 425,000 starts on a first degree for those aged under 25 – a clear discrepancy in supply⁶⁹ (for comparison, the total number of 18 year olds in the UK is approximately 750,000)⁷⁰. As we will discuss below in *Increasing Opportunities for Young People*, with 46% of those registered for UCAS saying they would be interested in doing an apprenticeship, there is a clear discrepancy between demand and supply. It is likely to be the case that employers are simply acting rationally: an apprentice aged 30 or above, with a decade of experience in the workplace, is likely to be more productive, and therefore preferable, on any given apprenticeship than a 20 year old. As we will discuss more below, if the Government wishes to ensure sufficient apprenticeship opportunities are available for young people it must provide sufficient incentives to employers to address this market failure.

Disadvantage

54. Work by the Sutton Trust, the Social Mobility Commission and others shows a worrying trend in the social background of those taking apprenticeships.
55. The Social Mobility Commission found that, “Following the levy’s introduction, there was a large fall in the number of learner starts – with the worst-off learners bearing the brunt. Between 2015/16 and 2017/18, the number of disadvantaged apprentice starts overall fell by 36% – 13% more than the corresponding drop for their more privileged apprentice colleagues.”⁷¹ Research by the Sutton Trust has similarly found a fall in the proportion of apprenticeships at every level being taken by those from the most disadvantaged quintile between 2015 and 2020⁷². Given this is against a backdrop of an overall fall in apprenticeship numbers, this represents a significant narrowing of opportunity for the most disadvantaged in society.
56. No-one would want apprenticeships to be ‘ghettoised’ as an option only for the disadvantaged, or those with low prior attainment. If we wish apprenticeships to be a high quality, prestigious option, valued by young people and employers, this should be reflected in people from all socio-economic backgrounds and educational attainment levels seeking to do them. Nevertheless, it would be perverse were apprenticeships to be less accessible than other options, such as traditional university degrees. Yet this is precisely the case. The Sutton Trust has found that only 5% of those taking a degree apprenticeship had previously been eligible for Free School Meals, compared to 6.2% of those taking a traditional degree⁷³.
57. More broadly, the chart below, by the Sutton Trust shows not only that those eligible for Free School Meals are under-represented on apprenticeships at all levels but that (a) the higher the level of apprenticeship, the greater the under-representation; and (b) that this underrepresentation has been getting worse, at all levels other than Level 6+.

68. Apprenticeships and Traineeships Data

69. Starts of UK domiciled students on a first degree in 2021-22, from <https://www.hesa.ac.uk/data-and-analysis/students/whos-in-he>

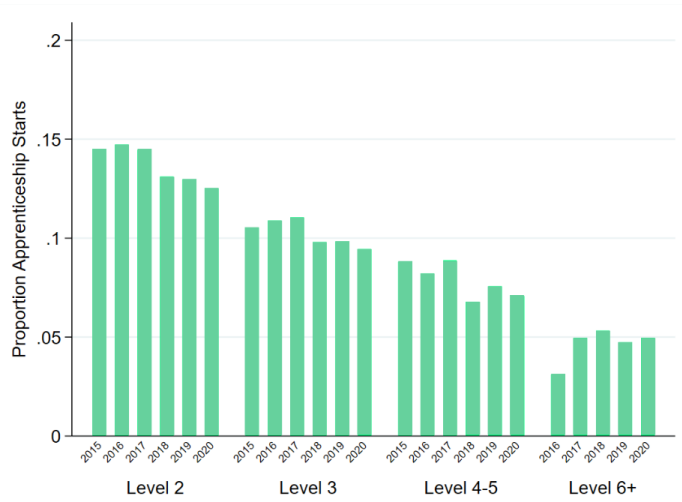
70. <https://www.statista.com/statistics/281174/uk-population-by-age/>

71. Apprenticeships and Social Mobility https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/894303/Apprenticeships_and_social_mobility_report.pdf

72. <https://www.suttontrust.com/wp-content/uploads/2022/12/The-recent-evolution-of-apprenticeships.pdf>

73. Ibid

Figure 4 - FSM-eligible Apprenticeships

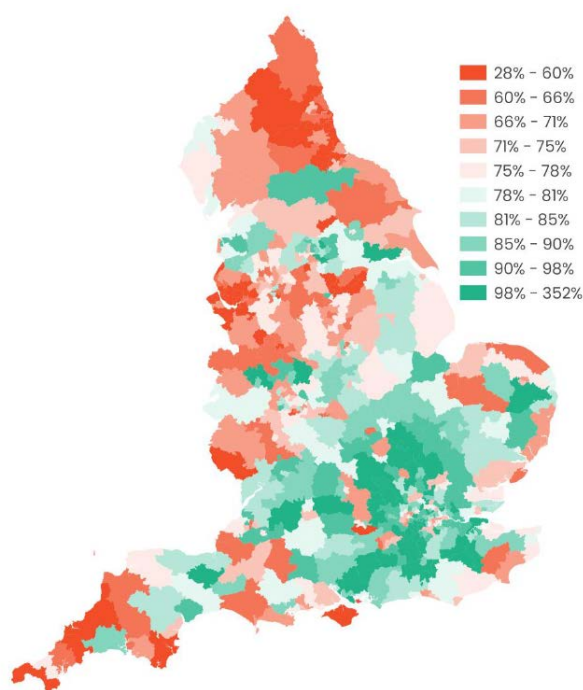


58. We can also consider disadvantage by region. In 2019, the Government committed to ‘levelling up’, a term usually interpreted as meaning creating additional opportunity and prosperity in areas of the country that currently lag behind other areas in terms of wealth, educational opportunities, high quality jobs and other such measures.
59. Prior to joining Government, the current No. 10 Education Adviser, Francesca Fraser, carried out an analysis of where apprenticeship starts have fallen most, and found that they have disproportionately impacted. The results are shown in Figure 5 - Proportion of Apprenticeship Starts in 2018/19 as a percentage of 2010-2011 starts⁷⁴. She goes on to write that, “Harrogate and Knaresborough in Yorkshire had some of the highest numbers of apprenticeship starts in the country in 2011, at 2,220, but by 2018/19 this had declined by over 70% to just 660 new apprentices. Similarly there were 2,130 apprenticeship starts in Knowsley in 2011/12 but by 2018/19 this has halved to 1,010. Meanwhile in London and the Home Counties, the number of people studying for an apprenticeship has remained much more stable, and have even grown in some places.”⁷⁵

74. Figure taken from Course Correction <https://www.ukonward.com/wp-content/uploads/2022/04/Course-Correction-On-ward-060422.pdf>

75. Ibid

Figure 5 - Proportion of Apprenticeship Starts in 2018/19 as a percentage of 2010-2011 starts



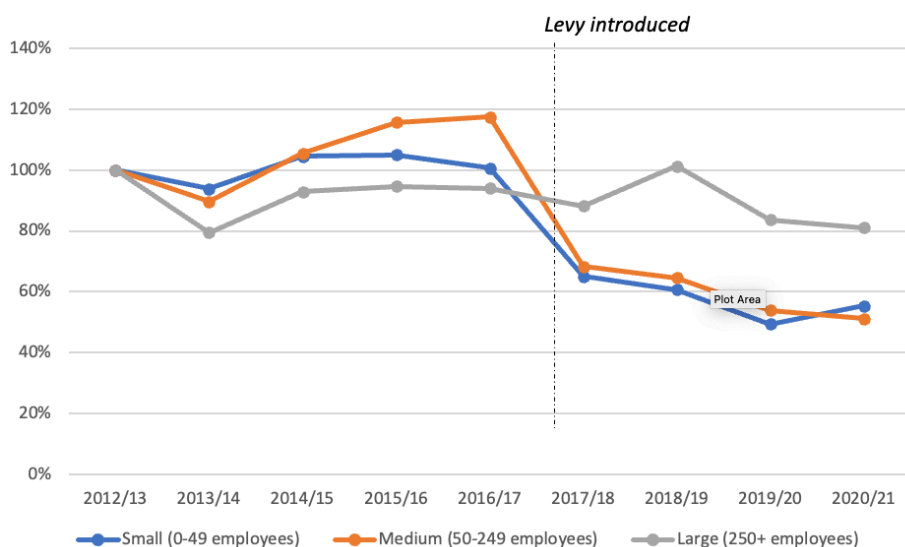
Type of Company and Provider

60. Since the introduction of the levy, the number of starts in SMEs has fallen by almost 50%, while the number of starts amongst large companies – typically levy payers – has only declined by 19%. This is shown in Figure 6 - Apprenticeship Starts by Company Size and Figure 7 - Decline in Apprenticeship Starts by Company Size.

Figure 6 - Apprenticeship Starts by Company Size

	Number of apprenticeship starts		
	Small (0-49 employees)	Medium (50-249 employees)	Large (250+ employees)
2012/13	165,020	63,650	222,010
2013/14	154,980	57,010	176,560
2014/15	172,550	67,170	206,170
2015/16	173,200	73,630	210,190
2016/17	166,170	74,800	208,850
2017/18	107,430	43,470	195,760
2018/19	100,080	41,120	224,970
2019/20	81,450	34,250	185,620
2020/21	91,230	32,550	179,880

Figure 7 - Decline in Apprenticeship Starts by Company Size

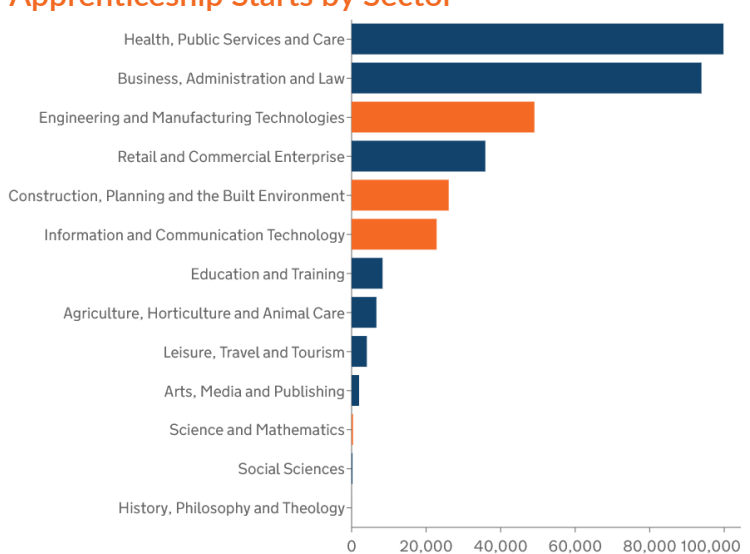


61. This matters for two reasons. Firstly, and most straightforwardly, SMEs account for 60% of the employment and half of turnover in the UK⁷⁶ - if they are unable to use apprenticeships to train the skills they need, this will have a significant impact on UK productivity and growth. Secondly, from a social mobility perspective, SMEs disproportionately employed young apprenticeships, apprenticeships from disadvantaged backgrounds and operated in disadvantaged backgrounds. To quote Alun Francis, the Chair of the Social Mobility Commission, “The fewer apprentices are being employed by SMEs, the fewer apprentices we’re going to have in the parts of the country that need levelling up the most.”⁷⁷

Sector

62. The chart below shows the proportion of apprenticeships by sector⁷⁸.

Figure 8 - Apprenticeship Starts by Sector



76. <https://www.gov.uk/government/statistics/business-population-estimates-2022/business-population-estimates-for-the-uk-and-regions-2022-statistical-release.html#:~:text=The%207%2C700%20large%20businesses%20in,in%20the%20UK%20private%20sector.>

77. Interview with Alun Francis

78. Apprenticeships and Traineeships Data

63. The large number of apprenticeships in certain sectors is welcome and demonstrates that the current apprenticeship system is working well – at least comparatively – for these sectors. Case Study 1 sets out how Grant Thornton has adapted its traditional recruitment profile to create a major programme of 3 – 5 year apprenticeships for school leavers, with an aim to reach a 50:50 split in its trainee hire population between university graduates and those joining straight from school.

Case Study 1: Grant Thornton



Image courtesy of Grant Thornton

Grant Thornton UK LLP has fully embraced the Apprenticeship Levy, viewing it as a means to develop talent pipelines and upskill existing employees. Over 18% of the firm's c.5,000 employees participate in approved apprenticeship programmes, with most being new recruits on a chartered accountant pathway.

The firm offers a 3–5-year apprenticeship programme for school leavers, typically starting with a level 4 apprenticeship (e.g. Accounting Technician) before progressing on to a level 6 or level 7 (e.g. Professional Accountant). Since 2017, the number of school leaver apprentices joining the firm has increased steadily, with a record 193 joining in 2022, up from 90 in 2021.

The firm, which was named in the top 10 of the Department for Education's Top 100 Apprenticeship Employers in 2022, aims to reach a 50:50 split in its trainee hire population between university graduates and those joining straight from school in the coming years.

The increased intake is driven by Grant Thornton's commitment to widening access to the accountancy profession, becoming more inclusive, increasing diversity and attracting entry-level talent in a competitive market.

This strategic approach to talent development recognises that certain expectations of the next generation have changed (financial expectations, career goals, home-ownership etc) and that employers need to create opportunities that recognise and nurture this new outlook. Over the past decade, apprenticeships have become much more embedded in the accountancy industry and the opportunities this alternative route into the profession offers has become more widely recognised.

Our progress stems from policies introduced in 2013 to widen access and inclusion and have resulted in Grant Thornton being ranked number two in the Social Mobility Foundation's 'Employer Social Mobility Index'. These measures include the removal of academic barriers to entry and building and maintaining a market-leading candidate experience for A-level students. This allows us to reach a more diverse talent pool and bring a range of perspectives to the firm. We are also a founding signatory of Access Accountancy, which aims to broaden access to the profession.

Outside of the firm's own internal programmes, Grant Thornton works hard to support other organisations make best use of the apprenticeship levy and apprenticeships more broadly. As well as providing free guidance, Grant Thornton has partnered with training providers to co-design leading apprenticeship programmes that meet the needs of the market. These include programmes in leadership and management, accountancy, coaching and digital skills, all of which are important, high-demand skills required in the modern economy. We also sit on the accountancy / taxation trailblazer groups which convenes employer representatives to review and enhance the apprenticeship standards and assessment plans.

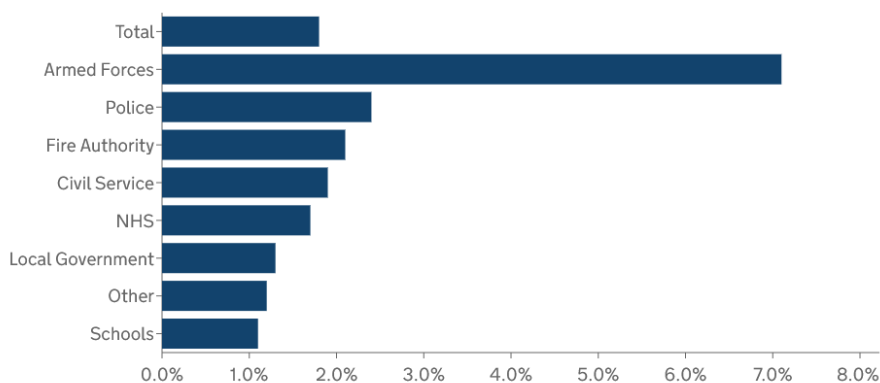
64. The relatively low number of apprenticeships in sectors such as construction, which regularly report high levels of skills shortages – a recent estimate being that an additional quarter of a million workers are required⁷⁹ – demonstrates that the apprenticeship system is not currently succeeding in supporting employers in key sections of the economy to train the individuals they need.
65. In our interviews with employers, we consistently heard that the

79. <https://www.constructionnews.co.uk/skills/construction-needs-over-a-quarter-of-a-million-extra-workers-by-2026-14-06-2022/>

availability of suitable standards was a major factor in whether or not they employed apprentices. Some large employers with strong apprenticeship programmes would nevertheless single out particular areas – or levels – at which a lack of standards meant that they were not employing apprenticeships, even though they would wish to⁸⁰. This is exacerbated by the relative rigidity of Standards, and the length of time and effort it takes to create a new standard, which will be discussed further in *Standards and Flexibility*.

- 66. It is also worth specifically considering the public sector. Public sector bodies in England with 250 or more staff had a target to employ an average of at least 2.3% of their staff as new apprentice starts over the period 1 April 2017 to 31 March 2022. This target, however, was not enforced and there were no penalties for non-compliance; unsurprisingly, as Figure 9 - Public Sector Apprenticeships shows, different bodies performed very differently against this target⁸¹.

Figure 9 - Public Sector Apprenticeships



- 67. One cause of this might be due to the different nature of employment in different parts of the public sector – for example, it may be easier to utilise apprentices in the armed forces than in Local Government. This is undoubtedly true to some extent; in addition, in some areas, such as teaching, the failure to date to develop a suitable teaching apprenticeship to allow teaching assistants to gain Qualified Teacher Status has undoubtedly made it more challenging to employ apprentices⁸².
- 68. If, however, one considers purely the civil service departments – organisations significantly more similar to each other than the armed forces, teaching and the NHS – one continues to see a very significant level of variation in performance against the target. Figure 10 - Civil Service Apprenticeships by Department demonstrates this, with the Department for Education leading the field with 3.6% of their staff beginning an apprenticeship, compared to fewer than 1% at the Foreign, Commonwealth and Development Office or Her Majesty’s Revenue and Customs⁸³.

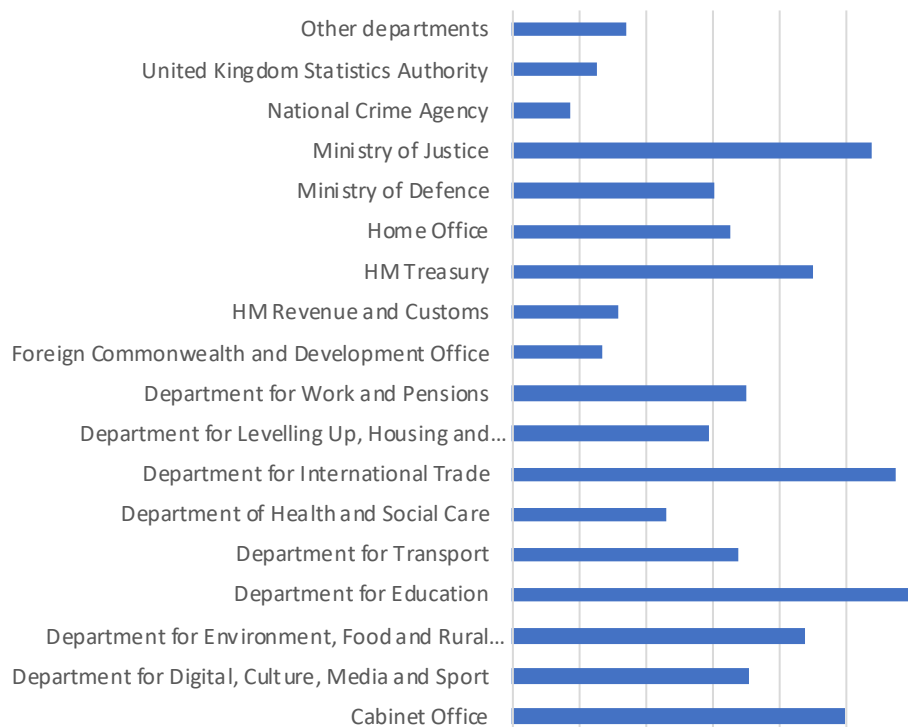
80. Policy Exchange interviews with employers.

81. Apprenticeships and Traineeships Data

82. It should be noted that the Government has now committed to developing a teaching apprenticeship: <https://schoolsweek.co.uk/dfе-developing-teaching-apprenticeship-for-non-graduates/>

83. <https://www.gov.uk/government/publications/civil-service-public-sector-apprenticeship-return-2021-2022>

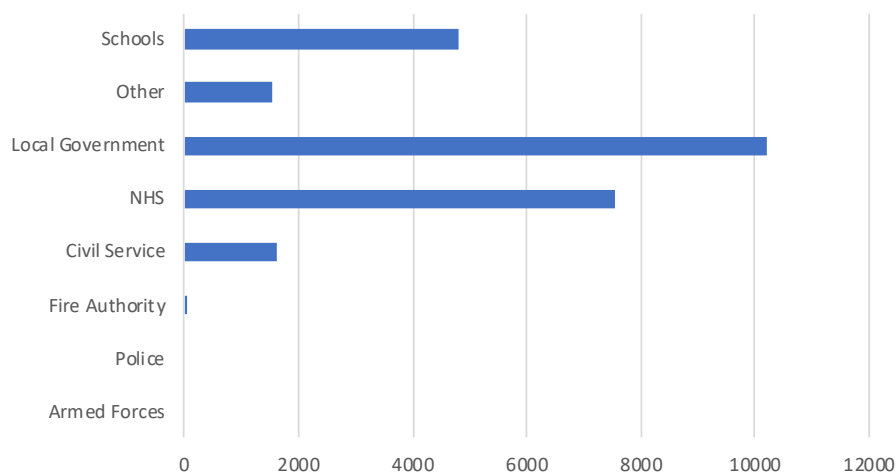
Figure 10 - Civil Service Apprenticeships by Department



69. The clear conclusion is that proper enforcement of the apprenticeship target would lead to a significant increase in the number of public sector apprenticeships. This would require genuine incentives and enforcements, with penalties for organisations who were non-compliant, such as a requirement to surrender a commensurate portion of their staffing budget. If all parts of the public sector met the 2.3% target, Figure 11 - Additional Apprenticeship Starts Annually if Public Sector Target Met demonstrates that this would result in an addition 25,000 apprenticeship starts annually, with the greatest gains coming from Local Government and the NHS⁸⁴.
70. The public sector can also play an important role in stimulating apprenticeships through procurement. This would require embedding meaningful requirements – that are assessed during consideration of bids and incorporated into contracts – on employing apprenticeships into procurement, in invitations to tender and into contracts. We believe these should be build into all public sector procurement contracts over £100,000.

84. Apprenticeships and Traineeships Data. Based on 2021-22 Data. Analysis by Policy Exchange

Figure 11 - Additional Apprenticeship Starts Annually if Public Sector Target Met



2.2. Apprenticeship Funding and the Levy

71. There is significant confusion about the Apprenticeship Budget. The Apprenticeship Budget, the money raised by the Apprenticeship Levy, the amount of money in levy-payers’ accounts and the money actually spent on apprenticeships are all different things, both in principle and in fact.
72. The fact that many levy-payers do not spend their full levy is not, in itself, necessarily a cause for concern. The levy was designed in a way that allowed underspend by levy payers to be recycled to support SME apprenticeships, with Government – in practice, levy-payers – paying 95% of the cost of each apprenticeship initiated by a non-levy-payer⁸⁵. Statistics that claim ‘Employers in England lose more than £3.3bn in unspent apprenticeship levy funds’⁸⁶ therefore present only a partial picture.
73. Nevertheless, it is correct that not all of the money raised by the apprenticeship levy is being spent on apprenticeships. To fully understand the situation it is critical to appreciate that:
 - a. The money raised by the apprenticeship levy is not hypothecated. During the Spending Review process, the Treasury will agree an Apprenticeship Budget with DfE, just as it agrees budgets for other areas of spend. Historically, this Budget has been lower than the amount raised by the levy.
 - b. Not all of the Apprenticeship Budget is spent. In early years, this underspend ran into the hundreds of millions of pounds, but in 2021-22 was only £11m⁸⁷.
74. The table below sets out the money raised by the levy, the Apprenticeship Budget and the amount actually spent on Apprenticeships from 2017-18 to 2021-22⁸⁸. As can be seen, over this five year period, £4.3bn was raised by the levy but not spent on apprenticeships, but rather kept by or returned to the Treasury. This funding could have funded an additional 490,000 apprenticeships⁸⁹

85. Or 100% for apprentices aged 16-18 or under 25 with an EHCP.

86. <https://www.ft.com/content/32ace572-46c3-48b8-9202-b6d7ac27f8c9>

87. <https://feweek.co.uk/apprenticeship-under-spend-shrinks-to-just-11m-in-2021-22/>

88. Parliamentary Questions by Lord Godson, UIN HL 6345 and HL6343

89. Based on the mean cost of an apprenticeship.

or been used to fund other skills programmes and qualifications.

Financial Year	Funds raised by the Levy (£ million)	Apprenticeship Budget (£ million)	Funds spent on apprenticeships (£ million)	Difference between funds raised and spent (£ million)
2017-18	2271	2010	1586	685
2018-19	2713	2231	1738	975
2019-20	2798	2469	1919	879
2020-21	2910	2467	1863	1047
2021-22	3213	2466	2455	758
Total				£4,344

75. As can be seen, concerns that the apprenticeship system are ‘running out of money’ are fundamentally misguided. Considering levy funds alone, in 2021-22 there was an additional £750m that could have been spent on apprenticeships.
76. It has been suggested by the Treasury⁹⁰ that the discrepancy between the funds raised by the Levy and Apprenticeship Budget is due to Barnett consequential⁹¹. This does not explain the full discrepancy. The Barnett formula sets out that in 2021-22, for a fully-devolved policy such as apprenticeships, the Barnett consequential received by Scotland, Wales and Northern Ireland would amount to just under 20% of the amount budgeted for England⁹². Applying this to the 2021-22 Apprenticeship Budget would still leave the budget + Barnett consequential to be over £250m less than the amount raised by the levy.

2.3. A contribution, not a ceiling to ambition

77. More importantly, however, the perspective that sees the levy as a ceiling to ambition is fundamentally flawed. The levy is an important funding contribution to our skills system – but it should not cap the number or quality of apprenticeships that are funded by Government. This should be determined separately, on the basis of need, value and affordability – in the same way as other education and training budgets.
78. The current situation, in which the Minister for Apprenticeships – the Minister most directly accountable in the eyes of Parliament and the public for apprenticeships – has no responsibility for the levy has hindered reform, by splitting responsibilities and reducing the incentives to deliver change. We therefore recommend that the Apprenticeship Minister role should be a joint Ministerial role between the Department for Education and His Majesty’s Treasury, with responsibility both for Apprenticeship Policy and the Apprenticeship Levy.
79. The refusal to countenance any additional government funding, beyond the levy, to support apprenticeships, is in stark contrast to

90. For example, as reported here: <https://www.thesun.co.uk/news/22054388/treasury-pockets-apprenticeship-levy-cash-spending-training/>

91. This refers to the system whereby money spent on devolved matters in England results in a payment in proportion to the amount spent from the UK Government to the Devolved Governments.

92. <https://researchbriefings.files.parliament.uk/documents/CBP-7386/CBP-7386.pdf>

other education budgets. Higher Education, for example, is primarily funded by student tuition fees. The Government, however, wrote off approximately 44% of the total value of the loan in 2021-22, representing a subsidy of over £10bn. By 2026-27 due to changes in the loan terms, that write-off is anticipated to decrease to 23% of the loan, which would still represent a subsidy of over £5bn⁹³. In addition, the Government provides additional grant funding of £1.6bn a year for purposes including the support of high-cost subjects, such as engineering and medicine, or ‘student premium’ funding for universities taking students from disadvantaged backgrounds⁹⁴.

80. Cumulatively, considering both grant and loan write-offs, in 2026-27 additional Government funding will be over £7bn, approximately 27% of the total outlay on fees and grant. An equivalent sum, supplementing the levy, for the Apprenticeship System would be £860m.⁹⁵ If the government means what it says about hoping that apprenticeships would become a genuine alternative to university, it should match its funding commitments to its rhetoric.
81. A further fundamental difference between Higher Education and apprenticeships is that places at higher education are uncapped – the Government commits to fund any student that wishes to take up a higher education place, and that is accepted by a higher education provider. On the other hand, apprenticeship places at SMEs are capped by the Apprenticeship Budget. This has previously led to DfE restricting apprenticeship starts to ensure the programme remains in budget⁹⁶, or to training providers turning away SME employers because they did not have the funding⁹⁷.
82. Although the argument made is that Higher Education places are self-funded by student fees, in reality, as we have seen, the taxpayer pays a significant proportion of these places through loan write-off. With a typical student borrowing £42,000, and taking the figure – under the new loan terms – of 23% of the loan being written off, this represents a cost of approximately £9,600 per HE student – a higher sum than the mean cost of an apprenticeship, which is £8,655⁹⁸.
83. There are no good reasons to restrict apprenticeship starts while not restricting HE starts – particularly as apprentices count positively against the UK’s employment figures, pay tax and, for many apprenticeships, lead to as good or better employment outcomes.
84. More broadly, the current approach to the apprenticeship system needs to be brought more in line to how other parts of the education system are funded – with the levy as an important contribution, not the sum total of ambition.
85. It is important to recognise the need for government to provide funding to correct market failures in the system. As we have seen, this is well-recognised in the higher education system, with government recognising that it must provide additional grant funding, on top of

93. Student loan forecasts for England. <https://explore-education-statistics.service.gov.uk/find-statistics/student-loan-forecasts-for-england/2021-22>

94. OfS Recurrent Funding 2022-23. <https://www.officeforstudents.org.uk/publications/recurrent-funding-for-2022-23/>

95. Based on the funding raised by the Apprenticeship Levy in 2021-22.

96. For example: <https://feweeek.co.uk/smes-frustrated-as-dfe-refuses-to-reset-non-levy-cap-on-apprenticeship-starts/>

97. A survey in 2019 by the Association of Employment and Learning Providers (AELP) found that this year a quarter of apprenticeship training providers have had to turn away a prospective new SME employer of apprentices, while 17% of providers have stopped recruiting apprentices altogether for new and existing SME employer customers. <https://www.accountancydaily.co/smes-losing-out-apprenticeship-levy-funding>

98. Cost of Delivering Apprenticeship Standards <https://www.instituteforapprenticeships.org/media/4011/cost-of-delivering-apprenticeship-standards-final.pdf>

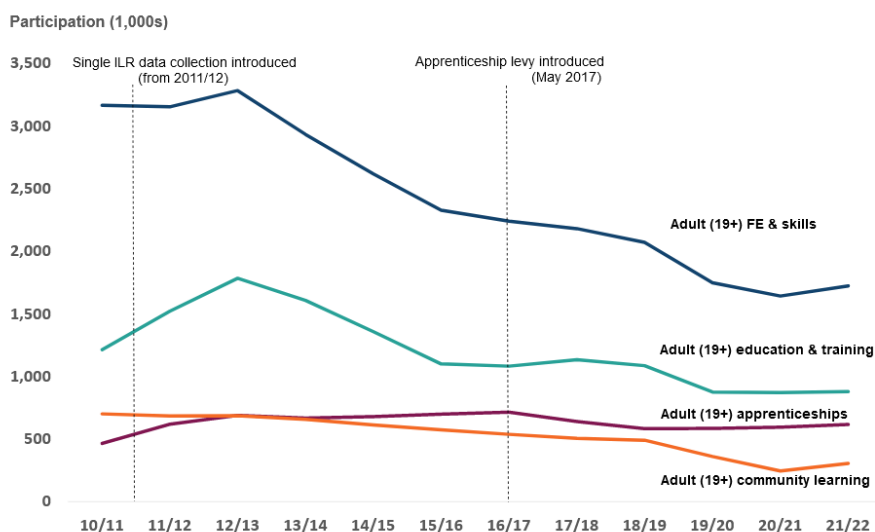
tuition fees, to fund more expensive, but economically important, courses such as engineering, if universities are to put them on – and to compensate universities for the additional costs of recruiting students from disadvantaged backgrounds.

- 86. Similarly, in the school system, the Government recognises that not all pupils cost the same amount to teach. The Pupil Premium, given to schools on the basis of the number of students from disadvantaged backgrounds they teach, is worth £2.68bn in 2022-23⁹⁹. The Special Educational Needs Budget was worth £8.6bn in the same year¹⁰⁰. This is in the context of £53.5bn in 2022-23¹⁰¹.
- 87. Employers are rational actors. If government wishes employers to provide more apprenticeships, or to preferentially offer apprenticeships to younger, or less experienced, or less skilled individuals, it cannot simply rely on using levy funds, but will need to ensure that funding is in place and sensitively allocated to effectively address market failures and deliver the desired results. We will discuss further how this can best be achieved in the following chapters of this report.

2.4. The Wider Skills Landscape

- 88. We’ve discussed the fact that apprenticeship numbers have fallen significantly. This might not matter if it were the case that learners were transferring to alternative methods of skills development. However, across indicator after indicator, we can see this is not the case.
- 89. Figure 12 - Adult FE and Skills Participation shows a collapse in all forms of adult FE and skills numbers, including college education and training for qualifications, community learning and apprenticeships, with only a small pick-up from 2020-21 failing to reverse many years of decline¹⁰².

Figure 12 - Adult FE and Skills Participation



99. <https://commonslibrary.parliament.uk/research-briefings/sn06700/>

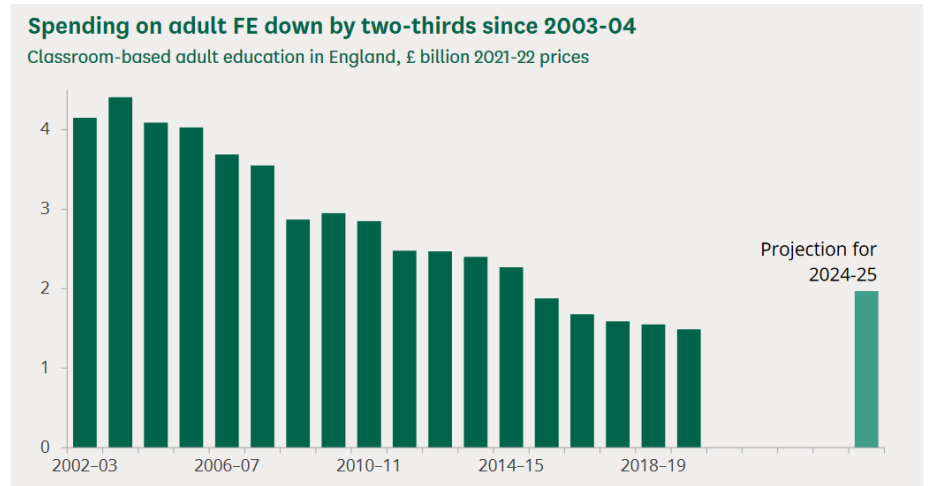
100. <https://commonslibrary.parliament.uk/research-briefings/sn07020/>

101. <https://explore-education-statistics.service.gov.uk/find-statistics/school-funding-statistics#data-Block-d3b7f8fa-4349-4673-6766-08daf86726ae-tables>

102. Apprenticeship and Traineeship data

90. Nor is this a trend which begins in 2010. The IFS has found that FE Funding has decreased by two-thirds since 2003-04, as can be seen in Figure 13 - Adult FE Funding over time¹⁰³:

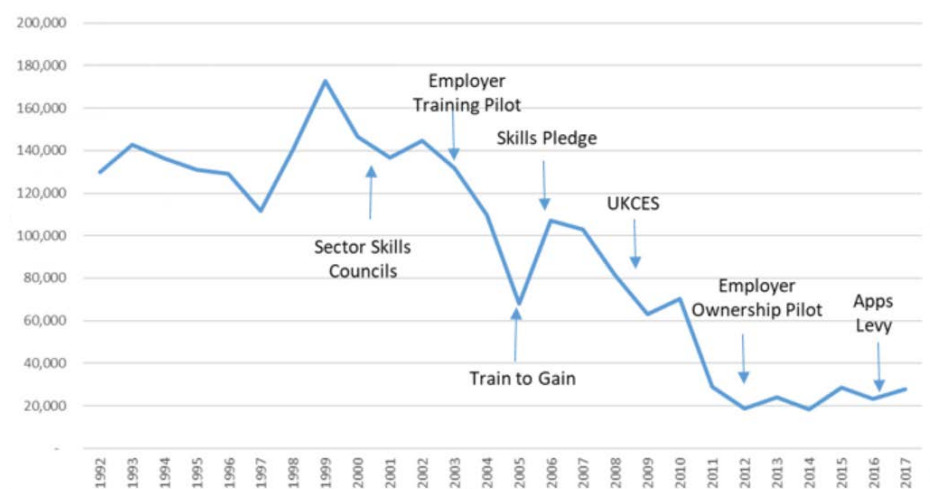
Figure 13 - Adult FE Funding over time



Source: Institute for Fiscal Studies, 2021 Annual report on education spending in England, 30 November 2021 – section 4.:

91. From the employer perspective, the most recent Government Employer Skills Survey found that the proportion of staff receiving training in the last twelve months had dropped to 60%, the lowest figure since 2010¹⁰⁴. The Labour Force Survey also shows a long-term decrease in the number of employees who worked fewer hours than usual because they attended a training course away from the workplace (Figure 14).

Figure 14 - Number of employees who worked fewer hours than usual because they attended a training course away from the workplace



Sectoral data, Public Sector, OECD Skills shortage (Onward)

103. <https://ifs.org.uk/publications/2021-annual-report-education-spending-england>

104. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936488/ESS_2019_Summary_Report_Nov2020.pdf

92. This is reflected in population outcomes. The UK is behind its international peers when it comes to provision of adult technical skills, with only 18% of 25-64 year-olds holding vocational qualifications (a third lower than the OECD average).¹⁰⁵
93. Overall, the wider backdrop is that of a steadily declining investment in skills. Despite the undoubted strengths of the Apprenticeship Levy, it is clear that the lack of flexibility for levy payers, and the challenges that SMEs face in accessing the system, is not supporting the increase in the supply of high quality apprenticeships – and other forms of skills training – that the country needs.

105.HM Treasury, *Spring Statement 2022* (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062486/Spring_Statement_2022_Web_Accessible.pdf)

3. Flexibility for Levy Payers

94. On average, almost half of businesses return unspent levy funds to the Treasury having failed to utilise them before they expire after 24 months. Research by the British Retail Consortium (BRC) has found that 65% of retailers say more than 40% of their levy funds are unspent. The inability to spend levy funding on other training of direct value to them, and to the economy, is a source of major frustration to many large businesses and the subject of repeated discontent.

Levy Flexibility: Quotes from Business Leaders

“Bringing about more flexibility in the Apprenticeship Levy would not cost Government or businesses a penny but could help bring about an estimated 8,000 new apprenticeship places across the retail industry. To deliver on government commitments to upskilling the UK workforce, we need the Apprenticeship Levy to work for both businesses and apprentices.”¹⁰⁶ -Helen Dickinson, Chief Executive of the British Retail Consortium (BRC), March 2022

“Yet again the employer voice is coming through loud and clear - apprenticeships are a valuable recruitment and retention tool but the current system is just not working for them, leading to large sums of funding intended for the levy instead going back to the Treasury because they cannot be used, all this at a time of such acute skills gaps and shortages.”¹⁰⁷ -Kirstie Donnelly, CEO, City & Guilds, February 2023

“Allowing a portion of levy funds to be spent on apprentice wages and meeting other costs, such as capital expenditure, would remove some of the immediate barriers to employers investing more in apprenticeships and reduce the amount of unspent funding returned to the Treasury.”¹⁰⁸ -Jamie Cater, Employment Senior Policy Manager, Make UK, March 2022

“Flexibility is key. Rules on the length of training are prohibitive. High-quality booster courses, complementary training programmes and shorter units to upskill existing employees rapidly into a different discipline would all have fast and positive effects. Incentivise industry leaders to lead their industries. Enable larger employers to use the levy to mentor and support SMEs which often make up their supply chains.”¹⁰⁹ -Leo Quinn, Chief Executive, Balfour Beatty, February 2023

“The CBI is calling on the government to fulfil its commitment to publicly consult on options after 2020 - including broadening the Apprenticeship Levy into a ‘Flexible Skills Levy’, which would cover a wider range of high-quality, relevant training.”¹¹⁰ -Confederation of British Industry (CBI), February 2022

“There is a real opportunity here to boost jobs growth, after one of the most challenging years. What we’re asking for is simply the flexibility to use the Apprenticeship Levy to its full potential and give young people the valuable skills, training and experience that will translate into better opportunities in their careers.”¹¹¹ -Ken Murphy, Chief Executive, Tesco, September 2021

“Hospitality businesses are eager to invest more in developing the skills, training and development of their workforce, particularly when vacancies are so high. Reform of the apprenticeship levy is urgently needed to offer greater flexibility to businesses, particularly in how funding is used.”¹¹² -Kate Nicholls, Chief Executive, UKHospitality, February 2023

“Our ask of Government is for more flexibility in the way in which levy funds can be used so more employers are incentivised to invest in apprenticeships. We’d like to be able to use levy funds to invest in pre-apprenticeship programmes for under-represented groups and to cover the costs of backfill for face-to-face roles. In addition, we’d like levy payers to be able to share a greater percentage of unspent levy funds with other employers than is currently allowed¹¹³. - Shirine Khoury-Haq, CEO, Co-op, May 2023

“There is a real need to continue to support young people and new entrants into the workforce using apprenticeships, but also to support those in the existing workforce to progress and acquire the skills they need for the future of work. The key to this will be to reform the apprenticeship levy to make it flexible and fit-for-purpose.”¹¹⁴ -Julian David, Chief Executive, TechUK, February 2023

95. On average, almost half of businesses return unspent levy funds to the Treasury having failed to utilise them before they expire after 24 months.¹¹⁵ Research by the British Retail Consortium (BRC) has found that 65% of retailers say more than 40% of their levy funds are unspent.¹¹⁶ The inability to spend levy funding on other training

115. Business London, *Apprenticeship Funds Still Going Unspent Despite Urgent Upskilling Needs, Survey Finds* (<https://www.businessldn.co.uk/news-publications/news/apprenticeship-funds-still-going-unspent-despite-urgent-upskilling-needs>)

116. British Retail Consortium (BRC), *Apprenticeship Levy - 5th Anniversary Survey* (https://brc.org.uk/media/679880/apprenticeship-levy-5th-anniversary-survey_final.pdf)

106. FE Week, *Employer groups call on Sunak to reform levy funds in his spring statement* (<https://feweek.co.uk/employer-groups-call-on-sunak-to-reform-levy-funds-in-his-spring-statement/>)

107. City & Guilds, *Only 4% of employers are spending their full apprenticeship levy funding* (<https://www.cityandguilds.com/news/february-2023/only-four-per-cent-of-employers-are-spending-their-full-apprenticeship-levy-funding>)

108. FE Week, *Employer groups call on Sunak to reform levy funds in his spring statement* (<https://feweek.co.uk/employer-groups-call-on-sunak-to-reform-levy-funds-in-his-spring-statement/>)

109. The Construction Index, *Balfour boss says apprenticeship levy has failed* (<https://www.theconstructionindex.co.uk/news/view/balfour-boss-says-apprenticeship-levy-has-failed>)

110. Confederation of British Industry (CBI), *Five radical policy shifts to get the government out of the high tax, low growth trap* (<https://www.cbi.org.uk/articles/five-radical-policy-shifts-to-get-the-government-out-of-the-high-tax-low-growth-trap/>)

111. Tesco, *Tesco calls for urgent reform to help create 8,000 new apprenticeships* (<https://www.tescopl.com/news/2021/tesco-calls-for-urgent-reform-to-help-create-8-000-new-apprenticeships/>)

112. The Guardian, *UK apprenticeship levy is a £3.5bn mistake, say business leaders* (<https://www.theguardian.com/education/2023/feb/06/uk-apprenticeship-levy-is-a-35bn-mistake-say-business-leaders>)

113. Quote supplied directly to Policy Exchange.

114. TechUK, *Cross-industry call for crucial reforms to the Apprenticeship Levy* (<https://www.techuk.org/resource/cross-industry-call-for-crucial-reforms-to-apprenticeship-levy.html>)

of direct value to them, and to the economy, is a source of major frustration to many large businesses and the subject of repeated discontent.

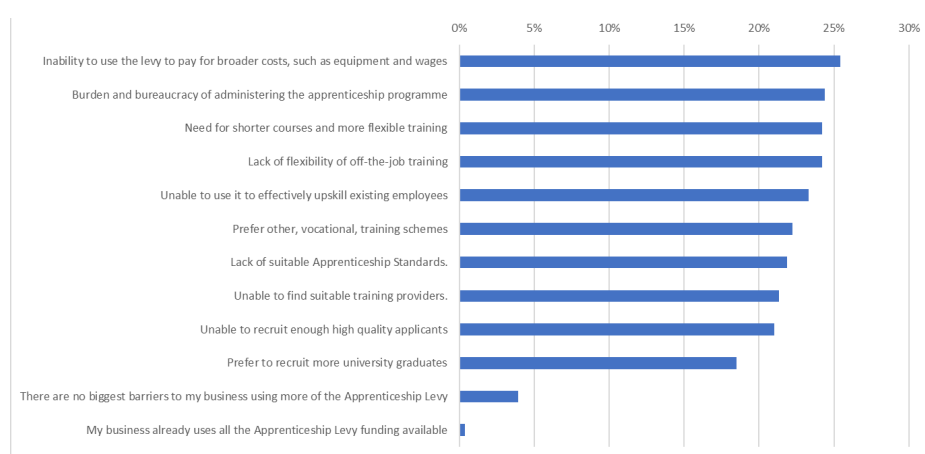
96. As we have set out above, the levy was always designed to raise additional funds, beyond those used by levy payers, to fund apprenticeships in smaller companies. We should not therefore see unspent funds in levy-payers' accounts as automatically meaning the system has gone wrong. There are, however, three significant causes for disquiet at the current situation:
- The quantum of funding available for SMEs to train apprenticeships with should not depend solely upon whether or not levy payers do not use their levy, but on the broader needs of the economy and society. In no other area of education and skills development do we refuse to put in any government funding.
 - The levy was meant to incentivise spending on skills. However, the level of underspend for some employers – those for whom apprenticeships may not be the most suitable – means that it may actually be decreasing spending on skills.
 - The scale of unspent levy by many employers reduces the perceived legitimacy of the system amongst employers, which is essential if the levy is to be sustainable.
97. Before discussing further flexibility, we recognise that the Government has taken steps towards addressing inflexibility since the introduction of the levy in 2017, which include:
- Increasing the limit on proportion of levy that can be transferred from 10% to 25%
 - Increasing the expiry date on levy funds from 18 months after they enter the Digital Apprenticeship Service (DAS) account to 24 months
 - Introducing flexi-job apprenticeships, where apprentices can undertake a range of short-term apprenticeships across multiple organisations for a minimum of 12 months cumulatively
 - Amending the 20% off-the-job requirement, implementing a consistent requirement of 6 hours per week off-the job regardless of total working hours instead
98. It would be reasonable to say that these have been minor, if welcome, changes, rather than anything that has moved the dial on the debate on flexibility. For example, the total number of forecast flexi-job apprenticeship starts is only 1500¹¹⁷, or well under 1% of the total number of annual apprenticeship starts.
99. An issue with the levy commonly cited by employers and training providers is inflexibility with regards to the type of training levy funds can be spent on. Currently, levy funds can only be spent on apprenticeship training, with funding covering training costs and the cost of end-point assessment (EPA), but 92% of employers would spend levy funding on any type of training their business

117. <https://www.gov.uk/government/news/flexible-apprenticeships-to-boost-jobs-in-key-sectors>

needed if they could, as opposed to spending levy funds exclusively on apprenticeships.¹¹⁸

100. Furthermore, another issue that has been cited by employers is that, even though levy funding is calculated based on an employer's UK wide wage bill, it can only be spent on apprenticeships in England – employers lack the flexibility draw down levy funds to spend on apprenticeships in Scotland, Wales and Northern Ireland, because skills policy is devolved.
101. Additionally, employers have backed the idea of being able to spend the levy on expenses associated with taking on an apprentice. Specifically, this would involve employers being able draw down levy funds to cover any additional capital costs incurred by taking on apprentices, the wages of the apprentice, or the cost of apprentices' travel to and from work. The demand for this from employers is exemplified by research conducted by City & Guilds, who found that 40% of employers who were surveyed want to be able to spend their levy funds on 'associated expenses' - this was the option most cited by employers.¹¹⁹ Furthermore, Survation found that the most frequently desired apprenticeship levy reform that employers named was the ability to use levy funds to pay the wages of apprentices, with 35% favouring this.¹²⁰
102. A survey of over five-hundred mid-sized businesses¹²¹ for Grant Thornton, carried out in April 2023, revealed significant barriers to employers using more of their levy funds. Although just over two-thirds of the business currently employ some apprenticeships over 95% identified barriers that prevented them from using as much as they'd wish to, the biggest of which was the inability to spend the levy on broader costs, such as equipment and wages, the burden and bureaucracy of the system and the need to be able to spend it on shorter and more flexible courses¹²².

Figure 15 - Barriers to Utilising more of the Apprenticeship Levy



103. We do not consider that allowing employers to spend the levy on any type of training would be value for money or likely to support skills development, due to the anticipated deadweight cost. Employers

118. City & Guilds, *Flex for Success* (<https://www.cityandguilds.com/-/media/cityand-guilds-site/documents/what-we-offer/employers/apprenticeship-levy-report-pdf.ashx?la=en&hash=C8CFDD81AE-7CA4458022C75B10108EE18398BE28>)

119. Ibid

120. Business London, *Apprenticeship Funds Still Going Unspent Despite Urgent Upskilling Needs, Survey Finds* (<https://www.businessldn.co.uk/news-publications/news/apprenticeship-funds-still-going-unspent-despite-urgent-upskilling-needs>)

121. Turnovers between £50m and £500m.

122. Grant Thornton's Business Outlook Tracker

already undertake a significant degree of training, from mandatory or quasi-mandatory courses such as health and safety, to other forms of skills development. Allowing the levy to be spend on any form of training would simply see large volumes of funds devoted to this purpose. The issue of using levy funds to fund backfill is discussed further below, in Removing Barriers for SMEs.

104. While we do not support a free-for-all, we nevertheless believe there is a strong case to allow some of the levy funding to be used to fund other, high quality, skills development that meets the needs of employers. This would improve productivity by supporting the development of a higher skilled, more productive workforce that better meets the needs of the economy. It would end perverse circumstances such as when, in a national shortage of HGV drivers, employers were unable to spend levy funds on training additional drivers, as these highly occupationally relevant courses were not apprenticeships (in part, due to lasting less than one year).
105. It must also be noted that a levy system specifically designed to exclusively support apprenticeships is a rarity, with an OECD report identifying that only “a few countries” use such a system, including Denmark, France and England.¹²³
106. Lord David Blunkett, in his report on Learning and Skills, recommended that up to 50% of levy funds should be able to be spent on other activities, under a new ‘Apprenticeship and Learning Levy’¹²⁴. This recommendation has been adopted by the Labour party, who announced in September 2022 that they would transform the Apprenticeship Levy into a “‘Growth and Skills Levy’ enabling firms to spend up to 50% of their levy contributions, including current underspend, on non-apprenticeship training – including modular courses and functional skills courses to tackle key skills gaps.”¹²⁵ The precise details of what courses would be fundable under the levy have not yet been set out.
107. We support this ambition, though have some concerns that 50% may be too high – currently employers spend 55.5% of their levy funding, on average, and some considerably more¹²⁶. We therefore recommend that, initially, up to 25% of the levy could be spent on other qualifications under a new ‘Apprenticeship and Skills Levy’.
108. In this chapter, we will consider what high quality options should be fundable under a new ‘Apprenticeship and Skills Levy’, to maximise the impact on skills, productivity and social mobility. We have chosen to use a name not currently being used by any party – Apprenticeship and Skills Levy – we would emphasise that we would support these recommendations being taken forward by any party in government, and that the recommendations for alternative qualifications that could be funded would continue to be viable under differing levels of flexibility.

123. OECD, *Striking the right balance: Costs and benefits of apprenticeship* (https://www.oecd-ilibrary.org/docserver/995fff01-en.pdf?expires=1679586850&id=id&ac_cname=guest&checksum=5F7ADC-10316749D8EBADAA7BD6D6B8B4)

124. https://labour.org.uk/wp-content/uploads/2022/10/WR-16813_22-Labour-Skills-Council-report-Edit-19-10-22.pdf

125. <https://labour.org.uk/press/labour-announces-landmark-shift-in-skills-to-drive-growth-and-equip-our-country-for-the-future/>

126. <https://www.cityandguilds.com/news/february-2023/only-four-per-cent-of-employers-are-spending-their-full-apprenticeship-levy-funding>

3.1. Towards a Growth and Skills levy

109. Broadening the apprenticeship levy would involve allowing levy funding to be spent on non-apprenticeship training. We consider the most promising candidates are:

- Skills Bootcamps;
- T Levels employer placements;
- Higher Technical Qualifications (HTQs), including modules;
- Qualifications directly leading to occupations identified as shortage occupations.

Skills Bootcamps

110. Skills Bootcamps are courses that deliver free and flexible training at Levels 3-5 for a period of up to 16 weeks, courses are designed in conjunction with employers to ensure qualifications correspond to existing skills shortages in the economy. Skills Bootcamps are designed for those 19 and over who are in work, self-employed, unemployed or returning to work after an extended period out of the workforce. Aside from receiving skills training in an occupational sector where there is a skills shortage, individuals undertaking training on Skills Bootcamps are also guaranteed a job interview at the end of the course.¹²⁷

111. Currently, there are Skills Bootcamps in occupational sectors such as the digital sector (e.g. coding), green skills (e.g. solar energy) and technical training (e.g. construction, engineering and HGV driving).

112. Large employers currently contribute 30% of the cost if they wish to use Skills Bootcamps to train their existing employees, and SMEs 10%. Given the existing support for this employer-relevant skills development scheme, we recommend that levy payers should be able to draw down their levy to pay this contribution.

T Levels

113. Launched in September 2020, T Levels are 2-year courses (equivalent to 3 A Levels) to be taken after GCSEs that focus on vocational skills and help students into skilled employment or apprenticeships. They involve an industry placement that lasts for 45 days, where the student gets invaluable experience of the workplace – across the course of their qualification, the student will spend approximately 80% of their time in the classroom, and 20% in the workplace.¹²⁸

114. At the time of writing, there are currently 16 T Level courses available for students to choose from, ranging from courses in onsite construction to accounting, with a further 8 courses planned for delivery beyond 2023.¹²⁹ Government initially offered support for employers of up to £1,000 to cover costs, but this has since been scaled back¹³⁰.

115. Employers are not currently compensated for providing the employer placement, a factor that is currently limiting scale-up¹³¹. This is a fundamental problem in how T Levels have been conceived: just as

127.gov.uk, Skills Bootcamps (<https://find-employer-schemes.education.gov.uk/schemes/skills-bootcamps>)

128.gov.uk, T Levels (<https://www.tlevels.gov.uk/>)

129.gov.uk, Introduction of T Levels (<https://www.gov.uk/government/publications/introduction-of-t-levels/introduction-of-t-levels>)

130.<https://www.gov.uk/government/publications/employer-incentive-payments-for-employers-offering-a-t-level-industry-placement/t-level-employer-incentive-scheme-employer-conditions-of-payment>

131.<https://feweek.co.uk/red-tape-and-cost-pressures-leave-firms-struggling-to-offer-t-level-work-placements/>

one would not expect a training provider to provide free training for nine weeks, neither should government expect employers to provide this. While some, predominantly larger, employers, may be able to afford to absorb these costs for the long-term benefit of the workforce, government should recognise that, in general, providing a 9 week T-Level placement is a genuine cost, and should be compensated accordingly.

- 116.** A research project has found that 7% of employers who would not currently offer a T-Level, would do so if a £1,000 incentive payment were to be in place¹³². While this does not sound a huge number, far fewer than 7% of employers are currently offering T-Level placements. Given the total number of businesses in the UK with employers, this would incentivise an additional 540 large businesses, 2500 medium businesses and 98,000 small businesses to offer placements – more than enough to meet the Government’s aspirations to increase T-Level starts to 100,000 annually – assuming that many of the large and medium businesses would offer more than one placement.¹³³
- 117.** We therefore recommend that employers should be able to draw down £1,000 from their levy pot for each T-Level placement provided. Unlike the former scheme, this should be untied funding, able to be used however the employer wished. We further recommend that all non-levy payers should be able to claim £1,000 for each placement, funded by the anticipated T-Level programme underspend¹³⁴.

Higher Technical Qualifications (HTQs)

- 118.** Higher Technical Qualifications (HTQs) are Level 4/5 qualifications for students over the age of 18 who wish to study a vocational qualification to prepare them for a skilled occupation.¹³⁵ They include Higher National Certificates (HNCs) at Level 4, Higher National Diplomas (HNDs) at Level 5 and foundation degrees at Level 5, and are typically taught at a further education college, an independent training provider or a university. Unlike apprenticeships, HTQs are largely classroom based and there is no mandatory work placement, though practical training may take place in workshops. All HTQs are approved by IfATE and are assessed against employer-led occupational standards.
- 119.** The first digital HTQs were approved by IfATE in September 2022, including qualifications leading to occupations such as network engineer, data analyst and software developer – HTQs in construction and health and science will be beginning in September 2023. Overall, the Government plans to have introduced HTQs in 15 sectors by 2025.¹³⁶ The Lifelong Learning Entitlement contains plans to allow HTQs to be offered on a modular basis, with appropriate funding available¹³⁷.
- 120.** In most cases, individuals will be able to fund HTQs through the

132. https://www.gov.uk/government/publications/employer-pulse-survey-2021?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=bb8612a8-aa80-49a2-b641-306016b62a70&utm_content=immediately

133. Data from <https://www.gov.uk/government/statistics/business-population-estimates-2022/business-population-estimates-for-the-uk-and-regions-2022-statistical-release-html> calculation by Policy Exchange.

134. 10,000 T-Level students were recruited on to courses in September 2022 – a positive doubling from the year before, but significantly below the over 15,000 that had been budgeted for.

135. UCAS, *Higher Technical Qualifications* (<https://www.ucas.com/undergraduate/what-and-where-study/choosing-course/higher-technical-qualifications>)

136. gov.uk, *Higher Technical Qualifications (HTQs)* (<https://find-employer-schemes.education.gov.uk/schemes/higher-technical-qualifications>)

137. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1140599/Lifelong_Loan_Entitlement_Consultation_Response.pdf

student finance system. Where, however, this is not the case, perhaps because an individual has already used their loan entitlement, or if an employer wishes to more directly support, or incentivise, a new or existing employee to take the course, we recommend that levy payers should be able to use their levy funding to fund HTQs.

Qualifications directly leading to occupations identified as shortage occupations

121. The UK is unusual in having very few links between the process of identifying skills shortages and its skills funding system. With the exception of a small number of bespoke schemes, such as the HGV bootcamps launched in 2021, there is no funding or other prioritisation of skills required for shortage occupations, whether in terms of funding rates, student eligibility for finance or other forms of support or other such prioritisations. Figure 16 - Skills Shortage Schemes by country sets out ways in which other schemes do make more direct links.

Figure 16 - Skills Shortage Schemes by country

Country	Scheme
France	Employment and Skills Development Actions put skills projects in place, offering government subsidies to businesses that are offering vocational training in areas of skills shortage.
Austria	Government subsidises 'inplacement programmes' in sectors with skills shortages. The subsidies cover the costs of career guidance, training provided by external providers, job-search measures and additional course-related costs.
The Netherlands	Temporary 'sector plans' put in place in areas where there are skills shortages. The state provides 50% of the cost of all vocational training for a period of up to 24 months.
United States	The Trade Adjustment Assistance Community College and Career Training (TAACCCT) is a competitive grant programme that gives grants to community colleges that create partnerships with industries, with the goal of developing domestic training programmes that meet needs of in-demand jobs.
Flanders (Belgium)	Sector covenant between the Government of Flanders and sectoral social partners updated every 2 years: explicit focus on sectoral challenges and labour market priorities. The covenant scheme has been credited with strengthening the link between vocational education and the needs of the labour market.
European Union	Blueprint for Sectoral Co-operation on Skills introduced in 2016, which has brought together key stakeholders to develop a sectoral skills strategy to be taken up at regional and local levels. Training in sectors with skills shortages, such as construction, the steel industry and software services will be supported by grants from the EU Commission. ¹³⁸

138. European Commission, Employment, Social Affairs & Inclusion (<https://ec.europa.eu/social/main.jsp?catId=1415&langId=en>)

122. In a speech to the CBI in November 2022, Labour party leader Keir Starmer said, “Our common goal must be to help the British economy off its immigration dependency to start investing more in training workers who are already here. Migration is part of our national story – always has been, always will be and the Labour Party will never diminish the contribution it makes to our economy, to public services, to your businesses and our communities. But let me tell you – the days when low pay and cheap labour are part of the British way on growth must end.”¹³⁹
123. Every year, the Migration Advisory Committee (MAC) publishes the Shortage Occupation List (SOL). The list is comprised of jobs that are deemed by the Home Office as having staff shortages in the UK, and as such minimum salary requirements for Skilled Worker visas are eased in order to make it easier for businesses to recruit migrant workers. Migrant workers with relevant skills wishing to fill vacancies in occupations on the SOL can be paid 80% of the job’s usual amount to be eligible for a Skilled Worker visa.¹⁴⁰
124. As identified by the Industrial Strategy Council, there are several occupations on the SOL that normally require vocational training.¹⁴¹ For example, one shortage occupation listed on the SOL is care work – there are a plethora of non-apprenticeship Level 2-5 qualifications leading to this occupation (e.g. NVQ Diploma in Adult Care at Level 3, T Level in Health at Level 3).
125. In order to create a stronger link between shortage occupations and skills training, a clearer link could be made between the shortage occupations identified by the MAC and skills training. One way of doing this would be via the apprenticeship levy. This would make use of a system of identifying shortage occupations which is already well-established, respected by business, regularly updated and at arms’ length from government.
126. We propose that IFATE should work with the MAC to identify qualifications at Levels 2-5 that would directly enable an individual to perform a shortage occupation that is on the list. It is recognised that not all occupations would have such an associated occupation. Subsequently, levy-payers would be able to draw down levy to spend on these identified qualifications – and, furthermore, non-levy payers could receive a subsidy, funded from of the levy, covering 50% of the training and assessment costs associated with these qualifications.
127. There should also be a means whereby employers can present evidence to add additional qualifications to be eligible for the levy, similar to the way qualifications can be added to the Level 3 Free Courses for Jobs list.

139. <https://labour.org.uk/press/keir-starmer-speech-to-the-confederation-of-british-industry-conference-2022/>

140. gov.uk, *Skilled Worker visa: shortage occupations* (<https://www.gov.uk/government/publications/skilled-worker-visa-shortage-occupations/skilled-worker-visa-shortage-occupations>)

141. Industrial Strategy Council, *UK Skills Mismatch in 2030* (<https://industrialstrategy.org/sites/default/files/UK%20Skills%20Mismatch%202030%20-%20Research%20Paper.pdf>)

3.2. Levy Transfer

128. Since April 2019, levy-payers have been able to transfer up to 25% of the levy funds to SMEs. This is an effective way of supporting other businesses, and we found a number of positive advantages of this.

129. There are, however, various issues which means that the current system does not deliver to its potential. A lack of flexibility regarding the amount of levy that levy-payers are able to transfer is an issue regularly identified by employers. According to research undertaken by Survation, 41% of HR professionals said that an increase in the proportion of levy they were able to transfer would make them more likely to, with City & Guilds finding that the average amount that employers desire to be able to transfer is 35% - well above the current 25% limit.¹⁴²
130. A further concern that is regularly cited is the bureaucracy surrounding the scheme, with employers having to individually approve each apprentice that they transfer. Although some employers like this degree of control, for others it reduces the appeal of the scheme, with the bureaucratic costs making the scheme not worthwhile. We spoke to a number of employers who said they had not seriously looked at levy transfer, given the complexities involved¹⁴³.
131. Local government authorities, such as the West Midlands Combined Authority (WMCA) and the Greater Manchester Combined Authority (GMCA) have set up specially designed levy transfer programmes, using money that has gone unspent by levy-payers, to fund 100% of the cost of apprenticeships at smaller, local companies. So far, the Apprenticeship Levy Transfer Scheme launched in April 2019 by the WMCA has seen companies such as HSBC, Lloyds, National Express and Arriva pledge £37.5 million, which has enabled 800 SMEs in the West Midlands to take on apprentices.¹⁴⁴ Similarly, the GMCA launched the Greater Manchester Levy Matchmaking Service in August 2019: so far it has facilitated the transfer of £10 million in levy funds, helping to launch 1,000 apprenticeship opportunities.¹⁴⁵
132. Similar funds have also been set up by levy-paying employers, for example the Co-op Levy Share Service which is discussed below in Case Study 2¹⁴⁶.

142. City & Guilds, *Flex for Success* (<https://www.cityandguilds.com/-/media/cityand-guilds-site/documents/what-we-offer/employers/apprenticeship-levy-report-pdf.ashx?la=en&hash=C8CFDD81AE-7CA4458022C75B10108EE18398BE28>)

143. Interviews during this project.

144. West Midlands Combined Authority, *WMCA celebrates funding over 2,000 apprentices into training* (<https://www.wmca.org.uk/news/wmca-celebrates-funding-over-2-000-apprentices-into-training/>)

145. Greater Manchester Combined Authority, *Celebration of 1,000 apprenticeship opportunities in Greater Manchester* (<https://www.greatermanchester-ca.gov.uk/news/celebration-of-1-000-apprenticeship-opportunities-in-greater-manchester/>)

146. Home | Coop Apprenticeship Levy Transfer Service (www.cooplevshare.co.uk).

Case Study 2: The Co-op



Image courtesy of Co-op

In 2021, the Co-op established a fund to help to tackle some of the underrepresentation within apprenticeships, such as from ethnic minority and lower socio-economic backgrounds. This is achieved by supporting the training and assessment of new entrants into apprenticeships who might previously have struggled to secure an apprenticeship, so helping individuals to get into work. Opportunities are also supported to deliver individual progression within the workplace - supporting apprentices who are moving up to higher level apprenticeships, helping them to get on in work, with access to higher paid roles.

The Co-op's initial ambition for its own transferred funds was to facilitate opportunities for individuals from ethnic minority backgrounds and close the 'opportunity gap' by achieving fair representation. The Co-op pays over £5m annually into its levy pot and typically transfers up to £1m each year to support Apprenticeships outside of the Co-op.

The broader ambition for the service was to co-operate with like-minded levy payers to pledge unspent levy funds and share them in a targeted way to support the provision of apprenticeships for under-represented groups. This removes some of the administrative burden for an employer and helping identify partners committed to the same values and principles. This brought otherwise expired levy contributions from donating employers into one place to provide Apprenticeship opportunities to employers that might not be able to afford to offer Apprenticeships.

Since the Co-op established the service in 2021, it has received pledges of over £17m from 56 organisations and has matched over 1,400 opportunities. Pledging businesses include Amazon, Greencore, Pertemps, BT, Nationwide, Royal Mail, and many others. The Apprenticeship standards supported are broad, from Arborist and Adult Care Worker to Business Analysts and Civil Engineers, as well as Forklift Truck Technicians and Motor Vehicle Maintenance apprenticeships - currently over 75 different standards are supported by the service.

The Co-op works with organisations who could benefit from levy funds, whether they are non-levy payers, or have used all their own levy. Not all recipients of levy funds are businesses, some are charities and community organisations.

The Co-op uses its many and varied networks to help to create what is in essence an apprenticeship social mobility 'eco-system' - working with its suppliers, community groups, business networks, training providers and awarding organisations. Once partners - both donating and receiving - know the Co-op service is there to promote social mobility via apprenticeships, they typically join and become advocates.

To date the apprenticeships supported have been: 35% individuals of non-white British ethnicity, 64% female, 21% declaring a caring responsibility, and 16% declaring a disability.

For any organisation not familiar with the Apprenticeship Service system, a call is set up to introduce them and takes them through the process, step by step. There are also videos and other resources available on a dedicated website - [Home | Coop Apprenticeship Levy Transfer Service \(cooplevyshare.co.uk\)](https://cooplevyshare.co.uk).

- 133.** Given the unmet potential of levy transfer, we recommend that government increase the proportion of the levy transfer from 25% to 35%, reduce the bureaucracy associated with transfer and make it easier for employers to transfer funding outside their supply chain to broad-based schemes operated by regional local authorities, charities or business groups.

4. Removing Barriers for SMEs

- 134.** As was set out in *Performance of the Apprenticeship System*, the number of apprenticeship starts delivered by non-levy payers has dropped by almost half since the introduction of the levy, compared to a 19% drop by levy payers. This major decline in has had major consequences to who gets to benefit from an apprenticeship.
- 135.** In 2019, 87 per cent of all apprenticeships offered by small firms were at Level 2 ‘Intermediate’ (49%) and Level 3 ‘Advanced’ (38%) in 2019. Additionally, 92 per cent of all apprenticeships offered by small firms were held by 16-24 year olds and 47 per cent by 16 to 18 year olds¹⁴⁷. In other words, SMEs disproportionately train younger, less educated individuals – who are also more likely to be from disadvantaged backgrounds and in disadvantaged areas.
- 136.** We know that apprenticeships can be of tremendous value to SMEs. The Federation of Small Businesses has published a document setting out the benefits, including recruiting talent, diversifying their workforce and increasing productivity¹⁴⁸. Government research has found that:
- more than 24,000 apprentice-employing SMEs in the private sector reported that hiring an apprentice has actually helped them win business;
 - 3 in 4 SMEs that employ apprentices report increased productivity thanks to apprenticeships with product/service improvement;
 - nearly all (96%) SMEs report at least one business benefit to hiring an apprentice¹⁴⁹.
- 137.** These benefits were also reflected by the SMEs we spoke to over the course of this project. Case Study 3 sets out the experience of one SME, RedEye, which employs degree apprenticeships in partnership with Manchester Metropolitan University.
- 138.** It is also the case that apprentices themselves report equally positive, if not more positive, experiences with SMEs than with large companies. In a survey published by IFATE, apprentices working for SMEs reported as good or higher satisfactory scores than those working for large companies, including ‘having a manageable workload’, ‘employer being willing to make adjustments to their individual need’, ‘their employer induction being useful’, ‘their training provider supporting their well-being’ and ‘their employer and training provider working well together.’¹⁵⁰

147. Fit for the Future: Making the apprenticeship system work for small businesses <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

148. <https://www.apprenticeships.gov.uk/employers/benefits-of-hiring-apprentice>

149. <https://www.gov.uk/government/news/dfe-encourages-more-businesses-to-offer-apprenticeships>

150. <https://www.instituteforapprenticeships.org/about/newshub/news-events/major-survey-shows-apprentices-happier-with-smes/>

Case Study 3: RedEye

Founded in 1997, RedEye provides sophisticated marketing automation solutions to clients, enabling them to better understand and respond to customer behaviour. They are based in Crewe and have approximately 100 employees.

RedEye first heard about degree apprenticeship at a Manchester Digital careers event and recruited their first apprentices onto the Digital and Technology Solutions Degree Apprenticeship in September 2016. This was the start of a new way of recruiting talent and establishing a dynamic apprenticeship development programme. In 2023, they have 10 apprentices in learning at Manchester Met (Digital and Technology Solutions – Software Engineer, Digital Marketer and Digital User Experience), making up 10% of their workforce.

RedEye's Director of Corporate Services, Scott Young, told us:



Image courtesy of RedEye

“We were experiencing the same digital skills shortage faced by employers across the country and were initially plugging those gaps by outsourcing work overseas. However, this wasn't a long-term solution, and we began to look at other options. Degree apprenticeships ticked a lot of boxes for us. They enabled us to keep work in-house, to grow our own talent, and to diversify our workforce.

“Implementing new ways of working is never easy – a case had to be made to our board and we started off small, with just two apprentices. However, the impact was clear from the beginning, and it has quickly become an established route within our business.”

“As an SME, the reason we chose to work with Manchester Met is because of the partnership and collaboration with business. We are really impressed with how Manchester Met works in partnership to design the programmes and take an active interest in what employers need.”

“Smaller businesses like ours don't have the luxury of dedicated early years support or big HR departments, but that shouldn't be a barrier. The benefits our apprentices bring far outweigh the initial legwork required to onboard apprentices, and we received a huge amount of support from the University.”

“A key benefit for our apprentices is being able to work in a classroom setting with other apprentices, and the key advantage there is of bringing that back into our business to enhance everything that we do. Our apprentices receive wrap-around support, rich on-the-job experience and add value right from the beginning – all without recruitment fees.”

- 139.** We should emphasise that we are not opposed to apprenticeships being used to train older individuals who wish to upskill, or those at higher levels, including Level 4 and 5 or degree apprenticeships. Such apprenticeships have valuable benefits both for the individuals undertaking them and for overall growth and productivity. Nevertheless, the disproportionate drop in the number of apprenticeships available for younger people, and for those who have done as well at school, is a matter of significant concern. Our goal is to increase opportunity at this level, not to decrease it for others¹⁵¹.
- 140.** Many of the Level 2 standards swept away by the shift from Frameworks to Standards were undoubtedly low quality. It is absolutely right that we should insist on a system in which apprenticeships are delivered to high quality. However, this does not mean there should not be a high quality offering at Level 2 and 3. There were fewer than 100,000 starts at Level 2 in 2021-22, compared to 291,000 in 2015-16¹⁵². Rather than being shut out of the apprenticeship system, those nearly 200,000 individuals deserve to have high quality apprenticeship options available to them, at the appropriate level for their ability, and which offer a strong likelihood of progression to skilled employment or higher level apprenticeship training.
- 141.** Throughout this chapter, we will be discussing barriers to SMEs delivering apprenticeships. Many of these barriers – bureaucracy, a cumbersome and time-consuming apprenticeship service, lack of flexibility and challenges around off-the-job training – are challenges for all employers, not only SMEs; however, they impact SMEs more acutely due to the tighter financial constraints that small companies operate under, and their inability to cross-subsidise these from other areas of the business. Many of the concerns discussed in this chapter were raised by employers of all sizes that we spoke to during the course of this project, both large and small.
- 142.** Where we propose remedies, therefore, unless explicitly set out to the contrary, we are proposing that these changes should apply to all employers, not only SMEs.

4.1. Principal Barriers

- 143.** In 2019, the Federation of Small Businesses identified three changes to the system that had had the greatest impact on small businesses. These were:

- The explicit requirement for a minimum of 20 per cent off-the-job training;
- Changes in training and assessment provision geared at improving quality;
- The Introduction of co-investment of 10 per cent of training and assessment costs [Ed: this has since been reduced to 5%].¹⁵³

151. As has been noted above, we categorically reject the notion that apprenticeships should be a zero sum game, or that an increase in degree apprenticeships must lead to a reduction in apprenticeships at lower levels. This logic is not applied to higher education places and it should not be applied to – significantly less costly – apprenticeships. The Levy must be seen as a contribution to the system, not a ceiling on opportunity.

152. Apprenticeship and Traineeship data

153. Fit For the Future <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

144. In a further report, in 2021, they identified the three biggest challenges for smaller firms as being:
- Recruiting an apprentice
 - Management time
 - 20 per cent off the job training.¹⁵⁴
145. These concerns have all repeatedly arisen in our conversations with SMEs, and with the colleges and training providers that work with them, include the bureaucracy around recruiting apprenticeships – including the challenges, time and cost involved in navigating the National Apprenticeship Service interface and processes – availability and flexibility of standards (which will be discussed below in *Standards and Flexibility*), and their overall time and knowledge of the system¹⁵⁵. With regards to off-the-job training, two subcategories of concern are prevalent: firstly, over the flexibility of this requirement, and secondly, challenges around backfilling the staff member’s time.

Awareness of incentives

146. A further challenge is around lack of awareness, and therefore take-up, of existing incentives. For example, there is currently a £1000 incentive for employers hiring apprentices who are between 16 and 18 years old, or under 25 with an education, health and care plan, or who have been in the care of their local authority. However, only 40% of small businesses have received this incentive¹⁵⁶. Similarly, some businesses are unaware of the fact that they are able to claim National Insurance relief for apprenticeships aged under 25¹⁵⁷.
147. This is not acceptable if the policy is to increase apprenticeship take-up by young people. The current means of delivering these incentives are clearly not working satisfactorily. Both incentives should be prominently flagged on the National Apprenticeship Service, with automated reminders to an employer to claim, when they register an eligible apprentice. The Government should also explore alternative delivery options – such as making the payment directly to the employer, rather than routing it via the training provider. Increasing take-up of these incentives to over 90% should be an explicit objective of the responsible Director within DfE, with their performance review and any accompanying incentive payment tied to achieving this.

Bureaucracy and the National Apprenticeship Service

148. A consistently raised barrier was the difficulty of interacting with the National Apprenticeship Service and the increasing complexity of the rules governing apprentices. Some of the comments we heard during our research included, ‘A time-consuming, cumbersome process’; ‘You simply can’t underestimate how much time and cost this adds to the process – we’ve decided it was worth it, but for many companies it’s just too much’; ‘It’s OK for a big company like us, as we can afford to hire someone to manage it, but I can’t see how a company with 4-5 employees would do it’.

154. Scaling Up Skills file:///C:/Users/iaing/Downloads/Scaling-Up-Skills-2.pdf

155. Interviews with SMEs, colleges and training providers.

156. file:///C:/Users/iaing/Downloads/Scaling-Up-Skills-2.pdf

157. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760285/Employer_NICs_Reliefs_U21_Apprentices_U25_-_HMRC_Research_Report_514.pdf

149. This extends to every part of the system. The apprenticeship rules currently stand at 128 pages long – and the list of changes alone was 28 pages¹⁵⁸. This is a significant level of complexity for an SME to grapple with and has only grown with the years. A 2022 report by the Federation of Awarding Bodies, also argued that *‘Qualifications regulation has been growing exponentially since 2014’*, pointing to the growing complexity of overlapping systems of regulation¹⁵⁹.
150. A future report will examine the growing complexity – and unnecessary bureaucracy – of the system in more detail. However, in the meantime, the Department for Education and IFATE should place a greater focus on system simplification and, in particular, providing a smooth, user-friendly experience for those using the National Apprenticeship Service. A user-perspective – incorporating SMEs – should be brought in and used to assess every part of the user journey, to simplify and reduce the cost of engaging with the system.

Off-the-job training and Back-fill

151. Off-the-job training is an essential part of a quality apprenticeship. We must not return to the days when some apprentices received effectively no training – and, indeed, some apprentices did not even realise they were on an apprenticeship! Unlike bureaucracy, when SMEs – or larger businesses speak of the challenges of managing off-the-job training, it is important to recognise that some of these challenges will be integral to the delivery of a quality apprenticeship.
152. We should, however, allow off-the-job training to be delivered in the most flexible way consistent with providing a high quality apprenticeship experience. The flexibilities introduced last year by IFATE, moving from a strict ‘1 day a week’ to a more flexible, ‘average of 6 hours per week’ approach, with the ability to provide this training in a wide variety of means and formats, ranging from a block-release 1 day a week, to hours distributed through the working week, to more concentrated periods of training spaced throughout the apprenticeship, are therefore very welcome.
153. In our conversations throughout this project, we found a low awareness of the flexibilities implemented by IFATE. Many people we spoke to talked of the ‘rigidity’ of off-the-job training, or referred to it as ‘1-day a week off-the-job’. It is clear that this is no longer accurate – however, unless awareness is higher, many employers who could take on an apprentice will be deterred from doing so. IFATE and the Department for Education should actively seek to communicate these changes better to employers, working with employer organisations.

158. <https://www.gov.uk/guidance/apprenticeship-funding-rules#the-latest-rules-2022-to-2023>

159. Feel the Weight. <https://www.fenews.co.uk/education/qualifications-regulation-and-increased-burden-have-been-rising-exponentially-finds-a-new-report-from-fab/> We presume that ‘exponentially’ is used in a metaphorical, rather than mathematical, sense.

Pre-apprenticeship training

- 154.** One form of flexibility is, however, not yet catered for, and that is pre-apprenticeship training, with 29% of employers stating that they want to be able to spend their levy funds on schools outreach and engagement.¹⁶⁰ During our interviews, we heard this being used to refer to two related, but distinct, forms of training:
- Specific job-related training, such as on the use of heavy equipment or other employment-specific skills, that was needed to allow the apprentice to add value to the employer from day one (or, in some cases, to work on site).
 - Broader skills and confidence development programmes, typically carried out by charities and education providers with disadvantaged students, in order to increase the diversity of programmes and improve social mobility.
- 155.** We consider that both are valuable and both should be fundable through the apprenticeship levy, making use of off-the-job training hours. Both, if delivered well, constitute genuine skills development of benefit to individuals that increase employability.
- 156.** The first, we heard repeatedly, would support more employers to take on more apprenticeships, and that the payment schedules are altered to support this. The success of the Bootcamp model has demonstrated the demand by employers for a degree of training to get an employee job-ready before starting a job – however, we consistently heard that a considerably shorter period than the 12-16 weeks of a bootcamp would make a significant difference in terms of whether or not an apprenticeship programme would be viable for the employer.
- 157.** We therefore recommend that up to 20% of the off-the-job training for an apprenticeship should be front-loadable – i.e. that it would be delivered first, immediately before the apprentice began formal employment with the employer. For a 1-year apprenticeship offering the minimum of 278 off-the-job hours¹⁶¹, this would constitute up to 55 hours of training – approximately two weeks of full-time training – to get the apprentice ‘workplace ready’. The apprenticeship would then take place as currently occurs, with the remainder of the off-the-job training being required to take place throughout the apprenticeship.
- 158.** We further recommend that levy payers are able to, if they wish, to donate unspent levy funds – within the transfer limit – to non-profit organisations, including both charities and public sector education institutions such as schools or colleges, to run pre-apprenticeship programmes.

Backfill

- 159.** The other major challenge is unavoidable, but real: the challenge of backfill. This is particularly acute for smaller employers, where the cost of covering the absence of one employee, even a junior one

160. City & Guilds, *Flex for Success* (<https://www.cityandguilds.com/-/media/cityand-guilds-site/documents/what-we-offer/employers/apprenticeship-levy-report-pdf.ashx?la=en&hash=C8CFDD81AE-7CA4458022C75B10108EE18398BE28>)

161. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1110377/20221011_OTJ_Guide_v4_-_For_22_23_Rules_Final.pdf

such as an apprentice, for one day a week, is significant.

- 160.** We recognise that off-the-job training is an important and essential component of an apprenticeship. The challenge of backfill can therefore not be removed, but can be mitigated. We recommend that such mitigations are focused on both the employers who need it most, and the individuals who are currently less likely to take up an apprenticeship.
- 161.** What we are seeing is a market failure. Both SMEs, apprentices and the economy as a whole would benefit from the recruitment of more apprentices, but these are not being recruited because too high a share of the cost falls upon the SME, which is unable to afford to pay for it. If Government wishes to capture these positive externalities for the economy, it must pay for it.
- 162.** We know that when Rishi Sunak, as Chancellor, offered a £3,000 incentive payment to employers to take on an apprentice, apprenticeships starts increased significantly¹⁶². We also know that, prior to the levy, when government paid a higher contribution towards the training of younger apprentices than that of older apprentices, a significantly higher number of younger apprentices were trained.
- 163.** Recognising the additional challenge of training younger individuals with less workplace experience, we therefore recommend that SMEs receive a contribution to the ‘off-the-job’ training hours for apprentices under 25 of £2500 with an additional £500 achievement premium for completion. For a standard 12-month apprenticeship, this would result in a payment of up to per completed apprenticeship.
- 164.** Based on the experience of the pandemic incentive, this would be sufficient to significantly galvanise an uptake of apprenticeships by SMEs, focused on younger people, by compensating for the unavoidable cost of off-the-job training. Furthermore, the payment would be made in such a way to encourage completion of the apprenticeship, and targeted at those employers and young people who need it most.
- 165.** We estimate that this scheme would cost approximately £250 million a year¹⁶³.

Apprentices departing

- 166.** A frequent barrier to recruiting apprenticeships reported to us was that an apprentice might leave immediately after completing their apprenticeship, meaning the employer would have invested in their training but reaped none of the benefits. This can be a particular worry for SMEs, recruiting only 1 or 2 apprentices and where a departure could have a major impact, than for larger employers where such departures can be statistically averaged out. A survey has found that 12% of employers have cited this as a concern¹⁶⁴.
- 167.** There were mixed views over the extent to which this was genuinely a problem, and the extent to which it could be mitigated by normal

162. The introduction of the incentive led to a 21% surge in apprenticeship starts; however, once it was removed, apprenticeship starts dropped by 12%. <https://www.fsb.org.uk/resources-page/small-firms-lead-calls-for-3-000-apprenticeship-incentive-for-under-25s-and-smes.html>

163. Based on a total of 85,800 apprenticeship starts in 2021-22 by under 25 year olds in non-levy payers.

164. <https://onlinelibrary.wiley.com/doi/epdf/10.1111/bjir.12643>

employment practices, such as the employer ensuring that they were a good place to work. Nevertheless, it is clear that ‘employer loyalty’ is not a major factor in today’s labour market, that an employer does invest in an apprentice over their training period, and that a worry that they may lose that investment is actively deterring some employers from taking on an apprentice.

168. The concept that a person who is funded to complete a training course should spend some time working for the employer who funded it is long-established in society, most commonly with employer-sponsored degrees. In such an arrangement, if an individual chooses to leave before the end of this period, they will be liable to repay some or all of their training costs to employers.
169. For use only by employers that wished it, we recommend IFATE or DfE should develop a model apprenticeship contract for employers who wish to ensure they retain apprentices after completion, to require an apprentice who completed their qualification to continue with the employer for a period of time, or else repay a portion of their training costs.
170. This would not impact apprentices who did not complete their apprenticeship, as this would be impractical, only those who successfully completed.
171. Use of this contract would be entirely optional. We recognise that many employers would not wish to make use of some an arrangement; however, the model contract would be a template that would be of use to employers where concern that apprentices would leave after completion was seen as a barrier to taking on apprentices.

4.2. Standards and Flexibility

172. The availability of appropriate standards, and whether they are appropriate to the organisation’s needs, were a barrier to apprenticeships that we found raised by both large and small employers.
173. In principle, Figure 17 - Standards by Level and Figure 18 - Standards by Route appear to show that there is a good variety of standards at each level and, arguably, in most routes – though it should be noted that some routes have many more standards than others, this is not necessarily a problem if that is because employer needs are more specialised in these areas.

Figure 17 - Standards by Level

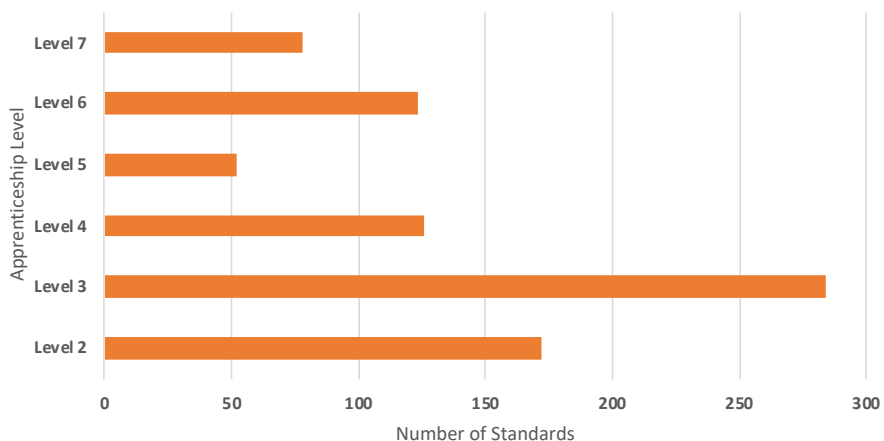
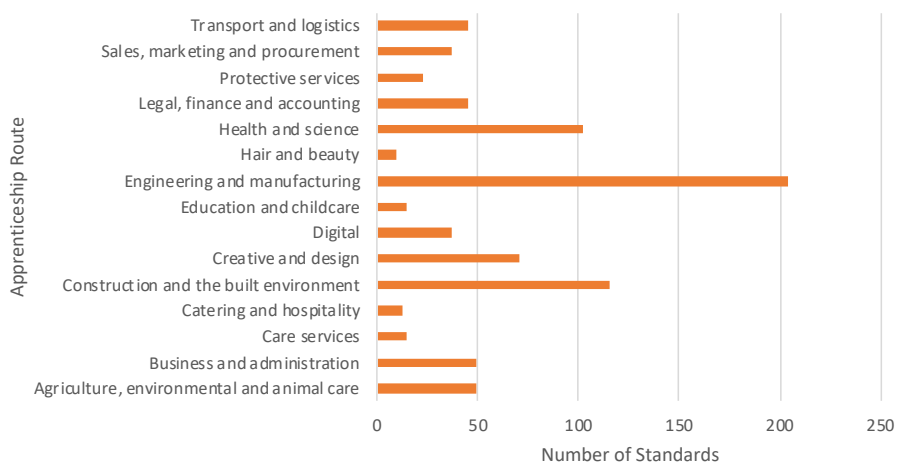


Figure 18 - Standards by Route



174. If, however, we consider these together, some significant gaps become apparent, as is shown in Figure 19:

Figure 19 - Standards by Route and Level

Apprenticeship Route	L2	L3	L4	L5	L6	L7
Agriculture, environmental and animal care	15	17	4	3	4	1
Business and administration	1	10	16	5	7	6
Care services	2	3	4	2	3	1
Catering and hospitality	5	5	2	0	0	0
Construction and the built environment	44	32	11	1	14	3
Creative and design	3	34	11	6	6	10
Digital	0	9	12	2	5	4
Education and childcare	1	4	2	2	2	3
Engineering and manufacturing	36	84	22	5	29	19
Hair and beauty	5	3	0	1	0	0
Health and science	6	18	7	13	26	21
Legal, finance and accounting	4	14	9	1	8	7
Protective services	3	8	8	2	4	1
Sales, marketing and procurement	8	15	8	0	6	0
Transport and logistics	16	13	5	4	4	0

175. In looking at the number of standards available at each level along the 15 apprenticeship routes above, it is clear there that are gaps in provision: notably, no Level 2 standards on the digital route (despite the ever-increasing pervasiveness of digital skills), and only one standard at Level 2 on Business and Administration. The relatively few apprenticeships offered under the care services route – despite care work featuring as an occupation on the Migration Advisory Committee’s Shortage Occupation List – also appears concerning, as does the lack of any standard whatsoever above Level 4 on the catering and hospitality route.
176. The low availability of standards in some key areas at Level 2 is connected to the way that the implementation of the levy has seen a shift in the profile of apprenticeship starts: in the 2016/17 academic year 52.7% of starts were intermediate apprenticeships (Level 2); but in the 2021/22 academic year, the share of intermediate apprenticeships fell to 26.2%. Though this is driven by a legitimate desire to eradicate low quality Level 2 apprenticeships, the fact that these have not been replaced by other, higher quality offerings at Level 2, restricts opportunities for young people, who have been typically most likely to take up Level 2 apprenticeships¹⁶⁵ - for example, in 2016/17 young people (aged under 19) accounted for 64% of starts on Level 2 apprenticeships.¹⁶⁶
177. Level 2 apprenticeships are also key to social mobility, with the Public Accounts Committee’s report on the progress of apprenticeships stating “the way the programme is evolving risks leaving behind people with lower skills and those from disadvantaged communities” because it is becoming “more heavily weighted towards higher-level apprenticeships” than the old framework system.¹⁶⁷

165. FE News, 72% fall in entry-level apprenticeship uptake since 2014 – Sector Response (<https://www.fenews.co.uk/skills/revealed-72-percent-fall-in-entry-level-apprenticeship-uptake-since-2014/>)

166. gov.uk, Apprenticeships and traineeships (<https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships#dataBlock-74d15d15-ff67-4ecc-be86-5049ead29d44-tables>)

167. FE Week, PAC apprenticeships progress report: The 6 recommendations (<https://feweek.co.uk/pac-apprenticeships-progress-report-the-6-recommendations/>)

- 178.** It was represented to us strongly, by various organisations representing SMEs, that SMEs do not generally have the capacity to create new standards, given the cost and length of time that creating a new apprenticeship standard requires. Levy payers have also prioritised the creation of advanced and higher standards, where they are also increasingly concentrating provision. This means it is likely that gaps in provision are more likely to arise in areas impacting SMEs and younger or more disadvantaged people.
- 179.** The concern was also raised to us that the purely ‘responsive’ approach to the creation of standards, by waiting for employer groups to come forward, has led to ‘gaps’ in provision which hinder the progression of individuals from a lower standard to a higher standard, because there may be no higher standard available to progress to, or no lower standard to use as a stepping stone.
- 180.** We are clear that standards should continue to be based around employer needs and only created in areas where there is genuine employer demand. However, we recommend that, rather than simply waiting for employers to come forward, IFATE proactively commission and fund new standards, particularly at Level 2 and Level 3, where there is evidence of both need and employer demand, focusing first on those areas where there is the greatest economic need in the economy and where new standards would have the greatest impact on improving social mobility and opportunity for young people.

Flexibility on Standards

- 181.** Simply creating more Standards, however, may not be the answer. In Germany, for example, there are only 342 different apprenticeships. Although though the systems are not directly comparable, this indicates it is not simply the number of qualifications that matters, but the flexibility as to how they are used.
- 182.** A recurring complaint, again from employers of all sizes, was that standards were too inflexible for their needs. This occurred even with regards to areas where there appear to be a high number of standards, such as engineering and management, or the creative sectors. Several of those we spoke to said that Frameworks had been more flexible and that the lack of flexibility in Standards was one barrier to them delivering more apprenticeships. The time it takes to develop new standards or amend existing standards means that this cannot be the sole answer – for example, amending the Level 2 Retailer Standard took three years¹⁶⁸.
- 183.** While the move from Frameworks to Standards was done to increase quality, flexibility need not compromise quality, if implemented appropriately.
- 184.** The argument that was made to us as to why more flexibility should not be introduced was that this would compromise an apprentice being able to meet the standard. In this viewpoint, an apprentice

¹⁶⁸Information provided by an employer involved in the revision.

fully learning all of what is set out in the standard defines what is meant by occupational competence and is how employer's needs can be met¹⁶⁹.

- 185.** To us, it seems that this takes an overly narrow approach to what is meant by being employer responsive, or the apprenticeship standards meeting employer needs. Each apprenticeship Standard has been designed by a specific group of employers; while they provide a high quality representation of what employers want, in reality in any sector there are many employers – and many roles within each employer – each of which have slightly different needs.
- 186.** It is clear that there is a high demand from employers for more flexibility with regards to the standards. By comparison with other leading countries – which typically have fewer qualifications than we already have – embracing a greater level of flexibility has the potential to dramatically increase the flexibility and use of apprenticeships to employers – therefore creating more opportunity for individuals – without compromising quality. Adopting this approach would be a truer manifestation of responding to employer needs than insisting upon the inviolability of each Standard.
- 187.** We recommend that IFATE publish new guidance on increasing flexibility in the delivery of standards, adopting a 'Core and Flex' approach. Under such approach, each apprenticeship would need to undertake at least 80% of the standard, but the remaining 20% could be determined more flexibly, with reference to the specific needs of the employer, industry and role. The guidance would set out the approach to determining what elements needed to be 'core' in a standard and training providers and employers would continue to be held to account for delivering a high quality product covering an appropriate volume and level of material, as well as the requisite off-the-job training hours.

4.3. A National Skills Infrastructure

- 188.** The current approach to apprenticeships is almost entirely market-based. It places both the cost and the responsibility entirely upon employers – whether that is employing apprenticeships, recruiting them or sourcing the training provider. Although SMEs do receive a subsidy to the cost of the training, this subsidy comes from other employers. Similarly, training providers receive no support for capital investment, which could strategically increase the availability of apprenticeships in many areas¹⁷⁰. As we have discussed above, the government takes minimal actions to address market failures.
- 189.** In reality, the benefit of apprentices accrue to employers, to individuals and to the economy as a whole, through a more productive and higher skilled workforce. While the apprenticeship system should always be employer led – in terms of meeting the needs of employers – a system where employers alone are expected to subsidise the cost of the wider positive externalities to the economy

169. Interviews during this project.

170. Availability of a provider offering the appropriate standard, particularly for those which require significant investment in capital equipment for training purposes, was regularly cited in interviews as a barrier.

as a whole will lead to sub-optimal outcomes – as we are seeing today. The state should be willing to intervene to address market failures and support outcomes of overall benefit to the economy and to society.

- 190.** The most prominent market failures that must be addressed are:
- Engaging SMEs, who cannot be expected to shoulder the wider societal benefits.
 - Training those under 25 who are – for any given qualification level – intrinsically less productive on average to employers than older, more experienced individuals, and therefore will, rationally, be recruited less on to apprenticeships than older individuals.
 - Standards where a high upfront investment in capital is required to teach, which are currently more challenging to deliver under the current funding model.

4.3.1. A national skills network for apprentices

191. We have observed a common theme to when SMEs are able to overcome the barriers discussed in this section is being part of a supported network. We have observed this in numerous occasions, including with organisations we have discussed this closely with, such as Manchester Metropolitan University, Harrow and Uxbridge Colleges, Oldham College and Blackpool and the Fylde College. Experiments in providing this kind of support have also been undertaken in specific sectors, for example in cell and gene therapy.¹⁷¹

- 192.** Advantages of such hub networks can include:
- Support from the hub organisation in dealing with bureaucracy and the National Apprenticeship Service.
 - Support from the hub organisation in recruitment and retention.
 - A stronger brand that can help attract applicants.
 - Assurance for SMEs of the quality of the provision.
 - The ability to create ‘cohorts’ of apprentices studying the same or similar Standard, even if each SME only employs 1, or a small number of apprenticeships.
 - Economies of scale on training provision.
 - Simplified, standardised yet flexible processes for SMEs to dock into.

193. The UK needs a national skills infrastructure for apprentices. We recommend that SME Hubs should be established, at FE Colleges, Training Providers, Universities or Business Groups such as Chambers of Commerce to support SMEs accessing apprenticeships. These would be tasked to provide a hub service for SMEs, supporting them with navigating the complexity of the system, handling the bureaucracy and creating nexuses to assist in recruiting and supporting apprenticeships.

194. Hubs should be allocated on a ‘provider-blind’ basis, and would be

¹⁷¹ <https://advancedtherapiesapprenticeships.co.uk/>

paid by results. This would not restrict the ability of any employer to select any training provider they wished for an apprentice, whether a college, university or ITP.

195. Hubs would need to engage with Local Skills Improvement Plans, which can play a role in catalysing which Standards offer the most opportunity in each area. It should be possible for a hub, working with 10-20 local SME employers, to put on a 'class' for a particular standards, in which the apprentices at each employer could learn and progress together. Employers would continue to be ultimately responsible for selecting and employing apprentices, but they could, if they wished, collaborate on the recruitment of these – or simply use the training services. This would be simply one of many ways in which hubs could help facilitate the recruitment of SMEs.
196. None of this would restrict the ability of any employer to select any training provider they wished for an apprentice, whether a college, university or ITP. The role of hubs would be centred upon increasing uptake in under-utilised parts of the system, with SMEs and young people, rather than replacing existing provision.

4.3.2. Capital Funding

197. The cost of delivering an apprenticeship, which training providers receive for each apprentice they deliver, does not include the cost of capital investment. This can be significant: for example, one training provider told us that to purchase the capital required to deliver the nuclear engineering apprenticeship would require over £2m, a sum which would preclude the majority of providers from delivering it¹⁷².
198. This in turn has meant that Standards which require expensive capital equipment to deliver – such as in construction or engineering – are predominantly delivered in colleges or universities, which can access other forms of capital investment or use facilities developed for other qualifications, or (particularly in engineering) by employer-providers, who can use their own, existing, facilities, or have a direct incentive to invest¹⁷³.
199. In turn, this can mean a shortage of training provision in places where it is needed. One employer told us, “The only real route to becoming an installation electrician is an apprenticeship. Yet there are real difficulties finding the training providers. Several of our apprentices don’t drive and are expected to now travel three hours a day to a college to receive training.”¹⁷⁴
200. We recommend that capital funding should be more widely available, to aid in the establishment of an effective national skills infrastructure for the delivery of apprenticeships. Skills capital funding programmes should actively consider the support of apprenticeships and ITPs with at least three years’ of experience of delivering apprenticeships and a positive Ofsted rating, should be able to bid into such funding programmes in a similar way to colleges, to purchase capital equipment for the delivery of apprenticeships.

172. Interviews as part of this project.

173. Ibid

174. Ibid

Such bids should be evaluated on the basis of the ability to deliver, employer demand, volume of apprenticeships needed and the track record of successful delivery, in terms of achievements.

5. Increasing Opportunities for Young People

201. Apprenticeships can be of value to all people, from all social classes and backgrounds and of all ages. Upskilling the existing workforce, or enabling an older, unemployed person to get back into the workforce, are valuable endeavours bringing benefits both to the individual and the economy as a whole. We are not seeking to reduce the apprenticeship opportunities available to older individuals or those already in work.
202. Similarly, non-one would wish for apprenticeships to become a ghettoised offering, taken only by those from disadvantaged backgrounds or who had not done well at school. That would not be the sign of a high-quality, prestigious qualification. We should welcome that demand for apprenticeships is high from all walks of life, a demonstration of the strong brand and employer value that is placed on apprenticeships.
203. Nevertheless, as we set out in *Performance of the Apprenticeship System*, the significant drop in the number of apprenticeships being taken by young people is seriously concerning, if we genuinely wish them to be a ladder of opportunity, a tool of social mobility and a genuine alternative to university. Nor can it be right that it is currently harder for a person from a disadvantaged background to do an apprenticeship than it is to go to university. We must also sweep aside the barriers that are preventing people from low income households taking up these opportunities. Case Study 4 sets out how one training provider, Corndel, is supporting individuals without previous experience in further or higher education into successful careers.

Case Study 4: Corndel

Corndel is a strategic skills partner addressing the growing skills gap by delivering high-impact, innovative apprenticeship programmes tailored to the needs of organisations and employees.

Corndel has worked closely with organisations to ensure its apprenticeship programme delivers transformative opportunities for young people, allowing them to develop successful careers in a diverse range of companies without the need to go to university.

To attract young people, Corndel partners directly with the UK's largest organisation, such as Adecco, Bupa, BP, Capita, John Lewis & UBS, to identify and engage early career talent. A critical success factor to successfully supporting diverse talent, especially for those without further or higher education experience, is ensuring an excellent and supportive learner experience from the first communication.

Since 2017, Corndel has delivered skills development programmes to 5,346 emerging managers with the Level 3 Diploma in Management. One such learner is Bethan Hickling, a senior administrator at leading construction and infrastructure services company Kier. Bethan's experience with the Level 3 Diploma in Management with Corndel highlights the professional impact that this programme has had on her career trajectory, especially as someone who did not go to university.



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"I think it's a great alternative to traditional university education and can really make a difference to people's careers. Going through the Corndel programme has been a great way for me to develop my skills and knowledge and to compete on a level playing field with colleagues who did go to university."

Corndel's programmes deliver a unique education model designed to support young talent through their apprenticeship. This involves bite-size learning modules designed to be flexible and accessible, allowing learners to progress at their own pace and achieve their goals in a supportive environment. At the heart of Corndel's apprenticeships is bespoke one-to-one coaching and workplace learning. Corndel's Professional Development Experts (PDEs) have an average of 17 years of industry experience in a leadership and management-related role.

Bethan was able to apply the knowledge and skills that she learned in the programme directly to her job, which not only helped her to perform better in her role but also gave her the confidence to take on new challenges.

"The programme has been a real game-changer for me and has opened up new opportunities that I wouldn't have had otherwise. It's definitely given me the confidence to take on new challenges and responsibilities. It's made me feel more confident in myself and my role within the business."

Bethan's story is a testament to the professional impact that this programme can have on someone's career. Whilst completing the Level 3 Diploma in Management, Bethan was promoted to a higher-level management position within her organisation. This promotion was not only a recognition of her hard work and dedication but also a validation of the skills and knowledge that she had gained through the programme.

- 204.** We have set out above two major recommendations for refocusing the apprenticeship programme on to young people: notably, a scheme to pay for backfill for young apprentices in SMEs, and a new role for Apprenticeship Hubs, focused on getting young people on to apprenticeships. In this section we will discuss further remedies to boost the participation of young people, particularly those from disadvantaged backgrounds.

5.1. Removing financial barriers

- 205.** Apprenticeship minimum wage is currently £5.28 an hour. At the minimum hours required to be considered a full time apprentice, 30 hours a week, this equates to an annual salary of £8236; at a more typical hours per week of 36 hours a week it would be £9,884¹⁷⁵.
- 206.** New polling of over 24,000 children by The Co-Op in partnership with Votes for Schools, and published for the first time in this report, reveals that 3 out of 5 respondents aged 11 to 16 thought that it was unfair for apprentices to be paid less than the minimum wage, with one respondent saying, ‘It’s impossible to live off the wage given, therefore students won’t be motivated to do apprenticeships.’¹⁷⁶
- 207.** That the minimum wage is inadequate can be clearly seen by comparing it to the student maintenance loan for those attending higher education¹⁷⁷. A student living alone away from their parents can, from this September access a maximum loan of £9,978 – above the earnings of an apprentice on the minimum wage. In London, this rises further to £13,022¹⁷⁸.
- 208.** Furthermore, this does not take into account that many students can, and do, earn additional money through part-time jobs or by working in the holidays¹⁷⁹ – something which is clearly much harder for an apprentice in a full-time job to do. The average earnings for a student is £422 a month¹⁸⁰, or £5304 a year - broadly equivalent to working an average of 15 hours a week on the minimum wage for an 18-20 year old¹⁸¹. Taking maintenance loans and part-time earnings into account, it can be seen that an HE student has more access to money to live on than an apprentice on minimum wage – making the former more accessible for those from low income households.
- 209.** In practice, many employers do pay above the minimum wage, but not all do.¹⁸² We recommend that the separate Apprenticeship minimum wage to be abolished, with minimum wages aligned with the national minimum wage for each age group, so that low wages do not prevent those from lower income households taking up opportunities.
- 210.** A further inequity is that, despite education being compulsory until the age of 18, if a young person aged 16-19 takes up an apprenticeship, their family loses child benefit – despite the fact that they would retain child benefit if that person was in schools, colleges, apprenticeship providers and learning providers.
- 211.** This is a clear and significant economic barrier being placed before lower income households that hinders their children from taking up apprenticeships at 16. At £1133 a year for the first child, and £751 for subsequently children, child benefit is a significant contribution to the income of many lower income families¹⁸³. Many apprentices of this age will still be living at home. To remove child benefit from the families of those taking apprenticeships – while retaining it for other education routes – is simply to say that these routes are not

175. <https://www.gov.uk/guidance/apprenticeship-funding-rules-for-employers/what-is-an-apprenticeship>

176. Polling by the Co-op and Votes for Schools, shared with Policy Exchange for this report.

177. The maintenance support for HE students has also been criticised as being inadequate; see for example here, <https://www.savethestudent.org/money/surveys/student-money-survey-2022-results.html> or statements by the Russell Group carried here <https://www.savethestudent.org/money/surveys/student-money-survey-2022-results.html>, amongst many others. The purpose of using it as a comparator is not to hold it up as a gold standard, but to demonstrate that the fact that apprentices are expected to subsist on less is clearly inequitable and unacceptable.

178. <https://www.gov.uk/student-finance/new-fulltime-students>

179. 62% of students have a part-time job. <https://www.savethestudent.org/money/surveys/student-money-survey-2022-results.html#earn>

180. Ibid

181. <https://www.gov.uk/national-minimum-wage-rates> Calculation by Policy Exchange.

182. Interviews carried out as part of this project.

183. <https://www.gov.uk/child-benefit/what-youll-get>

for those incomes.

- 212.** We recommend that the child benefit regulations should be amended so that parents of an apprenticeship aged 16-19 continue to receive child benefit, as they would if the child was at school or college, ending the unfair discrimination against those who have chosen a work-based training approach which dissuades those from poorer backgrounds from taking an apprenticeship. This would cost approximately £120m a year¹⁸⁴.
- 213.** On a similar basis to this, the fact that 16-19 apprenticeships are funded through the levy, rather than the 16-19 education budget, is an oddity which expects employers to pick up the tab for a period of compulsory education which would otherwise be paid for by the state. Whilst to some extent this is a question of labelling, it may have the impact of discouraging apprenticeships for this age group (which has dropped significantly since the introduction of the levy). For reasons of transparency and equity, it would be more appropriate for apprenticeships for this age group to be funded from the 16-19 education budget.
- 214.** A final challenge is around transport. The cost of getting from home to an employer, or from home to a college or training provider, may be significant, particularly for apprentices in rural areas, from low income backgrounds, or where the employer and training provider are a significant difference apart. This acts as another barrier to opportunity, particularly to those from lower income households.
- 215.** Some areas offer support for apprenticeships. For example, in London, apprentices in their first year of an apprenticeship are eligible for discounted travel¹⁸⁵. In addition to this, in the Liverpool City Region the Apprenticeship Travelcard is available to those aged between 19 and 24 who are enrolled on an approved apprenticeship. This enables young apprentices to travel on buses and trains across Merseyside for half price when buying weekly or monthly tickets.¹⁸⁶ Similarly, Kent County Council have launched the KCC 16+ Travel Saver, which covers up to 50% of the cost of bus travel to and from schools, colleges, learning providers and apprenticeship providers.¹⁸⁷
- 216.** Access to a place of employment and training can be a major barrier to taking up an apprenticeship. We therefore recommend that all Mayoral Combined Authorities offer free public transport to apprentices aged under 25, to facilitate equitable access to skills development.

5.2. Removing unnecessary academic barriers

English and Maths Requirements

- 217.** Apprenticeships are an anomaly in the education and training system in that, in addition to whatever requirements are incorporated within the standards, they require the apprentice to have passed Level 2 (GCSE-equivalent) English and Maths in order to achieve

184. Based on 126,000 apprentices aged 19 and below, and assuming that half are eldest children and half are not.

185. <https://tfl.gov.uk/fares/free-and-discounted-travel/apprentice-oyster-photocard>

186. [https://www.merseytravel.gov.uk/tickets-and-pricing/apprenticeships-\(19-24\)/](https://www.merseytravel.gov.uk/tickets-and-pricing/apprenticeships-(19-24)/)

187. <https://www.kent.gov.uk/education-and-children/schools/school-transport/16-travel-saver>

the qualification. In other words, an apprentice who has met all the occupational standards required can still fail if they cannot pass Level 2 English and Maths¹⁸⁸.

218. This is highly incongruous. If a person is taking an A-Level in History, we assess them on their command of English Literature – we do not say they cannot achieve that A-Level because they have not achieved Level 2 in Maths. Similarly, if a person is taking a university degree in Physics – perhaps at the Open University – we assess them on the standards required to pass that degree; if they pass, we do not deny them the degree in Physics because they have not achieved Level 2 in English.
219. This is also the case for more vocational qualifications, such as BTECs, Higher National Diplomas and other qualifications. In 2021, the Government removed the requirement to pass Level 2 English and Maths for T-Levels, recognising that the requirement was barring otherwise qualified individuals from developing valuable skills for future employment¹⁸⁹. Recognising the importance of English and Maths to future success, they required T-Level students who had not achieved Level 2 to continue studying towards it – as A-Level, BTEC and other students do in a school or a college – but removed the conditions of achieving it as a condition of passing the T-Level.
220. We have also heard concerns from some employers that the requirement acts as a barrier to older students doing apprenticeships who completed their schooling in another country. They have already achieved the equivalent of Level 2 English and Maths in their system – and sometimes much higher qualifications – and the requirement to take these again adds time, cost and burden to both the apprentice and the provider¹⁹⁰.
221. We recognise the vital importance of English and Maths. Some apprenticeships, such as engineering, also have a higher level of Maths requirements built into the standard. However, by creating this arbitrary requirement for all apprenticeships, we have ironically made a Level 3 or above apprenticeship harder, in this respect, to achieve than more traditional academic qualifications such as A-Levels. This cannot be right.
222. Approximately a third of young people fail to achieve both GCSE English and Maths.¹⁹¹ Many of these individuals are highly talented, with many strengths in other areas that would enable them to learn skills to make a productive contribution to the workforce. An apprenticeship should be an effective route to doing so. To bar an individual from taking a Level 3 Apprenticeship as a Hospitality Supervisor, Youth Worker, Domestic Electrician, Network Cable Installer, Advanced Beauty Therapist, Event Assistant or Workboat Crew Member – to name just a few of the host of opportunities at Level 3 is a senseless waste of talent and opportunity, at both the individual and societal level.
223. We do recognise that it is in the interests of younger apprenticeships

188. Apprentices must have achieved a Level 1 in English and Maths for Level 2 Apprenticeships, and a Level 2 for Level 3 Apprenticeships. There are some exceptions for apprentices with a diagnosed special educational need. <https://www.gov.uk/government/publications/english-and-maths-requirements-in-apprenticeship-standards-at-level-2-and-above>

189. <https://www.gov.uk/government/publications/introduction-of-t-levels/introduction-of-t-levels>

190. Interviews as a result of this project.

191. <https://inews.co.uk/news/education/gcse-results-day-2022-students-failed-achieve-english-maths-1814830>

in particular who have not yet achieved Level 2 English and Maths to continue studying them. However, we should not make achieving the level a condition of passing an apprenticeship.

- 224.** We therefore recommend that Government abolish the requirement to pass GCSE Level equivalent Maths and English to complete an apprenticeship, which is limiting opportunity for those who are not academically gifted. Apprentices under 21 who do not have this level in Maths and/or English should be required to continue to study towards core skills in maths and/or English and the Department for Education should develop a reshaped route to gaining these skills.

Annex A: Costings

The benefits of apprenticeships accrue to business, individuals and the wider economy. Levy funding should be a contribution to the system, not a ceiling to ambition. Government must recognise the need to intervene to address market failures and support economically valuable apprenticeships in subjects, or for groups of people, that are not taking place under the current, purely market driven, approach.

The levy is an important funding contribution to our skills system – but it should not cap the number or quality of apprenticeships that are funded by Government. This should be determined separately, on the basis of need, value and affordability – in the same way as other education and training budgets. It should not treat the levy as a cap on aspiration, but should instead ensure that funding is in place and sensitively allocated to effectively address market failures and deliver the desired results.

We have set out the static costs of the recommendations in the table below. Unless otherwise stated, these are based on the 2021-22 financial year with regards to the sums raised by the Apprenticeship Levy and the 2021-22 full year data on apprenticeship starts.

The dynamic costs of the reforms will be complex. On the one hand, if SME hubs lead to more apprenticeships being delivered this will have a direct impact on costs; however, if more young people take an apprenticeship rather than going to university, this would be likely to lead to savings.

Recommendation	Annual Cost
Allow up to 25% of levy to be spent on other high quality employer-relevant skills training that relates to occupational standards	£380m ⁱ
Levy payers should be able to draw down £1000 for each T-Level placement they provide. SMEs to also be funded £1000 for each T-Level placement provided	£50m ⁱⁱ
SME Hubs should be established, at FE Colleges, Training Providers, Universities or Business Groups such as Chambers of Commerce to support SMEs accessing apprenticeships.	£50m ⁱⁱⁱ
Provide SMEs with a contribution of £2,500 to fund the 'off-the-job' training hours for apprentices under 25, with an additional £500 achievement premium for completion.	£260m ^{iv}
IFATE should commission new apprenticeship standards in areas of high employer demand, particularly from SMEs	£10m ^v
The child benefit regulations should be amended so that parents of an apprenticeship aged 16-19 continue to receive child benefit.	£120m ^{vi,vii}
Moving 16-19 apprenticeship funding to 16 – 19 budget	- £550m ^{viii}

SUM RAISED BY APPRENTICESHIP LEVY (2021-22)	£3,210m
APPRENTICE BUDGET + BARNETT CONSEQUENTIALS (2021-22)	£2,930m
UNDERSPEND	£280m
TOTAL NET IMPACT OF REFORMS ON APPRENTICESHIP BUDGET	+ £100m
TOTAL NET IMPACT OF REFORMS ON PUBLIC SPENDING	+ £770m

i. Based on the total funds raised by the levy in 2021-22 being £3.2bn and employers using half the flexibility available to them.

ii. In September 2022, there were just over 10,000 T-Level starts. There is no formal T-Level target, though the Government has said there is funding available for ‘up to 100,000’. This assumes a maximum of half that amount being reached.

iii. Based on 100 hubs each receiving £500,000.

iv. In 2021-22, there were 87,500 apprenticeship starts at SMEs by individuals under 25.

v. To fund development.

vi. Based on there being 77,520 starts by under 19 year olds in 2021-22.

vii. This funding would not come from the Apprenticeship Budget

viii. Based on there being 77,520 starts by under 19 year olds in 2021-22 and using the median cost of an apprenticeship as £7058. We have used the median rather than the mean to reflect the fact that younger apprentices are likely to be on lower cost apprenticeships.

These reforms are affordable within the current funding raised by the levy. In terms of total Government spending, including all costs (such as the change in child benefit rules) it would see total spending of approximately £500m in addition to the £3.2bn raised by the levy.

This subsidy to address market failures would represent approximately 16% of the levy funds – a level of subsidy that is significantly lower than the subsidy provided to Higher Education in terms of loan write-offs and grant payments. We consider this is a proportionate and affordable amount of taxpayer funding to deliver an apprenticeship system that works for employers, learners and society.

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- **Claire Bolton**, Group Emerging Talent and Professional Development Manager, Capita
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Policy Exchange
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