

# THE FUTURE OF THE APPRENTICESHIP LEVY

---

RAISING PRODUCTIVITY AND  
DELIVERING ECONOMIC GROWTH



# FOREWORD & CONTENTS



## Contents

1. Introduction .....	04
2. Apprenticeship Policy and The Apprenticeship Levy – A Success? .....	05
2.1. The Government’s Vision for Apprenticeships .....	07
2.2. The Apprenticeship Levy and Criticisms of the Apprenticeship Reforms .....	12
2.3. Apprenticeships and the Productivity Agenda .....	18
3. The Apprenticeship Levy, Post-16 Education and Training and Fiscal Policy – Synergy or Confusion? .....	20
3.1. The Lifelong Loan Entitlement .....	21
3.2. Employers and the LLE and the Contrast with the Apprenticeship Levy .....	23
3.3. The Need to Agree the Respective Financial Contributions of Government, Individuals and Employers to Post-16 Education and Training .....	24
4. The Case for Future Reform of the Apprenticeship Levy .....	25
4.1. The Case against Replacing the Apprenticeship Levy with a Skills Levy .....	27
5. The Example of Management Training .....	29
6. Conclusions and Recommendations .....	32

## Foreword

Perhaps more public discussion and debate has been generated about apprenticeships than any other aspect of national skills policy. This is both a blessing and curse.

The blessing comes from the speed with which the respect for apprenticeships has grown. A recent poll for the Times Education Commission found that parents on average have a greater preference for apprenticeships over degrees. Parity of esteem for vocational and technical learning compared to academic qualifications has been seen by many as a holy grail of post-16 learning. In the case of apprenticeships that may have been achieved. Indeed, the target may have been overshot.

The curse is that the apprenticeship system is now burdened with heavy expectations. This has in turn drawn criticism. Our report engages with these concerns and explores how to improve the system. It should be noted, however, that apprenticeships are often discussed as if they were the whole of the technical and vocational education system when they are, in fact, one part.

The English Model of Apprenticeships serves as an all ages, all levels, standards-centric, employer funded and steered pillar of the wider skills landscape. Apprenticeships are not designed to meet all of our skills needs and nor can they. Wider public and private investment in creating a skilled workforce at all ages - which is too low by international standards - needs to be seen alongside apprenticeships. As part of this wider system, apprenticeships are proving significant value and making a huge difference to employers and apprentices and to the economy and public services more widely.

CMI is the chartered professional body for management and leadership. We exist to support the development of managers capable of improving organisational performance, widening opportunity, and developing the businesses and public services of the future. The apprenticeship system has made a fundamental contribution in advancing these goals. They are of national importance as we face economic volatility, climate change and an uncertain future for our public services. Skilled management is a central component of rising to the needs of the time and apprenticeships have provided one of the biggest opportunities to drive management capability since our inception in 1947.

As the Government takes stock on the future of apprenticeships as announced in the Spring Statement 2022, there is much that we risk sacrificing should reforms upend a system still settling into place following major reforms and a pandemic.

Like many others, not least those employers with the deepest experience of offering apprenticeships, we have come to the conclusion that what is required is improvement rather than 'fixing'. To radically change course just as the system is gathering force and impact would be a mistake; especially given wider stresses in the economy and within public services. We look forward to continuing our work with policy-makers, employers, and our training provider and university partners to secure the system improvement we need.

**Anthony Painter**  
**Director of Policy and External Affairs**  
CMI

# 1. INTRODUCTION

This report provides a brief analysis of Apprenticeship Levy policy; past and current apprenticeships policy; related skills, education, funding and fiscal policies; and skills challenges and opportunities facing the UK economy and society. The report focuses on whether the Apprenticeship Levy and Apprenticeship Reforms have delivered the Government's objectives, if they can be regarded as a success and what, if any, changes are needed in the future. This paper argues that the Apprenticeship Levy should not be replaced but some reform would support it to become more effective.

Apprenticeships and skills policy is a devolved matter. While the Apprenticeship Levy is applied UK-wide, the devolved nations have adopted different approaches to the use of Levy funds. As such, this report focuses entirely on England.



## 2. APPRENTICESHIP POLICY AND THE APPRENTICESHIP LEVY – A SUCCESS?

**Apprenticeship Definition** – An apprenticeship is a paid job with an accompanying skills development programme. This includes the training for an employee as part of a job, which must have a minimum duration of 12 months and include off-the-job training.<sup>1</sup> Apprenticeships are not just a learning programme, but an approach to workforce development and enhancing business performance.

### Apprenticeship Levy summary

- **Introduction** – The Apprenticeship Levy was introduced in April 2017.
- **Scope** – The Apprenticeship Levy is paid by employers with a pay bill of over £3m. Employers pay 0.5% of their pay bill in Levy, less £15,000.
- **Proportion of Employers Paying the Apprenticeship Levy** – Approximately 2% of employers pay the Apprenticeship Levy.
- **Government Use of Levy** – The Apprenticeship Levy is used to fund Apprenticeships for all employers, Levy-paying employers **AND** the smaller employers that do not pay the Apprenticeship Levy.
- **Smaller Employers and the Apprenticeship Levy** – Employers with pay bills of less than £3m can use Apprenticeships funded through the Levy. Non-Levy-paying employers pay 5% of the cost of the Apprenticeship (training and End-Point Assessment) and Government pays the remainder.
- **Expiry of Apprenticeship Levy Payments** – Levy-paying employers have 24 months to use the funds they pay in Levy once they enter their Apprenticeship Service Accounts.
- **Levy Transfers** – Levy-paying employers can transfer up to 25% of their Levy funds to other employers.

## The Apprenticeship Reforms

Following on from the 2012 Richard Report<sup>2</sup>, Government introduced a series of Apprenticeship Reforms. Prior to this, apprenticeships had been based on frameworks. Since the introduction of Modern Apprenticeships in the mid-1990s, apprenticeship frameworks were developed by intermediary organisations, Industrial Training Organisations (ITOs), then National Training Organisations (NTOs) and, finally, Sector Skills Councils (SSCs). These ‘framework-based’ apprenticeships were predominantly focused on Level 2 and Level 3 roles and heavily focused on continuous assessment.

The Apprenticeship Reforms fundamentally changed the focus of apprenticeships and the apprenticeship system. Through the so-called ‘Trailblazer Process’, employers are working together to develop apprenticeship standards for the occupations their organisations and sectors need. Apprenticeship standards define the knowledge, skills, and behaviours (KSBs) required to be occupationally competent. Occupational competence is then tested through End-point Assessment, which ensures an individual has achieved the knowledge, skills and behaviours set out in the apprenticeship standard. One of the major criticisms of framework-based apprenticeships and their focus on continual assessment was that an individual was frequently not occupationally competent when the programme was completed.

The new, employer-led approach to apprenticeships was described by the Secretaries of State for Education and Business, Innovation and Skills in the following terms:

*‘Nobody understands the skills employers need better than employers themselves. That is why we are placing them in the driving seat. They are designing the apprenticeships so that they focus on exactly the skills, knowledge and behaviours that are required in the workforce of the future. A Levy will put employers at the heart of paying for and choosing apprenticeship training and place the funding of apprenticeships on a sustainable footing. Employers will choose between high-quality education and training providers or be able to train their apprentices themselves.’*

Rt Hon Savid Javid, Secretary of State for Business, Innovation and Skills and Rt Hon Nicky Morgan, Secretary of State for Education.<sup>3</sup>

## 2.1 THE GOVERNMENT'S VISION FOR APPRENTICESHIPS

To understand whether the Apprenticeship Levy and wider Apprenticeship Reforms have been a success it's important to understand the Government's vision for apprenticeships and the objectives for the programme.

In 2015, Government set out its vision for apprenticeships in 2020 as:<sup>4</sup>

- All apprenticeships will provide substantive training in a professional or technical route, transferable skills and competency in English and maths for all ages.
- Apprenticeships will be an attractive offer that young people and adults aspire to go into, as a high-quality and prestigious path to a successful career.
- Apprenticeships will be available across all sectors of the economy and at all levels, including degree level.
- Every apprenticeship will be a high-quality opportunity that delivers the skills, knowledge and behaviours that employers are looking for.

Looking at the evidence, by 2020/21 apprenticeship delivery was largely in line with the Government's vision.

### **'Objective 1' - Professional and Technical Coverage**

Prior to the Apprenticeship Reforms many Level 2 apprenticeships were not good enough and employers needed skills at a higher level. Apprenticeships have shifted from being dominated by Level 2 provision to technical level (Level 3, 4 and 5) and professional level (Level 6 and 7) programmes:

- Apprenticeships are now available<sup>5</sup> in most key occupations at Level 6 (119 apprenticeship standards are listed as having been developed) including registered nurse, social worker, data scientist, teacher, civil engineer and aerospace engineer.
- At Level 7 a wide range of standards have been developed (over 70 are listed at the time of writing) including apprenticeship standards for clinical scientists, artificial intelligence (AI) data specialist, ecologist, architect, systems engineer and doctor, regulated by the General Medical Council.
- Degree Apprenticeships are available in approximately 100 occupations at Level 4 and Level 5 (174 standards are listed as having been developed), including apprenticeship standards for actuarial technician, air traffic controller, insurance professional, learning and skills teacher, marine pilot, and nursing associate.

This shift upward is a positive one for businesses and the wider UK economy, even though in the immediate term the numbers for intermediate apprenticeships (Level 2) have declined. The decline in apprenticeship starts at Level 2 has mostly been in broad occupational areas such as customer service, business administration and retail – areas that tended to be most adversely impacted by the pandemic. This largely explains the fall in Level 2 apprenticeships between 2019/20 and 2020/21. The number of apprenticeships in key craft and trade occupations such as plasterer, roofer, production chef and baker have remained constant.

In total since 2015, 171 Apprenticeship standards have been developed for roles at Level 2.

Figure 1 – Apprenticeship Starts by Level in 2016/17, 2019/20 and 2020/21<sup>6</sup>

	2016/17	%	2019/20	%	2020/21	%
Intermediate (Level 2) Apprenticeships	260,700	53	99,200	31	84,200	26
Advanced (Level 3) Apprenticeships	197,700	40	140,800	44	138,500	43
Higher (Level 4 – 7) Apprenticeships including Degree Apprenticeships	36,600	7	82,500	26	98,800	31
<b>Total</b>	<b>495,000</b>		<b>322,500</b>		<b>321,500</b>	

As Figure 1 illustrates, in 2016/17, Level 2 starts accounted for 53% of all apprenticeship starts, falling to 26% of all starts in 2020/21.<sup>7</sup>

### **‘Objective 2’ - An Attractive and Aspirational Offer**

Apprenticeships in 2022 are undoubtedly a more attractive and aspirational offer than before the Apprenticeship Reforms and introduction of the Apprenticeship Levy. Some Degree Apprenticeships are considered among the most aspirational options, with programmes offered by companies such as Visa, PwC and Jaguar Land Rover. Over 100 UK universities have been approved by the Education and Skills Funding Agency (ESFA) to deliver apprenticeship provision, including more than half of English-based members of the Russell Group including the University of Cambridge. As of 31 August 2021 there were 87 Higher Education Institutions delivering apprenticeships.<sup>8</sup> Contrast this with before the reforms where, as the Resolution Foundation highlights, DfE evaluations show ‘half of apprenticeships lasted fewer than 12 months, four in 10 apprentices reported receiving less than five hours of training per week, and one in five said that they had received no formal training at all’.<sup>9</sup>

Indeed, the University Vocational Awards Council (UVAC) has argued that, when combined, the Apprenticeship Levy, apprenticeship reforms and introduction of Degree Apprenticeships have arguably made more impact on achieving academic and vocational parity of esteem than any other education policy in the last 50 years. A survey by YouGov for The Times Education Commission found 45% of people believed apprenticeships offered the best preparation for life, with only 4% saying the same about degrees. A further 44% viewed both equally.<sup>10</sup> This is a stunning outcome given vocational and technical education has for a long time been considered the poor relative of the higher education system.



A Degree Apprenticeship, launched by the Westminster Government in 2015 as the flagship programme of the Apprenticeship Reforms, represents the best of both worlds: the combination of academic and vocational learning; a degree and an apprenticeship. Achieving parity does not mean 'the same'. Rather it is recognition that they are a different route to achieving high-level skills and these differences must be celebrated and promoted, despite a number of apprenticeships having become such aspirational programmes that some have raised concerns over a perceived 'middle class grab' of apprenticeship places at higher levels.<sup>11</sup>

Interestingly, although highly aspirational programmes, the data on usage and take-up of Degree Apprenticeships by individuals from different socio-economic backgrounds is not systematically collected and so the picture is incomplete.

- A recent Sutton Trust study<sup>13</sup> found families in Education Investment Areas (EIAs) were more likely to say they wanted their children to start a Degree Apprenticeship (25%) than respondents in England as a whole (17%).
- Middlesex University, in their 2022 report, sees clear evidence that Higher and Degree Apprenticeships are attracting a diverse cohort of learners. 53% of their apprentices are female, 47% are from BAME<sup>14</sup> groups and 72% are aged over 25 years. Retention rates are also high – 93% overall. Most impressive is that the 'Move on Up?' study found 66% of more than 1,000 apprentice students surveyed at Middlesex came from a background where both parents did not have degrees, so were first in their family to enter higher education (HE).
- Data available from CMI shows Management Degree Apprenticeships tell a positive social mobility story:<sup>15</sup>
  - 3 67% of Chartered Manager Degree Apprentice (CMDA - Level 6) and 63% of Senior Leader Management Degree Apprentice (SLMDA - Level 7) completers were from the 50% most deprived areas.
  - 3 41% of CMDA and 32% of SLMDA were from lower socio-economic backgrounds.
  - 3 78% of CMDA and 63% of SLMDA said neither of their parents went to university.<sup>16</sup>
- The Police Constable Degree Apprenticeship, which is being used as a key way to support the professionalisation of police recruitment, is having a significant impact on improving workforce diversity. Sussex Police, for example,<sup>17</sup> reported that the Police Constable Degree Apprenticeship resulted in a 114% increase in applicants from women and a 118% increase from those identifying as BME, thereby better representing the communities they serve.

## Have Apprenticeship Numbers Plunged Since the Start of the Apprenticeship Levy?

Critics of the Apprenticeship Levy frequently emphasise the decline in apprenticeship numbers since the introduction of the Apprenticeship Levy.

But these numbers only tell part of the story. The new standards-based apprenticeship system is much higher quality and developed by employers, who have identified there is a genuine economic and skills need. In 2018/19, 63% of apprenticeships were standards-based.

The new system has also brought renewed funding. Prior to the Apprenticeship Levy in 2010/11, £1.25bn<sup>19</sup> was spent by government on apprenticeship provision. With the Apprenticeship Levy, thanks to the shared contribution from both Levy-payers and government, the apprenticeship budget increased to £2.5bn, representing double what was spent in 2010/11 in cash terms. This has implications for improving vital public services, as well as private sector productivity. As Lucy Hunte, apprenticeships manager at Health Education England (HEE), put it at the Inside Government Apprenticeships Conference: the Levy provides a ring-fenced budget for professional development and, particularly within the public sector, these are usually the budgets that are first to be targeted for cuts.<sup>20</sup>

### **‘Objective 3’ - Availability Across all Sectors of the Economy and at all Levels, including Degree Level**

In 2022, apprenticeships are available at all skill levels from Level 2 to Level 7, creating pathways from craft and trade to technical, associate professional and managerial job roles and routes to the professions. There are currently Level 2 apprenticeships available in 171 occupations and in 2020/21 there were 41,500 Level 2 starts, representing 26% of all apprenticeship enrolments (see Figure 1).

With the introduction of the Levy there has been an increase in apprenticeship participation at higher levels. This reflects the skills needed in a high-skill, high-innovation economy like the UK. Apprenticeships are also being used across a wider range of employers and sectors than before the introduction of the Apprenticeship Levy and Apprenticeship Reforms. Apprenticeships are, for example, now far more extensively used across the public sector for key priority areas of the UK economy and society (police officer, nursing associate, registered nurse, healthcare and adult social care professionals, social work) and in the private sector (business, advanced engineering, data, cyber security).

Some sectors have not benefited as much as others from the Apprenticeship Levy. Take the creative sector, for example, which has struggled to engage with apprenticeships. The Government, through the ESFA, is introducing new Flexi-Job Apprenticeships<sup>21</sup> that should support employers and individuals in sectors where the use of apprenticeships has been very limited and where few sector employers (and their new and existing employees) have benefited from the programme. It should be noted, however, that the limited use

of apprenticeships in the creative sector does not relate to the Apprenticeship Levy or Apprenticeship Reforms as such. An apprenticeship is a job with training and the individual must be employed. This has caused problems for sectors such as the creative industries where freelancing and short-term contracts are dominant forms of work.

New Flexi-Job Apprenticeships are being introduced with the support of Government. They are offered to employers in two ways:

Through the involvement of a Flexi-Job Apprenticeship Agency. Here, the agency employs the apprentice for the duration of their apprenticeship and organises placements with 'host' businesses.

Using a 'Portable' Flexi-Job Apprenticeship. Here, an apprentice is able to secure multiple, short-term employment contracts with businesses that support apprenticeship requirements. With the support of a training provider the '*learner takes their learning and progress with them as they move between employment contracts.*'<sup>22</sup>

Flexi-Job Apprenticeships together with the Levy Transfer system, where Levy-paying employers can transfer up to 25% of their payments, are examples of how Government is helping employers in different sectors and of different sizes benefit from apprenticeships and the Apprenticeship Levy. It will be important to monitor the success of this policy over time.

#### **'Objective 4' - Apprenticeships deliver the skills, knowledge and behaviours that employers need for specific occupations**

In 2022, all apprenticeships that are delivered are based on apprenticeship standards developed by employers, which set out the knowledge, skills and behaviours (KSBs) required to be occupationally competent. The Institute for Apprenticeships and Technical Education (IfATE) Trailblazer Process is designed to ensure that employers are collectively engaged in the development process and that employers play a key role in identifying the apprenticeships their organisation or sector needs. End-point Assessment, a requirement of all apprenticeships, tests the apprentice against the KSBs outlined in the relevant apprenticeship standard to ensure they are occupationally competent.

## 2.2 THE APPRENTICESHIP LEVY AND CRITICISMS OF THE APPRENTICESHIP REFORMS

It's important to note that the apprenticeship system is not the same thing as the Apprenticeship Levy. The Apprenticeship Levy was introduced in April 2017. All organisations, regardless of sector, pay the Apprenticeship Levy if they have an annual pay bill of over £3 million. The Apprenticeship Levy was introduced to deliver a step change in apprenticeship numbers and quality by putting apprenticeship funding in the hands of employers. It is also important to note that Chancellor George Osborne<sup>23</sup> introduced the Levy *'to help ensure big business shoulders the cost of training workers'*.

Prior to the Apprenticeship Levy, the Skills Funding Agency (SFA) – the predecessor of the ESFA – provided allocations of funding to deliver apprenticeships to approved training organisations that had successfully applied to the Agency's Register of Training Organisations (RoTO). Most approved training organisations were Independent Training Organisations. In 2015, general further education (GFE) colleges on average had 27% of their Adult Skills Budget (ASB) allocated to apprenticeships, compared with 60% at other providers.<sup>24</sup> These approved training providers offered apprenticeships – the majority at Level 2 – with most of the remainder at Level 3.

In introducing the Apprenticeship Levy, George Osborne made clear: *'It's a huge reform to raise the skills of the nation and address one of the enduring weaknesses of the British economy.'*<sup>25</sup>

The introduction of the Apprenticeship Levy coincided with significant changes in the design, development, and operation of the apprenticeship system – the Apprenticeship Reforms. Giving employers more control over apprenticeships was designed as compensation for the investment of Levy-paying organisations. Even so, there was significant business opposition when the introduction of the Apprenticeship Levy was announced in 2015.

The Confederation of British Industry (CBI) said it was a significant extra tax for businesses that would impact on many smaller companies and was a sting in the tail. The Institute of Directors (IoD) said the Levy *'would be a big cost for many companies'*. CMI was rather alone in its response: *'If businesses want a skilled workforce, then it's only right that they pay for it.'*<sup>26</sup> Positions have not changed significantly since the introduction of the Apprenticeship Levy, as business organisations typically remain opposed to it, at least in its current operation and focus. Criticisms tend to focus on the decline in take-up by young people and those not already in the workplace; lack of take-up within SMEs; and 'deadweight', i.e. whether the apprenticeship covers additional training that would have happened without this policy intervention.

## Decline in Apprenticeship Take-Up by Young People and Increase in Use by Adults

There is understandable concern that young people – especially disadvantaged young people – may be missing out on apprenticeship opportunities as a result of changes to the apprenticeship system. However, it is not clear that restricting what apprenticeships employers can use would effectively address this challenge.

Young people with limited work experience and people from underserved backgrounds bring significant complexities – for both the employer and the education provider – when not enough is done to provide the right support pre- and on-programme. Better support and incentives are needed in the system to reduce this risk and ensure it is not a barrier to participation and success. What if the Levy transfer system were made available for this purpose? Rather than transferring Levy funds along supply chains or from business to business, why not place it in a pot to support upskilling, building capacity in businesses to support those from disadvantaged backgrounds and make reasonable adjustments?

Apprentices are also meant to be a productivity-enhancing policy intervention. Seen through a productivity lens, does it make economic sense for employers to be required to fund what effectively is compulsory education for 16–18-year-olds, when the two other mainstream options – A-Levels (and Applied Generals) and T-Levels – are funded through general taxation? UVAC along with Association of Employment and Learning Providers (AELP) and the Association of Colleges (AoC) has continually called for apprenticeships for 16–18-year-olds not to be funded through the Apprenticeship Levy and to be funded from the same budget as A-Levels and T-Levels.

**Although there have been and are undoubtedly some operational issues that have acted as barriers to the use of apprenticeships for young people, most of these issues are concerned with the apprenticeship system rather than the Apprenticeship Levy.** The fact that SMEs have struggled to engage with the new, more rigorous apprenticeship system is a particular problem because SMEs tend to employ younger people. Much of this is due to capacity constraints – a lack of time, knowledge and resources to navigate the system.

### Lack of take-up in SMEs

#### **Financing**

The requirement for non-Levy-payers to initially make a 10% (subsequently 5%) financial contribution to the cost of an apprenticeship has been highlighted by some as having a detrimental impact on the use of apprenticeships for young people by non-Levy paying employers. But this is still a huge – 95% – subsidy on high-quality training. This contribution may even make businesses better consumers of training because it forces them to engage more in what they are buying. A key policy objective of the Apprenticeship Levy was, of course, to increase employer investment in the training and development of their employees. Rather than focus on the financial contribution alone, what support is there for SMEs to overcome the additional costs they face in engaging with the apprenticeship system, such as supervision requirements within the business, the loss of the individual to off-site training time or bureaucracy? Models such as the London Progression Collaboration show what can be achieved when an effective support and brokerage system is put in place.<sup>27</sup>

## Capacity constraints

For many small businesses the 'off the job' requirement represents a major barrier to the use of apprenticeships. While flexibilities in the use of 'off the job' training – such as changing the 20% to a minimum of 6 hours per week – make sense, 'off the job' training is an essential component of a high-quality apprenticeship system that should not be diluted. This is even more the case for a 16–18-year-old apprentice who needs a broad base of learning to support progression and to develop transferable skills for their future working life.

## Processes and bureaucracy

During this research, we also heard from businesses that they would love to hire younger people, but they simply do not apply. This is supported by evidence from the Open University and British Chambers of Commerce, who found that nearly a fifth (16%) of organisations said there was a 'lack of apprentices applying'.<sup>28</sup> Public policy should absolutely be looking at how to create more pathways into Level 4 skilled occupations and training, but this should not necessarily be through the Apprenticeship Levy. It's essential to consider how to boost traineeships, T-levels, higher technical education and business capacity to engage with all these programmes, especially within SMEs, to create more opportunities and progression pathways across the board.

Streamlining the system and increasing business–education collaboration is a better way to address this challenge than through tweaks to the Levy, which would influence the overall pot of funding available for training.

## The Charge of 'Deadweight'

A further criticism of the Apprenticeship Levy is that employers have used Levy payments to fund the training of individuals they would have trained regardless. Undoubtedly, some employers have used Levy funds to train individuals in this way, although the extent of this use remains under-researched. Although more research is needed, there is already a wealth of anecdotal evidence from employers, training providers and learners that the Apprenticeship Reforms and development of these high-quality courses have created new routes and allowed take-up that would not otherwise have happened – both from existing employees and new hires.

In establishing apprenticeship standards, IfATE has worked with hundreds of employers to ensure the learning is rigorous and delivers the knowledge, skills and behaviours that those employers need. From a productivity perspective it is understandable that employers are increasingly focused on the existing workforce; those entering the workforce for the first time in any one year represent a very small proportion of the total workforce. The Industrial Strategy Council found that four in five of the UK's 2030 workforce are already in employment, with millions facing acute under-skilling in digital, management and STEM.<sup>29</sup> A 25- or 30-year-old is likely to have a 40-year working life in front of them and individuals are likely to change occupation several times during their working life. Analysis has suggested that virtually every UK worker will need reskilling, with around 94% of the workforce lacking the full suite of skills they will require in 2030 to perform their jobs well.<sup>30</sup>

It is also important to note that the Apprenticeship Levy was introduced in part because employers were not investing enough in the training and development of their employees. To criticise 'good' employers who had, prior to the Levy, invested in training their staff and then use the Levy to continue to invest in their staff, if such training is recognised as an Apprenticeship by the IfATE and ESFA, seems counter-productive.

### **Skills Gaps and Skills Shortages**

The Apprenticeship Reforms and introduction of the Apprenticeship Levy has seen Apprenticeships become far more focused on skills gaps and shortages evident in the UK economy. It is surprising that Government has not undertaken or commissioned a systematic study of how the Apprenticeship Levy, combined with the Apprenticeship Reforms, have refocused apprenticeship provision on skills gaps and skills shortages. IfATE could usefully undertake analysis in this area and indeed highlight how employers could utilise apprenticeships in future to help tackle skills gaps and shortages.

It is, however, worth noting:

- Nursing Associate/Registered Nurse/Healthcare Professionals – A recent report by the Health and Social Care Select Committee found that the NHS is facing the worst staffing crisis in its history. With the Committee Chair, Rt Hon Jeremy Hunt MP, saying 'Persistent understaffing in the NHS poses a serious risk to staff and patient safety, a situation compounded by the absence of a long-term plan by the government to tackle it.'<sup>31</sup> In 2020, the Royal College of Nursing reported that there were 40,000 nurse vacancies in England.<sup>32</sup> Additionally, one in three nurses were due to retire in the next decade. Apprenticeships for nursing associate (Level 5) and registered nurse (Level 6) are helping NHS Trusts use their Levy payments to recruit and train the nurses they need.
- Police Constable – In 2019, the Home Office announced a drive to increase the number of police officers by 20,000 over the next 3 years.<sup>33</sup> The Police Constable Degree Apprenticeship (PCDA) is a core component of many police forces' approach to recruiting new police constables and meeting this target.
- Net Zero – In 2020, the National Grid reported that 260,000 new roles are required to fill the net zero workforce by 2050.<sup>34</sup> The IfATE has focused on ensuring apprenticeship standards support the net zero and green jobs agenda.
- Leadership and Management – Among CMI management apprenticeship data, 32% of management apprentices had a role that was either in health and adult social care, a green role, and/or a STEM role.

### **Higher vs Lower-Level Apprenticeships**

Linked to the Apprenticeship Reforms has been the introduction and growth of Degree Apprenticeships. Apprenticeships (at Level 6 and 7) were introduced in 2013, when the Specification for Apprenticeship Standards for England (SASE) was revised to encompass the inclusion of degrees (bachelor's and master's degrees) in apprenticeship frameworks. Degree Apprenticeships were formally launched by Government as its 'flagship' apprenticeship programme in 2015.

In addition to the aspiration point made above, Degree Apprenticeships address the need in an advanced economy such as the UK for higher-level skills. This is very much needed, as the Institute for Fiscal Studies (IFS) recently highlighted: research found that UK adults are almost half as likely as German adults, and a quarter as likely as American adults, to start an advanced vocational qualification.<sup>35</sup> Research from Universities UK found that the majority (89%) of employers agreed that degrees make apprentices future-ready, equipping them with transferable knowledge and 'soft skills', which are vital to remain agile, adaptable and competitive in a rapidly transforming economy.<sup>36</sup> Some organisations have campaigned to restrict the ability of employers to spend Apprenticeship Levy funds on Degree Apprenticeships in order to prioritise lower-level apprenticeships. But opposition to degrees seems ideological rather than based on evidence. If the need for skills is clear, why should it be a problem that it is met with an apprenticeship that also confers a degree? Restricting the use of the degree will likely dramatically impact take-up. The removal of the degree from the SLMDA, for example, has seen a 79% decline in new starts.<sup>37</sup> This adversely impacts availability for SMEs and people from disadvantaged backgrounds as much as it impacts big business.

### **The History Of The Levy**

When the Apprenticeship Levy was introduced, the messaging was not particularly helpful. It was communicated that a business could get more Levy funds back to fund apprenticeships than they paid in. Theoretically, this was correct. As part of the operation of the Apprenticeship Service, Government provided a 10% top-up into the apprenticeship accounts of Levy-paying employers. Even if an organisation spent more than the 110% of monies they paid in Levy, they would still receive a 90% Government contribution towards the cost of any additional apprenticeships they used, which is the same approach adopted for non-Levy-paying employers.

Business groups were rightly suspicious of this argument. IoD Director General Simon Walker<sup>38</sup> noted '*Firms have been promised they will get more back than they put in, but it's not clear how this will happen if so much is being lost to bureaucracy*'.

There were several problems with the argument that Levy-payers would get more back than they paid in. The first was that the apprenticeship system, as a whole, relied on under-spend by Levy-paying employers to fund apprenticeships for smaller non-Levy-paying employers. That is, Government needed Levy-payers to spend substantially less on apprenticeships than the Apprenticeship Levy payments they made. Secondly, in many cases, the Trailblazer Process initially proved very bureaucratic with a lengthy timetable for, and frequent delays in, the development and approval of apprenticeship standards and End-point Assessment plans. This meant that many of the new apprenticeships that employers wanted to use were not available, and consequently employers often could not spend Levy payments on the apprenticeships they wanted.



Rather than getting more back than they put in, virtually every Levy-paying employer ended up spending substantially less on apprenticeships than they paid in Apprenticeship Levy. Indeed, the London Progression Collaboration has found that more than £3.3bn of employer Levy contributions have been returned to the UK Treasury since 2019.<sup>39</sup> Following representations, the Government agreed at the time that the Apprenticeship Levy was introduced to extend the period in which Levy funds would remain in Levy-payers accounts from 18 months to 24 months. The IfATE, under its 'Faster and Better'<sup>40</sup> initiative, also revised the apprenticeship standards development and approvals process to remove bottlenecks and increase the number of apprenticeships available. While of some help, the system was still based on the need for Levy-paying employers to pay more in Levy than they spent on apprenticeships.

### **The Levy and SMEs/ Non-Levy-paying Employers**

Since the introduction of Modern Apprenticeships in the mid-1990s, SMEs have made significant and disproportionate use of apprenticeships in comparison to large employers. This was particularly the case in traditional sectors such as construction, health and engineering and those jobs long associated with apprenticeships such as hairdressing, catering and hospitality and business administration.

The Apprenticeship Reforms, and more specifically the Apprenticeship Levy, disrupted this model. Larger employers were encouraged to see the Levy in their apprenticeship accounts as their own funds to train the new and existing employees that their organisations needed. Government even introduced compulsion in the public sector, with large public sector organisations required to have apprentices equating to 2.3% or more of their workforce.<sup>41</sup>

Although the then Business Department (BIS) – later IfATE – implemented rules to ensure small businesses could engage with the new Trailblazer apprenticeship system, SMEs often struggled with the time commitments expected of them. At the same time, failures in the design of the tender process skewed the market in favour of Levy-paying employers; rather than opening up the market to more SMEs, the SFA mostly renewed the contracts of its existing suppliers of apprenticeships, which overwhelmingly focused on Levels 2 and 3. This had two effects:

1. It made it difficult for SMEs to use many of the new, higher-level apprenticeships;
2. New providers – particularly universities – had to focus on Levy-paying employers.

Subsequent ESFA procurement did enable new providers, including HEIs, to enter the SME market, and all employers are now able to purchase apprenticeships through the Apprenticeship Service, opening up access significantly.

It is understandable in this context, however, why many SMEs, representative organisations such as the Federation of Small Businesses (FSB) and representatives of provider organisations with a heavy focus on SMEs, such as AELP, have been critical of the Apprenticeship Reforms. Although many of the issues raised are legitimate, system changes continue to improve access and where these new, high-quality apprenticeships have been utilised, it is important to note their positive role in boosting productivity and performance as detailed elsewhere in this paper. This is evidence of why they should be extended, not restricted.

## 2.3 APPRENTICESHIPS AND THE PRODUCTIVITY AGENDA

*'Productivity isn't everything ... but in the long run it is almost everything.'*  
– Paul Krugman, Nobel Laureate

Returning to basics, the Office of National Statistics (ONS) notes that: 'Productivity is the main driver of economic growth and is an indicator of the economic health of a nation',<sup>42</sup> but the UK has a longstanding productivity problem.

This is not just a business issue – everyone should care about productivity. As the Resolution Foundation highlights:<sup>43</sup> 'Claims that these measures of economic progress mean little for ordinary workers are common but painfully wide of the mark. Weak productivity growth has fed directly into flatlining wages and sluggish income growth: real wages grew by an average of 33% a decade from 1970 to 2007, but this fell to below zero in the 2010s. The result is that by 2018 typical household incomes were 16% lower in the UK than in Germany and 9% lower than in France, having been higher in 2007'. The Resolution Foundation found 'Labour productivity grew by just 0.4% a year in the UK in the 12 years following the financial crisis, half the rate of the 25 richest OECD countries (0.9%)'.

When considering the Apprenticeship Levy, it is important to note the observation from ONS that 'There is a strong positive correlation between level of education and hourly earnings, so a shift in hours worked towards workers with higher qualifications will typically materialise as an increase in labour quality.'

Apprenticeships have the potential to be the Government's flagship investment in human capital, supporting employers to train their new and existing employees to secure higher qualifications and, through that, increase productivity and performance.

Apprenticeships have a range of purposes that link closely to the productivity agenda:

- Providing new, work-based routes to the professions and high-skilled occupations;
- Improving social mobility for young people (under 25) and individuals of all ages;
- Increasing diversity in different occupations (e.g. police officers);
- Supporting the delivery of the Levelling Up agenda;
- Supporting the delivery of the Net Zero and Green Jobs agenda;
- Creating progression pathways within organisations to ensure continuous development and talent pipelines.

It is therefore striking that, although often positioned as a flagship productivity programme, none of the organisations with a responsibility for apprenticeship quality (IfATE, ESFA, Ofsted, Ofqual, Office for Students (OfS), Quality Assurance Agency for Higher Education (QAA)) have a responsibility for monitoring and reporting on the impact of apprenticeship provision and delivery on productivity.

Emerging findings suggest significant productivity gains associated with management apprenticeships. CMI analysis<sup>44</sup> found that, over 10 years, the average estimated cumulative productivity gain from apprenticeships is £7 billion, producing a return on investment of nearly 300%, given a cost of £2 billion. Therefore, in any single year the average estimated output gain to the economy is between £600–700 million from 2019–2029. CMI analysis also provided insight into the total output gain from business activity engaged in by an apprentice to be already around £7000 for the employer by the completion of the apprenticeship. Our data indicates that degree-level management apprenticeships can lead to in excess of 20% productivity gains, with private sector productivity gains estimated at 27%. Over 90% of our survey sample reported productivity gains for their employer as a result of their apprenticeship.

**To properly evaluate the impact of apprenticeships it is essential to look at productivity measures alongside the access and participation issues that generate most vocal criticism.**



### 3. THE APPRENTICESHIP LEVY, POST-16 EDUCATION AND TRAINING AND FISCAL POLICY – SYNERGY OR CONFUSION?

One of the fundamental issues with apprenticeship and Levy policy is that it is often discussed in a vacuum – as if it should deliver all the ambitions for the skills and employment system – rather than as one part of the system, and how that part can be made to operate most efficiently and effectively.

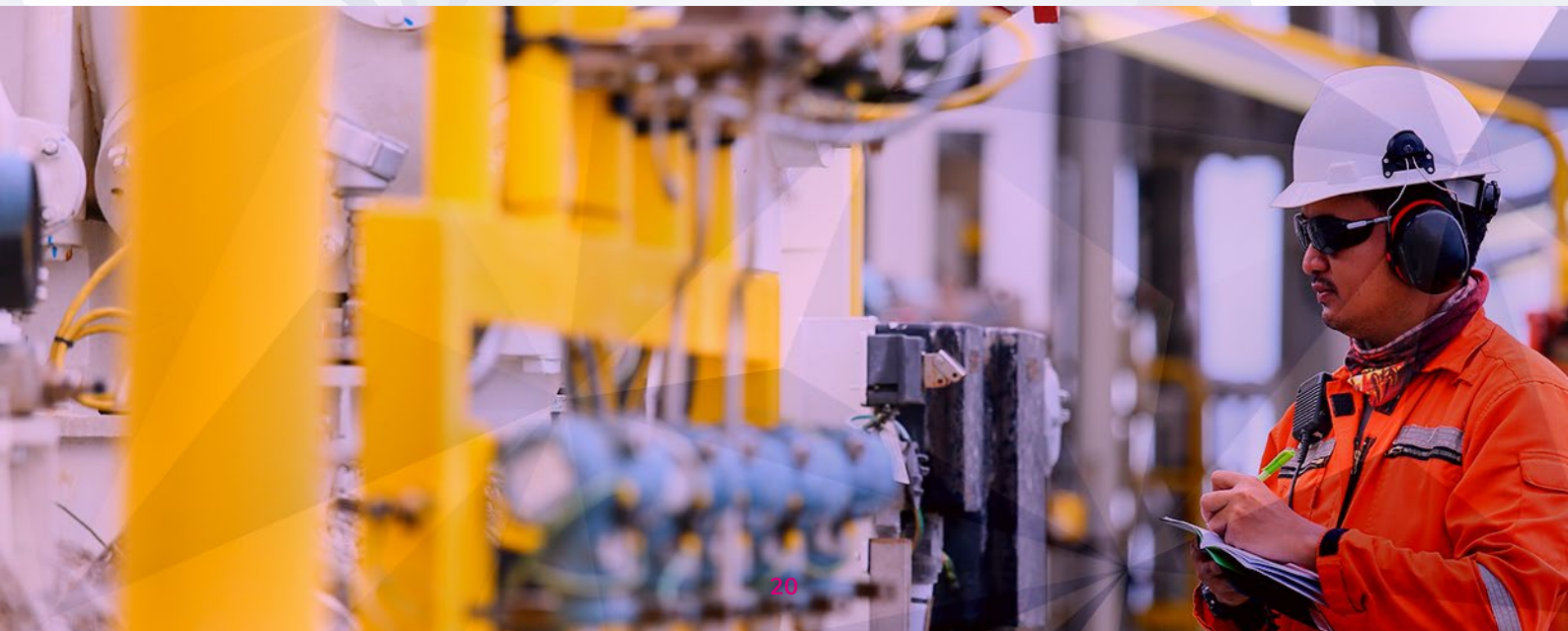
More joined up thinking is needed between the economic and education and training needs of the country in order to assess the impact of apprenticeships policy and funding.

Currently there is a lack of budget, funding and taxation synergy between key policies that financially underpin post-16 education and training policies and programmes such as the Apprenticeship Levy and the proposed Lifelong Loan Entitlement (LLE). It is also difficult to see how policies such as the LLE relate to the Government's desire to raise employer spending on training.

The Apprenticeship Levy was introduced to fund apprenticeship provision and to support employers to train both new and existing employees for the occupations their organisations need. The LLE, which will be introduced in 2025, is focused on individuals using state-funded loans to *'study, train, retrain and upskill throughout their lives to respond to changing skills needs and employment patterns'*.<sup>45</sup>

In the 2020 Spring Statement the then Chancellor Rt Hon Rishi Sunak MP was clear:

*'UK employers spend just half the European average on training their employees. Furthermore, less than 10% of the spending on training by UK employers goes to high-quality, formal training offered by external providers.'*<sup>46</sup> The Chancellor also noted *'The government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs.'*<sup>47</sup>



## 3.1 THE LIFELONG LOAN ENTITLEMENT

With the LLE, individuals will use Government backed loans to fund Level 4–6 programmes. The LLE will provide individuals with a loan entitlement for the equivalent of 4 years study throughout a lifetime. The LLE can be used for full-time and modular study for programmes at Level 4–6 provided by colleges and universities.

There are many positives about the proposed introduction of the Lifelong Loan Entitlement: flexibility to support different learning options, support for flexible study throughout one's life and potentially better signposting of courses and modules that individuals need to fulfil their ambitions.

Throughout the LLE consultation,<sup>48</sup> the emphasis has been on ensuring that modules and full programmes meet the needs of employers. This obviously makes sense. However, in the context of needing to increase employer investment in training across the board, it is surprising that little reference is made to the support or financial contribution from employers. The consultation gives the impression that it is the responsibility of individuals to train, retrain and upskill throughout their lives and use the Lifelong Loan Entitlement to fund the costs of such activities.

With the enhanced ability of individuals to use loans to fund shorter programmes, individual modules, etc., through the LLE, there is a risk that some employers will start to expect individual employees to use their entitlement for training and development activities, which many would believe an employer should fund. Indeed, in the worst circumstances, the LLE could actually disincentivise employers from investing in training and development as employers expect individuals to fund such activities through their entitlement.

There should be more of a debate on employer coordination with the LLE. It is surprising and disappointing that little consideration to date has been given to how employers could be involved in providing financial and in-kind support for employees undertaking provision funded through the LLE. Many of the modular programmes funded through the LLE will be of considerable benefit to employers, particularly where programmes are taken by their existing employees and focused on retraining and upskilling.

So, how will the LLE support the policy objective of increasing employer investment in high-quality training offered by external providers? Employers should be encouraged, and indeed expected, to support individuals to use their LLE as effectively as possible. This could include an expectation on employers to collaborate with providers to update curricula, provide work placements and careers talks and work with IfATE to develop occupational standards and occupational maps.

Where an employee uses the LLE to reskill or develop into a new role with their existing employer, it makes sense for the employer to contribute. Time off for study and support for work-based learning are obvious examples of potential in-kind employer contributions. But shouldn't employers also be expected to make a contribution to the programme and be encouraged to share the financial burden with the individual and the state? Government should be far clearer as to what the LLE should and should not be used for and where instead an employer should be expected to invest or co-invest in training.



## 3.2 EMPLOYERS AND THE LLE AND THE CONTRAST WITH THE APPRENTICESHIP LEVY

Despite the Apprenticeship Levy being paid for by employers, they have been criticised for spending their Levy payments on the 'wrong type' of apprenticeships. This criticism tends to focus on the supply side of skills rather than the actual demand from business. Read the training press<sup>49</sup> and employers have spent too much of their Levy payments on Degree Apprenticeships, management apprenticeships, apprenticeships for older workers and too little on apprenticeships for school and college leavers and Level 2 programmes.

But the Apprenticeship Levy should be seen as a potential model for future approaches to fiscal and post-16 education and training policy. Employers have been required to fund apprenticeships, but in return employers develop the apprenticeships they need and choose.

Drawing on the apprenticeship system, the Government could see the Apprenticeship Levy as the basis for developing a voluntary fiscal agreement with employers in other areas of the skills system. For example:

- If employers were encouraged, indeed in some circumstances expected, to make a financial contribution to the LLE system, what could they expect in return?
- If employers made such financial contributions, how could the offerings of further education and higher education be aligned with employer skills needs and the wider needs of the economy as a whole?

If not designed effectively, there could be a risk that employers do very little to support individuals to utilise their LLE to up- and re-skill at a time when this has never been more important.



## 3.3 THE NEED TO AGREE THE RESPECTIVE FINANCIAL CONTRIBUTIONS OF GOVERNMENT, INDIVIDUALS AND EMPLOYERS TO POST-16 EDUCATION AND TRAINING

Virtually all economists would agree that the UK needs to invest substantially more in the training and development of its workforce. When investment is made, individuals, employers, and society/ the economy (represented by the state) benefit. It therefore makes sense that individuals, employers and the state should all make a financial contribution. There is, however, no agreement or expectation on what each party should pay, what they should and should not pay for and what they should expect in return. A national debate is needed and, in time, clearer guidance on individual, government, and employer contributions (financial and in-kind) to life-long learning, particularly at Level 4 and above, should be made available.

A cultural shift in the attitude of some employers to investing in training is also needed. Employers collectively need to invest more in the training and development of new and existing staff, as do individuals and, arguably, Government. For example, analysis indicates that the amount employers in England have spent on training per employee dropped by 11% in real terms between 2011 and 2019.<sup>50</sup> Any review of the Apprenticeship Levy should be undertaken in this wider context.

### **An Expanded Role for the Institute for Apprenticeships and Technical Education**

The IfATE has become an established and increasingly respected organisation. The Institute has substantial expertise in occupational standards, occupational maps, apprenticeships, higher technical education and T-Levels. Through its sector panels and Trailblazers, the IfATE has a wide range and substantial number of employers engaged in its activities. In the IfATE, the Government has an organisation that will increasingly be able to advise on how to tackle skills gaps and shortages in specific occupations at all levels. The IfATE could potentially have a role in:

- Advising Government on how employers in specific sectors and focused on specific occupations could be encouraged and supported to invest more in the training and development of new and existing employees.
- Tackling training inequalities by advising Government on how public policy can support individuals in employment (particularly those who have less than the national average spent on their training and development) to access appropriate training opportunities.
- Advising HM Treasury on how tax credits and other fiscal policies could be used to support provision needed in occupations that are priorities for Government policy objectives.
- Advising on regional incentives and action where Local Enterprise Partnerships (LEPs) and Combined Authorities can argue that apprenticeships and post-16 education and training provision are not sufficiently meeting local needs.



## 4. THE CASE FOR FUTURE REFORM OF THE APPRENTICESHIP LEVY

The Treasury in the Spring of 2022 announced its intention to review *‘whether the current tax system, including the operation of the Apprenticeship Levy, is doing enough to incentivise businesses to invest in the right kind of training.’*<sup>51</sup>

Since George Osborne announced the Apprenticeship Levy as part of the Autumn Statement in November 2015 it has been opposed by key employer representative organisations. Among organisations opposing the Apprenticeship Levy were both the CBI and IoD.

In a recent survey (April 2022), the Chartered Institute of Personal Development (CIPD) reported that fewer than one in five employers supports the UK Government’s Apprenticeship Levy.<sup>52</sup> The CIPD has therefore called for the Apprenticeship Levy to be reformed and replaced by a broader, flexible levy that allows *‘employers to develop existing staff through other forms of accredited and cost-effective training, focused on tackling skills shortages in the economy’*. It is understandable that some organisations want to reduce costs – of which the levy is one. However, not all employers agree. Several organisations have called for the Apprenticeship Levy to be replaced with a ‘skills levy’. The British Retail Consortium (BRC) have, for example, called for a focus on high-quality short courses to help people into work, as well as pre-employment and short in-work development courses.<sup>53</sup>

Currently, only 2% of employers pay the Apprenticeship Levy and these larger employers fund apprenticeship provision that can be used by all employers. So, Levy payments are not ‘wasted’<sup>54</sup> but go back into the system. It is also likely that a lot of this underspend is in strategically important parts of the economy – including the NHS, which contributes over £200 million nationally to the Apprenticeship Levy each year.

In the construction sector, the skills levy that has operated for generations is largely accepted because levy payers understand and accept the need for businesses in their supply chain to train and develop the employees the industry needs. This is not the same with an all-sector levy. A large engineering company will find it difficult to understand how its underspent Levy payments used by a small hospitality business to train a chef will benefit its own operation. Government should make it a priority to highlight where organisations or sectors are under-utilising their Levy in order to support the effective redistribution of these funds to priority areas of the economy or under-represented groups, including those from disadvantaged backgrounds, and SMEs.

Government messaging should also be clearer: the Apprenticeship Levy is used to fund apprenticeship provision for employers of all sizes in all sectors. Current Levy-payers will not recover all their Levy payments. They will, however, have access to a high-quality apprenticeship system and Government, through the IfATE and ESFA, will work to ensure employers in all sectors can benefit from apprenticeships. They benefit from seeing their

sectors upskilled, which will benefit their future workforce and skills needs. The Levy helps resolve a collective action problem: how to ensure sufficient, productivity-enhancing investment in training across sectors.

### **The English Model of Apprenticeships**

In England, the Apprenticeship Reforms have led to the development of a distinctive model of apprenticeship provision that meets the country's specific economic needs.

The model is not designed only for lower levels of skill because we know that greater productivity gains come from workers with higher-level qualifications. Furthermore, it is not designed to target training only at those newly entering the labour market because 80% of the UK's 2030 workforce are already in employment.<sup>55</sup>

This model is designed to address a specific market failure, which is that employers in the UK consistently underinvest in training their workforce for long-term economic gain,<sup>56</sup> and this is holding back productivity and growth. This innovative approach should be explicitly recognised as the fundamental foundation for apprenticeships policy in the UK. Key features of the approach include: a levy to support investment over time; high standards underpinning future efficiency, productivity and growth; employer-led; and open to all ages, all levels.



## 4.1 A CASE AGAINST REPLACING THE APPRENTICESHIP LEVY WITH A SKILLS LEVY?

Replacing the Apprenticeship Levy with a broader skills levy may sound attractive, but it will not address the criticisms raised by employers and it will increase deadweight in the system by funding training that would have taken place anyway. There is also a significant risk that the introduction of a skills or learning levy will significantly damage the focus on rigour and quality that the new apprenticeship system is delivering.

Prior to the pandemic, a key concern of the Treasury, DfE and IfATE was the overspend of the apprenticeship budget. Indeed, in late 2018 the IfATE warned that the apprenticeship budget would be overspent by £1.5bn during 2021/22.<sup>57</sup> As apprenticeship numbers recover post-pandemic, affordability will again become a major concern for policy makers.

A wider skills levy would be available for use on a range of short courses and work-based training programmes. As such it is likely that demand for funding for programmes from a skills levy would far exceed the funds raised from the Apprenticeship Levy. If the Apprenticeship Levy was replaced by a more broadly focused skills levy, Government would have to introduce a range of restrictions on its use to avoid overspend. These could include a requirement for all employers to provide a co-investment when accessing skills levy funding.

It is likely that increased funding would be needed if the range of training were to be broadened but the high-quality retained. Could the Levy percentage be increased, for example, from 0.5% to, say, 1.0%? It is also important to recognise that big businesses tend to use the Levy because they pay into it. To drive up use of apprenticeships within SMEs, could we consider expanding it to include firms with a wage bill below £3m? If all firms with a wage bill of between £1–2.9 million were required to pay an introductory rate of 0.25% towards the Levy, this could raise an additional £430 million for apprenticeship training and give SMEs immediate skin in the game.

A general skills levy would raise questions as to why a levy was needed at all. The whole purpose of the English Model of Apprenticeships is to ensure that there is a balance between public and private objectives in employer-led provision. The public needs support for high-quality, long-term, productivity-focused training provision; employers want to fill more immediate skills gaps. The Apprenticeship Levy and the standards-based system is a means of combining these two aims. A general skills levy would shift the system too much in the direction of favouring short-term gaps over longer-term productivity; it would deliver little more than the market alone would offer without the Levy.

The Government should lead a debate on how the UK should invest more in the training and development of its new and existing workforce and what respective contributions should be made by Government, employers and individuals.

## Tackling Some Apprenticeship Levy Myths - What the Levy does and does not Fund

The Apprenticeship Levy funds apprenticeship training and End-Point Assessment in line with the funding band for the apprenticeship and ESFA Funding Rules. Far greater clarity on the operation of the Apprenticeship Levy is needed. As has been outlined earlier, the Apprenticeship Levy was introduced as a tax on larger employers to fund apprenticeships offered by both large employers and their smaller counterparts. Unfortunately, this purpose has not been effectively communicated or accepted by many. In a survey of its members the British Retail Consortium (BRC) noted that two-thirds of retailers polled said that more than 40% of their Levy was unspent each month and called for the 'flawed apprenticeship levy' to be reformed and 'hundreds of millions of pounds saved'.<sup>58</sup>

The problem with these claims is that, under the Levy system, apprenticeship places offered by non-Levy-paying employers are funded through the unspent funds of Levy-payers. The system relies on Levy-paying employers not spending a significant proportion of their own Levy payments. If the above-mentioned BRC proposal was followed through, large retailers may 'save' millions of pounds. However, such savings would be paid for by small businesses that use apprenticeships, individuals taking an apprenticeship with a non-Levy-paying employer, by the taxpayer through general taxation or through a reduction in investment in high-quality skills and training – which would further leave the UK's productivity challenge unaddressed.



## 5. THE EXAMPLE OF MANAGEMENT TRAINING

Management apprenticeships have attracted considerable criticism since the introduction of the Apprenticeship Reforms and Apprenticeship Levy. But as apprenticeships are an employer-led and productivity-focused programme, it is vital to make the economic and business case for management apprenticeships.

**The link between management capability and growth and productivity cannot be ignored.** Bad management limits growth and opportunity. And who is most damaged by this lack of growth and opportunity? Young people and those from under-represented and under-served groups.

Systematic management training and development is the key to the UK's growth and prosperity. The UK has a long-standing productivity problem and strong leadership and management practices have been shown to be strongly correlated to firm-level productivity,<sup>59</sup> with even small improvements in management practises being associated with up to a 5% increase in the growth rate of a business's productivity.

UK businesses recognise the need for more management training:

- 1 in 4 working people in the UK are managers. Yet many of them are 'accidental managers' – those who have entered management roles without the appropriate skills and training to do so effectively. To put this into context, CMI has around 100,000 people currently studying on a management programme of one kind or another – just a fraction (1.2%) of the 8.1 million managers in the UK.<sup>60</sup>
- The DfE's 2019 Employer Skills Survey found that 57% of employers reported skills gaps in management & leadership.<sup>61</sup> In addition, pilot Local Skills Improvement Plans recognised the importance of management & leadership skills (including adjacent skills such as project management) as priority skills to unlock economic development in their local areas.<sup>62</sup> (These Local Skills Improvement Plans (LSIPs) cover localities in Cumbria, West of England, South Yorkshire, East Midlands, Kent & Medway, Tees Valley, Lancashire and Sussex.)<sup>63</sup>
- The Institute for Fiscal Studies found that adults in the UK are almost half as likely as German adults, and a quarter as likely as American adults, to start an advanced vocational qualification, with large numbers of people with degrees and large numbers with low qualifications, but very little in the middle.

Yet there is a market failure here that the Apprenticeship Reforms were specifically designed to address:

Individuals and UK businesses continue to underinvest in management training. SMEs in the UK are less likely to use formal management practices than large businesses, and the UK ranks only 5th in the G7 on this. In particular, UK SMEs compare particularly unfavourably on people management – the factor most correlated to productivity.<sup>64</sup>

## On the Value of Management and Management Apprenticeships

*'Most experts agree good management is key to improving productivity. It is clear the (manufacturing) sector needs to invest in upskilling the next generation of managers now.'*

Steve Harris, Head of Manufacturing, Lloyds<sup>65</sup>

Andy Haldane, when he was Chief Economist at the Bank of England, identified complacent management that is too slow to adapt to new technologies as partly to blame for UK productivity problems.

The Government's Industrial Strategy published in 2017 noted that the country has 'an unusually long tail of underperforming businesses. Management skills could account for a quarter of the productivity gap between the UK and US.'<sup>66</sup> The Times' economics editor observed that: 'If the Government wants to raise prosperity, it cannot afford to ignore bad management.' Yet, in the same newspaper 6 months later universities were accused of cashing in and exploiting the Apprenticeship Levy by offering management apprenticeships.<sup>67</sup> Indeed, critics claimed the approach would lead to 'a proliferation of overqualified managers who couldn't bang a nail in rather than the trained workers who are useful to the economy'. Interestingly, the same article reported that, according to the Times Education Supplement (TES), £26 million would be spent annually on the Senior Leader Degree Apprenticeship, accounting for around 1% of Levy funds.

The value of management apprenticeships has also been highlighted by the IfATE, the organisation with overall responsibility for ensuring the quality of the apprenticeship programme: 'I absolutely think it is right to use public funds for management apprenticeships. [In] most organisations you'll find people get promoted out of being good at a particular role, and then they find themselves leading a team of people, which is a completely different job to the one that may have got them promoted to that role in the first instance.

*'So those people will need to have opportunities to gain significant and substantial skills in that leadership and management role.'*

*'On management and leadership apprenticeships, I think we've got a significant productivity gap with our competitor nations – and about 20% of that productivity gap is made up of a lack of skills.'*

Jennifer Coupland, Chief Executive, IfATE<sup>68</sup>

Management apprenticeships are a vital tool that will help to close the long-standing productivity gap. They offer a flexible and accessible route to upskilling and reskilling, including building capacity in firms and regions of the UK to drive business improvements. Apprentices combine working and learning, spending their time in both on- and off-the-job training – and the other proportion of their time practically applying their management training in their day-to-day job. This ensures that the learning is relevant and impactful to their job and employer.

In addition to the productivity gains detailed above ([see page 19](#)), apprenticeships are delivering positive impacts for businesses and individuals:

- 72% of apprentices reported at least one impact as a result of completing the management apprenticeship, including taking on new responsibilities (managing budgets, resources, people etc.), identifying and recommending new ways of doing things, achieving promotions and taking on stretch projects (a project that is beyond their level of knowledge or skill and designed to ‘stretch’ them developmentally).
- Degree-level management apprentices were more likely, compared to Team leader/ Supervisor (Level 3) apprentices to say that they have identified and recommended different ways of doing things that have been implemented in the organisation (52% SLMDA vs. 49% CMDA vs. 28% Team Leader) and to say that they have taken on stretch projects (39% vs. 35% vs. 17%).
- 98% of CMI management apprentices said the apprenticeship met their skills development needs, with 50% reporting needs had been met to a great extent, and 38% to a moderate extent.
- **CMI data found apprentices in the private sector received on average a 17 per cent pay increase of nearly £7,000 through their management apprenticeship.**

They are also changing the culture around learning and development within organisations: CMI analysis found **97% of management apprentices said their apprenticeship increased their commitment to improving the training and development of their direct reports.**

Plus, they are making progress on diversifying the management profession: 39% of CMI management apprentices are from a low socio-economic background compared to 36% in the UK Labour Force as a whole and 27% in higher education, according to HESA data.<sup>69</sup>

## 6. CONCLUSIONS AND RECOMMENDATIONS

Apprenticeships and the Apprenticeship Levy are a policy success that should be celebrated. They are working to raise the quality of vocational education and change the culture around in-work training. There is not enough evidence of policy failure to warrant radical reform.

There are, however, improvements that could be made to the Apprenticeship and Levy System. We would offer the following recommendations:

### 1. Clarity and transparency

- b. Government should define the 'English Model of Apprenticeships' and enshrine it in law: it should be standards-based, accessible to all ages at all levels, employer-led, and Levy-supported. IfATE should be required to report annually on its performance in achieving key goals: productivity, improved public services and social mobility. Over time this could evolve into a 'UK Model', with Westminster working closely with the devolved administrations to define common characteristics across all four nations.
- c. Government should enshrine in policy clear definitions around the purpose and evaluation criteria for apprenticeships policy. Greater clarity is needed from IfATE and the Government to outline how the Levy system works and implications for employers, large and small. This means being upfront about who pays the Levy, how much is raised, the level of cross subsidy, any surplus or deficit and how this is being used.
- d. Better data regarding the impact of apprenticeship expenditure on productivity and efficiency is required. IfATE should set out a dashboard of key metrics for how apprenticeships could deliver on key objectives – skills gaps and shortages, equality, social mobility, workplace diversity and levelling-up, the green jobs and net zero agenda – and how success can be evaluated. Measures such as using wage/ salary increases on completion of an apprenticeship could be used as a proxy for productivity. Comparisons between the use of apprenticeships and their impact in deprived versus prosperous localities as well as between public and private sector organisations should be made.

### 2. Widen the scope of the system

- a. Introduce local, sectoral and regional Apprenticeship Accelerators to dramatically increase take up of apprenticeships. Recognising that different businesses will need different support, these could be led by Business Representative Organisations such as the British Chambers of Commerce, or through sector collaborations, Combined Authorities or education and training providers.
- b. As more businesses see the benefits of apprenticeships, and the system is reaching its limit in terms of resource, government should consult on widening the Levy at a lower rate for more employers. We envisage this would happen in the next parliament, sensitive



to current significant cost pressures on businesses. Widening the scope of the Levy would give SMEs immediate skin in the game, something that has worked so successfully to engage large employers in apprenticeships. At the moment, SMEs see the benefit too late, after they have expended their time, energy and resources on recruiting and supporting someone through the apprenticeship. Widening the scope of the Levy should be accompanied by wrap-around advice and guidance and/or wage subsidies to support the businesses on their apprenticeship journey until it experiences the benefits through the Apprenticeship Accelerators.

- c. Government should also introduce auto enrolment on the Apprenticeship Service for all companies with employees registered for PAYE with HMRC. HMRC can then be used as a communication channel to businesses, providing information about apprenticeships and encouraging businesses to access them. Given the significant productivity and business-capacity gains to be made, it is in HMRC's interest to increase awareness of and engagement with apprenticeships.

### **3. Introduce an Apprenticeships Opportunity Fund**

Provide a ring-fenced budget, funded by Levy transfer, expired Levy funds, an additional charge on large/ Levy paying employers or a grant from government, to help underserved groups/ businesses to access and progress through apprenticeships, including SMEs, young people and those from under-represented backgrounds to cover all levels of apprenticeships.

This could be modelled on the activities of the London Progression Collaboration or sector convenors such as Travis Perkins, which help businesses and individuals to access and benefit from the apprenticeship programme. Currently, this activity is delivered in an ad hoc way using charitable funds, restricting availability, consistency and sharing of impact data. The fund should only be used to fund support into standards-based apprenticeships to ensure that these individuals and businesses benefit from the systematic and high-quality training that apprenticeship standards provide.

Government should help to direct funding and incentives to encourage collaboration, to plug apprenticeship cold spots and ensure that choice is available consistently across the country including choice of standards, choice of high-quality training providers, and choice of delivery models.

## References

1. DfE (2020), Progress Report on the Apprenticeships Reform Programme, p23
2. GOV.UK (2012), Richard Review of Apprenticeships
3. HM Government (2015), English Apprenticeships: Our 2020 Vision
4. HM Government (2015), English Apprenticeships: Our 2020 Vision, p.10
5. IfATE (2022), the figures quoted include a small number of standards that have been withdrawn
6. Figures rounded to the nearest whole number
7. GOV.UK (2022), Apprenticeships and Traineeships
8. Ofsted (2021), The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2020/21
9. Apprenticeships Evaluation 2015, quoted in Resolution Foundation (2019), Trading up or Trading Off
10. The Times (2022), Apprentices are Given Public Seal of Approval
11. FE Week (2018), Fears Over a Middle Class Grab of Apprenticeships are Valid
12. The Times (2022), Families Back Apprenticeships Over Universities
13. Finbar Lillis and Darryll Bravenboer (2022) Move on Up? Measuring the Social Mobility Impact of Apprenticeships. Project Report. Middlesex University, London.
14. BAME is the term used in the original source. CMI recommends moving on from its use.
15. CMI research carried out between 20 May and 3 June 2022. A total of 808 apprentices that had completed their End-point Assessment (EPA) on or before 16 May 2022 took part in the poll.
16. For all CMI management apprenticeships: 39% of apprentices are from a low socio-economic background and 71% come from families where neither parent went to university.
17. Middlesex University UniHub (2020), Giles York, Chief Constable of Sussex Police, Transforming Policing: the degree apprenticeship
18. BME is the term used in the original source.
19. GOV.UK (2019), Key Facts you Should Know About the Apprenticeship Levy
20. Inside Government (2022), The Apprenticeships Conference
21. [GOV.UK](#) (2021) Guidance: Flexi-Job Apprenticeships
22. [GOV.UK](#) (2021) Guidance: Flexi-Job Apprenticeships
23. BBC News (2015), Autumn Statement: Apprenticeships levy to raise £3bn
24. FE Week (2015), Colleges That Ignore Apprenticeships Criticised
25. Rt Hon George Osborne (2015), Autumn Statement
26. BBC News (2015), CMI response to the Autumn Statement
27. [LPC](#) (n.d.), Our Impact
28. The Open University (2022), Business Barometer
29. Industrial Strategy Council (2019), UK Skills Mismatch in 2030
30. [McKinsey](#) (2020), 'The Economic Case for Reskilling in the UK'
31. <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/the-economic-case-for-reskilling-in-the-uk-how-employers-can-thrive-by-boosting-workers-skills>
32. Westminster Hall Debate, 3 March 2020: RCN – Nursing Shortages in England
33. Home Office (2019), National Campaign to Recruit 20,000 Police Officers Launches Today
34. National Grid (2020), Building the Net Zero Energy Workforce
35. IFS (2022), Lack of Progress on Closing Educational Inequalities Disadvantaging Millions Throughout Life
36. Universities UK (2019), The Future of Degree Apprenticeships
37. Based on CMI data comparing Jan–July 2022 with Jan–July 2021.
38. BBC News (2015), Apprenticeship Levy to Raise £3bn
39. Financial Times (2022), Employers in England Lose More Than £3.3bn in Unspent Apprenticeship Levy Funds
40. See IfATE (2018) Faster and Better Reforms
41. Introduced in 2017. Public sector organisations with 250 or more staff were expected to have a target to employ 2.3% of their employees as new apprenticeship starts. The policy covered the period 1 April 2017 to 31 March 2022.
42. [ONS](#) (2020), Productivity Economic Commentary: January–March 2020 and [ONS](#) Multi-Factor Productivity Estimates, UK: July–September 2019
43. Resolution Foundation (2022), Stagnation Nation: the economy 2030 inquiry
44. CMI Managers Voice survey of 808 apprentices that had completed their End-Point Assessment on or before 16 May 2022, conducted between 20 May–3 June 2022. It is accepted standard microeconomic theory that, in the private sector, firms are profit maximising and therefore wages adjust to changes in productivity; increases in wages follow increases in labour productivity. The average increase in wages of CMI apprentices by the end-point of the apprenticeship (2019–2021) was used as a proxy for the increased labour productivity within employers. A weighting factor of 1.66% was applied as an assumption to estimate the total value of output increase for employers. This was applied to DfE apprenticeship completions weighted by numbers of apprentices experiencing wage increases from the CMI apprentice survey (91%). Three productivity increase scenarios were generated using 0%, 1% and 5.20% productivity growth rates. From this data and assumptions the CMI apprenticeship value model was developed.  
[GOV.UK, Education Statistics](#)  
[OBR \(2022\), Economic and Fiscal Outlook](#)
45. DfE (2022), Lifelong Loan Entitlement: government consultation, p8
46. HM Treasury (2022), Spring Statement, p38
47. HM Treasury (2022), Spring Statement, p39
48. DfE (2022), Lifelong Loan Entitlement: government consultation
49. See FE Week Annual Apprenticeship Conference (2020), Souvenir Supplement
50. [NAO](#) (2022), Developing Workforce Skills for a Strong Economy (NAO analysis of DfE data)

51. HM Treasury (2022), Spring Statement 2022, p39
52. Financial Times (2022), Apprenticeship Levy Opposed by Most UK Employers
53. British Retail Consortium survey of its members reported in The Times (2022)
54. See BRC arguments quoted in The Times (2022)
55. Industrial Strategy Council (2019), UK Skills Mismatch in 2030
56. DfE (2020), Employer Skills Survey 2019
57. FE Week (2018), Levy Budget Bust
58. British Retail Consortium Survey reported in The Times (2022)
59. HM Government (2019), Business Productivity Review
60. CMI analysis of Labour Force Survey Data, July 2022
61. DfE (2020), Employer Skills Survey 2019: UK (excluding Scotland) findings
62. DfE (2022), Local Skills Improvement Plan Trailblazers and Strategic Development Fund Pilots
63. IFS (2022), Lack of Progress on Closing Educational Inequalities Disadvantaging Millions Throughout Life
64. HM Government (2019), Business Productivity Review
65. The Times (2019), British Productivity 'Held Back by Managers', Lloyds Bank Survey Shows
66. The Times (2017), Asia Closed the Gap on Management Skills and Britain Must do the Same
67. The Times (2018), Universities Cash in with Courses for 'Apprentices'
68. FE Week (2020), Coupland: 'public funding for management apprenticeships is perfectly legitimate'
69. CMI analysis of Management Apprenticeship data and other sources, July 2022

## Chartered Management Institute (CMI)

The Chartered Management Institute (CMI) works with business and education to inspire people to unleash their potential and become skilled, confident and successful managers and leaders. With a wealth of practical qualifications, events and networking opportunities on offer throughout the UK and Asia-Pacific, CMI helps people boost their career prospects and connect them with other ambitious professionals in any industry and sector. In fact, CMI has more than 130,000 people training to be better managers right now. Backed by a unique Royal Charter, CMI is the only organisation allowed to award Chartered Manager status – the ultimate management accolade, and Chartered Management Consultant status which sets and maintains the highest standards for the management consulting profession. CMI's thought leadership, research and online resources provide practical insights on critical issues for a membership community of over 182,000 and anyone looking to improve their skills, nurture high-performing teams and help pave the way for the next generation of managers and leaders.

For more information, please visit [www.managers.org.uk](http://www.managers.org.uk)  
Chartered Management Institute on LinkedIn, Facebook, Twitter and Instagram.



Twitter: [@cmi\\_managers](https://twitter.com/cmi_managers)



Facebook: [www.facebook.com/bettermanagers](https://www.facebook.com/bettermanagers)



LinkedIn: [Chartered Management Institute](https://www.linkedin.com/company/chartered-management-institute)



Instagram: [@cmi\\_managers](https://www.instagram.com/cmi_managers)



INVESTORS IN PEOPLE™  
We invest in people Platinum



Certificate No FS28404

Chartered Management Institute  
77 Kingsway, London, WC2B 6SR  
Incorporated by Royal Charter  
Registered charity number 1091035  
Charity registered in Scotland number SC038105

## #BetterManagers

