

THE FUTURE OF THE APPRENTICESHIP LEVY

RAISING PRODUCTIVITY AND
DELIVERING ECONOMIC GROWTH



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Apprenticeships and the Apprenticeship Levy are a policy success that should be celebrated. The four main 'objectives' of the apprenticeship reforms - as set out in the government's vision for apprenticeships in 2015¹ - were to expand professional and technical coverage, to provide an attractive and aspirational offer for all ages, to ensure availability across all sectors and skill levels, and to deliver the skills, knowledge and behaviours that employers want and need. All these ambitions are being realised. And because they are being realised, the English Model of Apprenticeships is making a crucial long-term contribution to productivity and growth.

New CMI modelling suggests that apprentices completing now are projected to be contributing almost £700 million a year to the economy. In total, the apprentices trained in 2019 are projected to have added £7bn to the economy by the end of 2029 for a cost of £2bn - this is a 300% return on investment.

These apprenticeships are fundamental to meeting our economic needs in the coming years.

There can be no sustained enhancement of UK productivity without sustained investment in people and this paper demonstrates that apprenticeships are at the very foundation of that investment. The standards support employers to train employees and to increase the productivity of their organisations, and they enhance opportunities for social mobility. The development of these standards has been a foundational element of improved quality within the apprenticeship system. Any reversal of this commitment to quality, for example, through widening the system to apply to a much broader range of training, would risk unpicking the link between the Levy and productivity and growth.

There have been challenges. [The latest Department for Education \(DfE\) statistics](#) show we are only now in 2022 coming close to meeting then Chancellor George Osborne's target of three million starts by 2020. And criticisms have been made of the lack of take-up among SMEs and young people, even though the number of young people taking up apprenticeships had already been declining prior to the

introduction of the Levy. Recent [analysis](#) by the London Progression Collaboration that more than £3.3bn of employer Levy contributions has been returned to the UK Treasury since 2019 because employers were unable to spend it on apprenticeships, raises issues around how to achieve growth in apprenticeships and incentivise employers to boost take-up.

But there are three fundamental problems with popular criticisms of the Apprenticeship Reforms and Levy:

1

Apprenticeship and Levy policy is too often discussed in a vacuum as if it should deliver all the ambitions for the skills system, rather than just one part of the system, and how that one part can be made to operate most efficiently and effectively alongside other elements of the system.

2

The positive economic impacts of apprenticeships have been underplayed. As both major political parties focus on a growth agenda, to miss this element of the success of apprenticeships is an enormous oversight. If the economic benefits of apprenticeships are underplayed, there are risks that any reform that dilutes their impact, or even worse, removes the Levy and the £2.5bn (and rising) per year it is contributing to future skills, will carry a very significant economic and fiscal cost. Dilution or abolition of the Levy could leave a yawning £2.5bn black hole in the UK's productivity and growth agenda if significant public resource is not reallocated from other areas.

3

Lack of transparency. More money is being raised from the Levy than is being spent by Levy payers. This is by design and intended to fund provision for non-Levy payers, typically SMEs. However, it is a problem that there is no transparency over how much this money is and where it goes because it suggests this money is being lost to the training system. Better data is needed on who pays the Levy, who benefits and its organisational and wider economic impact, in addition to its impact on access and participation - although this lack of transparency is not in itself an argument against the fundamental model.

We do not believe, once these considerations are integrated into a wider analysis of apprenticeships, the Levy and their wider impacts, there is sufficient evidence of policy failure to warrant drastic changes to the system. A wholesale reform at such a sensitive time also carries very big risks that will harm future technical and vocational skills – and with it growth, productivity and effectiveness in the public and private sectors.

Five years on from the introduction of the Apprenticeship Levy, what is needed is fine tuning and careful reform, building on the fundamentals achieved to date. Policy-makers need to think creatively about how we improve take-up, particularly among smaller businesses and those learners who could benefit. This requires increased data and funding transparency as well as simpler, streamlined processes. We also argue that government must be wary of restricting what levels or occupations employers can buy through the apprenticeship system. We need to retain the principle of employer choice in the system because it ensures that

apprenticeships are delivering the skills that businesses actually need to improve their performance and productivity.

Government must retain apprenticeships at all levels and across all ages because it ensures apprenticeships are aspirational and because they play a vital role in increasing skills across the existing workforce, supporting non-traditional routes to higher levels of education and training. The ‘all ages, all levels, standards-based’ set of principles has become the foundation of a new **English Model of Apprenticeships** and fundamental to meeting the future skills needs of the economy. If we want to make it easier for employers to spend their Levy funds, whether on their workforce directly, or by transferring their Levy to other organisations, we need to be alert to the potential dilution of quality in the system, something the 2016/17 apprenticeship reforms were designed to fundamentally address and did so successfully.



IMPACT OF APPRENTICESHIPS



‘Productivity’ is an abstract term but it is something we should all be concerned about. Poor productivity, or the level of output from our work, limits economic growth, which directly affects the wages and incomes of us all. Yet, as the Office for National Statistics (ONS) points out, in 2019, “Labour productivity was just 1.2 per cent above its level at the end of 2007”. This is perhaps not surprising when we see how little UK employers spend on training. As the then-Chancellor highlighted in his 2022 Spring Statement: “UK employers spend just half the European average on training their employees. Furthermore, less than ten per cent of the spending on training by UK employers goes to high-quality formal training offered by external providers.”³

Recent apprenticeship reforms were introduced to tackle this productivity problem. And there is increasing evidence that they are delivering on this agenda. Apprenticeships are delivering productivity gains - a key priority for incoming ministers - and transforming organisational cultures around learning and workforce development. For example:

- 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.
- Research from The St Martin’s Group **estimated** employers receive an early net benefit of £2,496 during training, and in some cases significantly more, with their productive contribution standing between £33,759 and £49,500 per year.
- A third of apprenticeships are degree-level and CMI data indicates that degree-level management apprenticeships can lead to more than 20% productivity gains, with private sector productivity gains estimated at 27%.
- 97 per cent of CMI management apprentices said their apprenticeship increased their commitment to improving the training and development of their direct reports in the future at least to a small extent; 51 per cent said to a great extent.⁴

There are now nearly 800 apprenticeship standards, extending from entry level to postgraduate level in a wide range of occupations covering strategic economic and public service priorities, including registered nurse, social worker, data scientist, teacher, civil engineer, clinical scientist, ecologist, architect and doctor. More than 100 UK universities, nearly 150 employer-providers and close to 1,000 colleges and private training providers have been approved by the Education and Skills Funding Agency (ESFA) to deliver apprenticeship provision.

Apprenticeships are also popular with the public. A survey by YouGov for The Times Education Commission found 45 per cent of

people believed apprenticeships offered the best preparation for life, with only four per cent saying the same about degrees alone. A further 44 per cent viewed both equally.⁵ 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. Indeed, several degree apprenticeships have become such aspirational programmes that some have raised concerns over a perceived 'middle class grab'⁶ of apprenticeship places at higher levels. Our data, however, shows the opposite is true: degree apprenticeships are widely accessed, and they are an engine of social mobility. We found:

- 41 per cent of Chartered Manager Degree Apprentices (CMDA) and 32 per cent of Senior Leader Master's Degree Apprentices (SLMDA) were from lower socioeconomic backgrounds, compared to 36 per cent in the UK labour force as a whole and 27 per cent in higher education, according to Higher Education Statistics Agency (HESA) data;⁷ and
- 78 per cent of CMDA and 63 per cent of SLMDA come from families where neither parents went to university.

This shift upward in terms of demand for higher-level skills is also a positive one for businesses and the wider UK economy, even though in the immediate term numbers have declined. This was not the case before the Levy and new apprenticeship standards where, as the Resolution Foundation

highlights that DfE evaluations show, 'half of apprenticeships lasted fewer than 12 months, four in ten 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'.⁸

ADDRESSING THE CRITICISMS



Why standards and quality matter

Despite evidence of policy success, some critics cite as evidence of failure the reduction in the quantity of apprenticeships, especially among SMEs and the number of young people on apprenticeship programmes, typically at Level 2. There is no doubt that the reduction in quantity is something to address, but not by reverting to the situation a decade ago, where an apprenticeship was too often a paper qualification not sufficiently linked to occupational standards and workplace proficiency.

Apprenticeships have emerged as an aspirational programme instead of the 'good choice for other people's children' as they were often seen in the past. Opinion research commissioned by Multiverse found that 66% of respondents say apprenticeships have grown in value, and 56% say they have grown in prestige, in the last five years since the Levy was introduced.⁹ In fact, the Department for Education found that since the Levy was introduced, apprenticeship value add has increased while the graduate salary premium has gone down: "the provision mix for apprenticeships has become more valuable over time, with the value-added per apprentice increasing by 27% since 2012/13."¹⁰ The standards based approach is clearly making progress

towards parity of esteem between higher education and further education, something that has previously proven elusive.

In some occupations, apprenticeships are acting as the key tool to diversify recruitment and provide new avenues for upwards social mobility. The Police Constable Degree¹¹ Apprenticeship is, for example, helping substantially increase the recruitment of women and BAME applicants vital to the effectiveness of policing in the future.

Progression routes are also being strengthened in many professions using apprenticeships, with the Nursing Associate to Registered Nurse apprenticeship being a good example. In the private sector, apprenticeships are providing new opportunities for people to study at higher levels and use their learning to secure long-term business improvements. For example, a recently completed Senior Leader Degree apprentice and SME leader, having left school at 16, used what he learnt to increase company turnover by 30 per cent, to take on new staff and to embed learning and development by extending professional development courses to seven members of his team.¹²

When apprentices study at higher levels and are promoted as a result, they also open up entry-level job roles and less senior workplace opportunities, improving progression routes rather than stifling them.

There have been calls for the Apprenticeship Levy to be limited to certain levels of skill and to be turned into a general skills levy. Without increasing the overall pot of funding, there is a risk that by broadening the range of training that can be funded through the Levy, the impact is a dilution of quality, reduced standardisation and increased potential for employers to spend it on less impactful, short-term, firm-specific training rather than productivity-enhancing learning and development. All approaches that dilute the impact of apprenticeships should be resisted, as this would just create the very 'deadweight' and duplication of existing provision that both free-marketeters and more interventionist politicians fear. The [Employer Skills Survey, 2019](#), for example, found that 30 per cent of employers said at least half of all their training was for basic induction or health and safety training, and less than 10 per cent of the private spending on training by UK employers goes to high-quality on- or off-the-job formal training offered by external providers.

It is not a market failure if employers spend their training budget on developing the skills needed to raise productivity and support social mobility. Indeed, that is how the system is designed: it is a feature, not a bug. And, as already highlighted, apprenticeships are just one aspect of a wider public and private vocational education and skills system.

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 and long-term productivity-focused training provision. Employers want to fill 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. Even worse would be moves to end the Levy, as the UK economy would face lost productivity and growth, and the Exchequer could see a £2.5 bn fiscal black hole.

The English Model of Apprenticeships

In England, apprenticeship reforms have led to the development of a distinctive model of apprenticeship provision that meets our 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. And it is not designed to target training only at those newly entering the labour market, because **80 per cent of the UK's 2030 workforce is already in employment.**

This model is designed to address a specific market failure, which is that in the UK, **employers consistently underinvest in training their workforce** for long-term economic gain, 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; being employer-led; and supporting all ages and all levels.

THE IMPORTANCE OF APPRENTICESHIPS AT HIGHER LEVELS



1. The value of degree and higher-level apprenticeships

In an advanced economy such as the UK, there will be increasing demand for higher-level skills. The ONS found that the largest positive contributor to productivity growth has been workers with higher-level qualifications. Research from Universities UK (UUK) found that the majority (89 per cent) 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.¹³ Higher and Degree Apprenticeships also support social mobility by enabling many people who previously missed out on higher education to access it. Progression to university in and through work, on an apprenticeship, where previously it had not been seen as an option for the apprentice (or their parents/carers), is a strong reflection of social mobility impact, whatever the policy context.

2. Management apprenticeships

Management apprenticeships have reversed the trend of businesses underinvesting in these vital productivity-enhancing skills, and this is having a positive productivity impact. The [Industrial Strategy Council](#) found that by 2030, 2.1 million workers are likely to be acutely under-skilled in at least one core management skill and as four in five of the UK's 2030 workforce are already in employment, training as part of work is

essential. Management is a formal set of skills and a set of skills that workers often acquire some years into their careers and often at higher levels. Given the economic need and the demand from employers and employees alike, anything that cuts off apprenticeships as a route to investment in management skills, especially at higher levels, would be a long-term policy error.

BARRIERS TO TAKE-UP AMONG EMPLOYERS



We have identified the main barriers to take-up of apprenticeships as being:

1. Capacity constraints, in terms of funding but also administrative time, for both large and small businesses, although this is more acute in SMEs;
2. Lack of information, advice and guidance for businesses and individuals and a complex application process; and
3. The risk involved for employers (and providers) in taking on those less ready for work or learning and/ or needing additional support, given their increased needs and chance of dropout - and linked to this limited access to high-quality training provision that can be responsive to the many varying needs of businesses, especially in SMEs where the number of learners may be small.

On this basis, it is not clear how restricting employer choice on apprentice level or occupation would address these challenges and would in fact damage some of the progress that has been made, to embed high-quality training, to provide progression opportunities, and to improve much needed capacity in the public and private sectors. What is needed are system changes to streamline processes and to target interventions that reduce the risk for providers and employers, in order to increase

the numbers accessing England's high-quality apprenticeship system.

Employers, providers and government also need policy stability to properly evaluate the impact of apprenticeships on productivity measures, social and economic outcomes, delivery of public sector services, progression to higher-level, higher-paid jobs, and the professions, and on the green jobs and net zero agendas; not just access and take-up.

RECOMMENDATIONS



1. Clarity and transparency

- a. 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. The Institute for Apprenticeships and Technical Education (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.
- b. 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.
- c. Better data on 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, levelling-up and 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 and prosperous localities and 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.

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