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Report
May 2024

Balancing act: Youth apprenticeships and the case for a flexible skills levy

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Youth Futures Foundation is the national What Works Centre for youth employment. YFF wants employment gaps to be reduced so that young people facing the greatest challenges can find and keep good quality jobs. YFF approaches this by undertaking high quality evaluations, building and sharing the evidence of what works, driving evidence-based change in policy and working with employers and practitioners to improve practice.

Balancing act: Youth apprenticeships and the case for a flexible skills levy

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Foreword

As the What Works Centre for youth employment, we understand the importance of all young people in our country benefiting from high-quality education and training to enter into the workplace and thrive.

For employers, the hunt to recruit and retain young talent for future prosperity, economic growth and resilience has never been more important. Yet the number of young people not in education, employment or training (NEET) has remained significant and stubborn for two decades, and the situation is worsening with the latest NEET figure for those aged 16 to 24 at 851,000, the highest rate in eight years at 12%.

Action to improve opportunities could not be more important for these young people, but also for our economy. Evidence suggests that if the UK were to match the lowest NEET rate in the OECD – that of the Netherlands – we would not only ensure young people themselves are able to achieve a better future, but we could add £69 billion to the UK's GDP over the long term.

Investing in the best-evidenced interventions for getting young people, particularly those most marginalised, into good work is essential if we want to turn the dial for both young people and businesses. Our review of the available evidence, published in our Youth Employment Toolkit, shows that apprenticeships are likely to help young people prepare for and access jobs, yet we know apprenticeship participation has fallen significantly for young people in recent years.

If we are serious about bringing around real change, we need to create the public policy conditions to restore apprenticeships as a key, high-quality route for all young people to access, particularly those facing greater barriers. That's why we are so pleased to be partnering with the CIPD on this important report, which shines a light not only on what's happening in reality in businesses in the current policy context, but – encouragingly – shows strong appetite for embracing potential policy change to commit to prioritising apprenticeship opportunities for young people. Our hope is that this gives policy-makers the confidence to be bold and to start to make the much needed structural changes necessary to support more young people to access apprenticeships.

Barry Fletcher
CEO, Youth Futures Foundation

Introduction

The introduction of the Apprenticeship Levy in 2017 – a 0.5% tax on businesses with an annual pay bill of over £3 million – was an attempt by the UK Government to help improve the apprenticeship system and to counteract the long-term decline in employer investment in training. It was also intended to help address technical skill shortages and gaps, to increase the quantity and quality of apprenticeships, and to boost opportunities for young people (those aged 16–24).

Yet as our analysis shows, the Apprenticeship Levy has so far failed to achieve its aims. Employer investment in training has continued to fall and the overall number of apprenticeships has fallen, especially for young people. The drop in apprenticeships for young people is particularly worrying, as evidence suggests they need them most and benefit most from apprenticeships. With more than half a million young individuals not in education, employment or training (NEET), more, and better, pathways into high-quality employment opportunities are needed – for instance, the Youth Futures Foundation's Youth Employment Toolkit shows that for every 10 young people who can take part in an apprenticeship as a targeted youth employment intervention, one will get a job who wouldn't have done so without the intervention.

Further, since the introduction of the levy, there has been a sharp fall in the number of apprentices in more deprived parts of the country, which suggests the introduction of the levy, alongside other reforms to the apprenticeship system, has undermined apprenticeships as a vehicle for supporting social mobility and levelling up.

More broadly, there is evidence that skills shortages across the economy have been accentuated since the levy's introduction in 2017.

There are also ongoing issues relating to quality – while the changes in the system have shifted provision to higher-level apprenticeships, we have seen a collapse in the achievement rates for apprenticeships at all levels, which now stand at just over half and compare poorly with other parts of the training and education system. The system also faces ongoing challenges, with low levels of small and medium employer (SME) engagement, which have worsened since 2017. While SMEs make up the bedrock of UK business, they are less likely to invest in training and offer apprenticeships. These are all factors that need to be considered if we are to create a skills system that boosts not only levy payers' investment levels, but increased investment in skills across the economy more broadly.

We've published several research reports since the introduction of the levy, highlighting many of the associated problems identified above and calling for additional flexibility in how it operates. Based on this analysis, we have consistently argued that a more flexible skills levy can help boost the uptake of other forms of training, which can be more cost-effective and efficient in developing existing employees, while increasing apprenticeship opportunities for young people who most need and benefit from them.

As we look ahead to a general election, there is a real opportunity for the next government to make reforms to the levy – and to apprenticeship policy more broadly – to ensure the system better meets learners', organisations' and the wider economy's skills needs.

This report provides new analysis on some of the unintended negative consequences of the levy as currently designed and makes recommendations to help inform the design of a new, more flexible, levy.

Background and policy context

The UK Government recognised the need to address the fall in the volume, and level of investment, in employer training in the UK. In response, the Apprenticeship Levy was introduced in 2017 as a means of reversing "the long-term trend of employer underinvestment in training" and improving productivity by boosting the quality and quantity of apprenticeships.[1] By shifting more of the cost to employers, the aim was to encourage them to either expand existing apprenticeship programmes, or introduce new programmes and help counteract the long-term decline in employer investment in training in the UK.

The government justified the need for an apprenticeship levy rather than a broader skills or training levy based on the low levels of apprenticeship take-up by employers compared with other countries, as well as on the need to address skills gaps and shortages at technical level.

The UK Apprenticeship Levy scheme is an outlier in comparison with other countries. Levies designed to solely focus on apprenticeships are rare, with a recent OECD report finding this is only the case in France and Denmark. It is also unlike other training levies in that a very small proportion of employers (2%) pay a very small proportion (0.5%) towards it. It is also worth noting that the UK is distinct from systems such as the German one, which has a fundamentally different structure in supporting apprenticeships.

As of 2017, UK companies with a payroll exceeding £3 million contribute 0.5% of their yearly pay bill to a levy fund, aimed at supporting apprenticeships across businesses of all sizes. Subsequently, the Treasury determines a specific budget allocated to the Department for Education to facilitate apprenticeship programmes in England. Meanwhile, the devolved administrations of Scotland, Wales and Northern Ireland receive proportional allocations through the Barnett formula, albeit not exclusively designated for apprenticeships.

According to the Office for Budget Responsibility (OBR), the levy raised £3.6 billion in 2022/23 – a figure which is forecasted to rise to £4 billion by 2024/25. However, by then, the Department for Education will have a designated budget of merely £2.7 billion for apprenticeship expenditure in England, while the devolved administrations are set to receive approximately £500 million in total. Since the introduction of the levy, the convention has not been to revise the apprenticeship budget after it has been set, which means that approximately £800 million from the Apprenticeship Levy generated in 2024/25 is estimated to be withheld be the Treasury and not allocated towards apprenticeships.

Acknowledging persistent quality issues with apprenticeships, after the Richard Review, the government initiated a comprehensive set of reforms aimed at tackling these concerns. These reforms encompassed the establishment of minimum standards regarding duration and off-the-job training, the introduction of employer-led apprenticeship

[1] HM Government. (2015) *English apprenticeships: Our 2020 vision*.

standards, and the creation of the Institute for Apprenticeships and Technical Education (IfATE) to supervise the quality of the revamped system.

Despite these positive reforms, critics contend that we continue to fall short compared with the apprenticeship systems observed in Europe. For instance, while funding levels are complex to analyse internationally, due to the various mix between the public budget, employers and individuals, the available evidence suggests that the UK spends just the OECD average per full-time student and considerably less than many other, more established European vocational education and training systems (UK spend is 30% less than the German average, and 20% lower than that of France and the Netherlands).

Recent and potential future reforms

The UK Prime Minister recently set out a package of additional support for small businesses who want to take on young apprentices. This included fully funding the costs of apprenticeship training, for those up to the age of 21, thus removing the need for co-investment, which was set at 5% of the costs of hiring an apprentice for SMEs. This package was supported by an investment of £60 million of new funding.

Alongside this, the government announced that it would raise the threshold for unspent levy transfer for large employers to SMEs from 25% to 50%. CIPD analysis has previously raised concerns regarding the collapse of apprenticeship starts for SMEs since the introduction of the Apprenticeship Levy and associated reforms to the system, and while these announcements are welcome, it is unlikely that they will reverse this decline. This is because there is little evidence to suggest that there are many large employers who would transfer more of their levy or that the 5% co-payment for SMEs is a significant barrier for them to hire more apprentices.

The forthcoming general election and the prospect of a new government provide a chance to influence the direction of policy reforms in this area. The Labour Party has already proposed that it would develop a broader 'Growth and Skills Levy' to replace the Apprenticeship Levy.

The key proposal behind this is to essentially allow levy-paying employers to use up to 50% of their contributions to fund non-apprenticeship qualifications approved by a new skills body called Skills England. The list of qualifications that will be eligible is yet to be determined in detail; however, Labour's 'Missions' document suggests it is likely that they would include modular courses in priority areas from Labour's Industrial Strategy, such as digital and green skills, social care and childcare, functional skills, and pre-apprenticeship training – likely targeted mainly at young people.

The Liberal Democrats have also set out proposals, along the same lines, to broaden the Apprenticeship Levy into a wider 'Skills and Training Levy' but with a more explicit focus on social mobility. Under their plans, 25% of the levy's proceeds will be allocated to a 'Social Mobility Fund', specifically directed towards regions facing significant skill shortages.

The Conservative Government has recently criticised Labour's proposals to allow employers to spend up to 50% of their Apprenticeship Levy allocations on other forms of training and development. Drawing on analysis by the Department for Education, they suggest that this would increase this cost by up to £1.5 billion per year and lead to a 60% decrease in the number of apprenticeship starts. However, other commentators have argued that these calculations lack ‘nuance’ and are based on the crude estimation that employers will spend all of the 50% allocation on other forms of training.

From what has been announced or published to date, it is not yet clear what the Conservatives’ policies on the Apprenticeship Levy will be going into an election. It is likely that their positions will become clear only when they publish their election manifesto later this year.

Performance and impact of the Apprenticeship Levy

One of the primary objectives behind the implementation of the Apprenticeship Levy was to reverse the long-term decline in employer investment in training. However, it will only achieve an increase in overall training investment if it avoids certain pitfalls such as substantial dead weight, displacement or substitution.

Dead weight refers to the risk of the government subsidising training that would have occurred regardless, while displacement occurs when employers reduce spending on other types of workplace training. Additionally, there’s an ongoing concern that employers rebrand existing training initiatives as apprenticeships. Although this may still offer some value, such as providing transferable skills to employees, widespread substitution wouldn’t increase the overall volume of training.

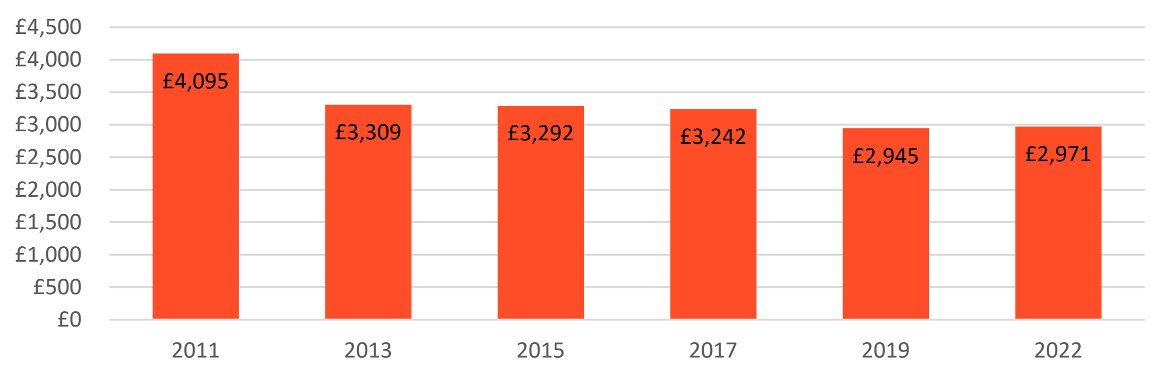
In this section, we review the available evidence on the extent to which the Apprenticeship Levy in its current form is driving an increase in employer investment in training.

Impact on employer training investment

Evidence from the government’s Employers Skills Survey 2022 highlights that employer investment in training has continued to decline on several measures. Figure 1 shows that employer training investment fell from £4,095 per trainee in 2011 to just £2,971 per trainee in 2022, a fall of 27%. The decline in employer training investment has coincided with a decrease in public spending on adult learning, which has fallen by 31% in real terms since its peak in 2003/04, primarily due to reduced provision of lower-level courses.

Figure 1: Employer investment has continued to decline

Employer investment per trainee (adjusted for 2022 prices)



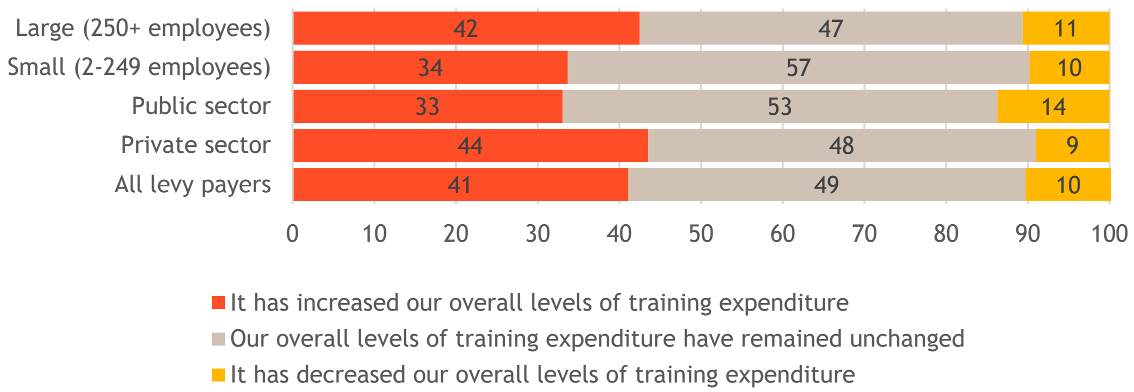
Source: Employer Skills Survey (ESS), Department for Education.

While overall training investment has continued to fall, data from the CIPD's *Labour Market Outlook – Winter 2023/24* report suggests that for those who pay into the Apprenticeship Levy, the impact on overall training has been slightly more encouraging (see Figure 2):

- 41% of levy-paying organisations believe that the levy has increased the overall level of training expenditure.
- However, almost half (49%) of levy-paying employers believe that the policy has had no impact on overall training expenditure in their organisations, and one in ten report that it has led to a decrease.

Figure 2: The Apprenticeship Levy has boosted overall investment in training in only a minority of employers, concentrated in the private sector and among large employers

Has the Apprenticeship Levy increased, decreased, or had no effect on your overall level of training expenditure?



Base: All employers who pay the Apprenticeship Levy: 679; private sector: 476; public sector: 171; SME: 104; large: 574.

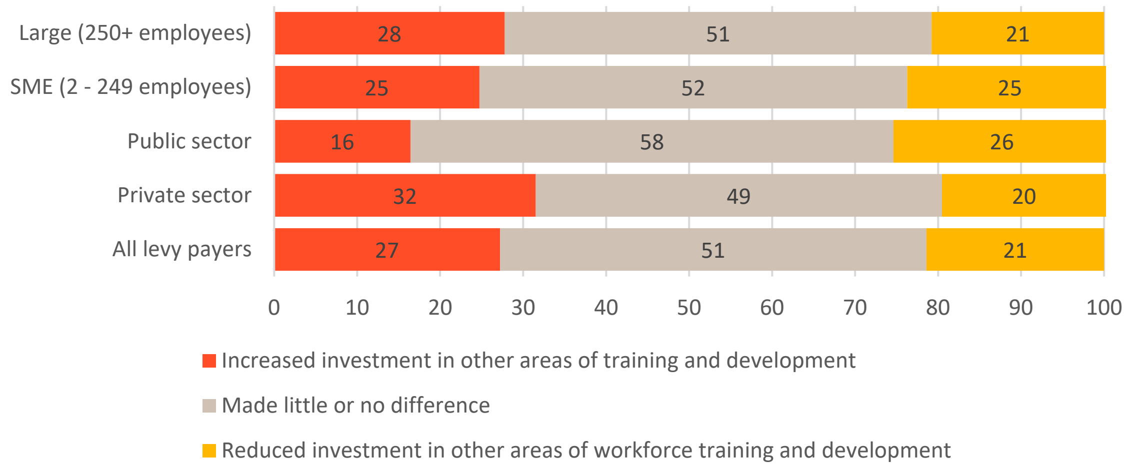
Source: CIPD *Labour Market Outlook - Winter 2023/24*.

SMEs and those in the public sector are less likely to report that the policy has increased overall investment in training. However, as only a small proportion of businesses (2%) pay into the levy yet employ over a third of the workforce,[2] if overall training is boosted, additional mechanisms will be needed to incentivise investment in the broader business community.

Figure 3 also asks employers about the impact of the Apprenticeship Levy on other forms of workforce training and development, to gauge the extent to which the reforms have led to displacement of training effort. In most cases, employers report there are marginal net positive increases because of the Apprenticeship Levy, with slightly more organisations reporting that other forms of training have increased than those who report that it has decreased investment in other areas (net difference of 5.8%). However, this is not the case in the public sector, where the net difference is almost −10%, likely due to the pressure on public finances in combination with the public sector apprenticeship target.

[2] While some SMEs contribute to the Apprenticeship Levy – if they have a pay bill of more than £3 million -larger employers (250+ employees) make up the majority of those that contribute to the Apprenticeship Levy.

Figure 3: What has the impact of the Apprenticeship Levy been on other forms of workforce training and development?



Base: All employers who pay the Apprenticeship Levy: 679; private sector: 476; public sector: 171; SMEs: 104; large: 574.

Source: CIPD *Labour Market Outlook - Winter 2023/24.*

Widespread rebadging of training for existing staff as apprenticeships

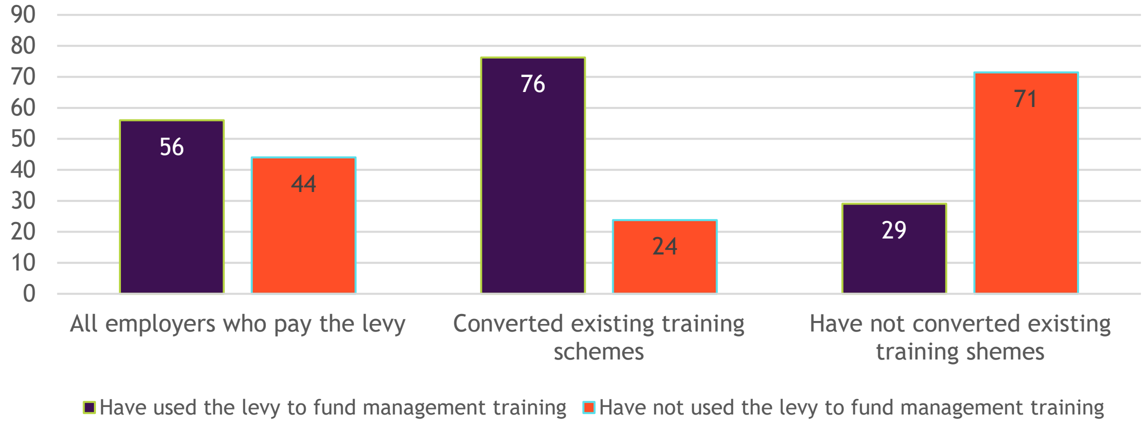
It is likely that much of the reported increase in investment in training as a result of the levy is because many employers have rebadged existing training for staff into more expensive apprenticeship programmes so they can use their levy funds. Previous CIPD research has raised concerns that employers may be rebadging existing training schemes into apprenticeships to claim back their allowance, undermining the ambitions of the reforms to boost employer investment in training. Our recent survey suggests that this practice is indeed extremely widespread: over half (54%) of organisations who contribute to the Apprenticeship Levy reported that they had converted existing training activity into apprenticeship programmes to claim back their allowance.

Those who have converted training into apprenticeships are also much more likely to have used between half and all of their individual levy allowance: almost double the proportion (44%) who have converted training reported that they have used between 50% and 100% of their allowance, compared with just 26% of those who said that they had not converted existing training schemes. As well as being an inefficient use of public money, extensive rebadging is potentially a big cost to the public purse, as employers who spend all of their allowance move into the co-investment model, where they can get a 95% subsidy towards any additional apprenticeship training.

Another sign of potential rebranding of existing training as apprenticeships is the widely documented increase in the number of leadership and management apprenticeships. Employers have understandably looked for ways to make the most of their levy funding, and in some cases struggled to use it for more traditional apprenticeships (we explore this further below). This finding is further supported by our survey results (Figure 4). Overall, just over half of employers who pay the levy had used their allowance to fund management or leadership training, in the form of senior leadership or management apprenticeships. Yet this rose to more than three-quarters who reported that they had rebadged training to claim their allowance.

Figure 4: Employers who report that they have converted existing training schemes are much more likely to have used their funds for management or leadership apprenticeships

Employers who have used the Apprenticeship Levy allowance to fund management or leadership training, by whether they have converted existing training schemes to reclaim funding (%)



Source: CIPD *Labour Market Outlook – Winter 2023/24.*

An analysis of apprenticeship starts since the reforms were implemented provides further support for this: the team leader/supervisor apprenticeship had the second highest number of starts among all standards in 2022/23, which, along with just four other management apprenticeships, accounted for a total of 10% of all apprenticeship starts last year.

While the rise in higher-level apprenticeships is a positive development, extensive rebranding of graduate, professional and management training as apprenticeships risks diminishing the programme's added value and limiting access to apprenticeships for individuals with lower skills and younger age groups. Moreover, higher and degree-level apprenticeships are more costly to deliver than lower-level apprenticeships, meaning that the expansion of this provision necessarily decreases the overall number of apprentices. We have seen the impact of this on the decrease in the number of Level 2 apprentices, reducing the availability of these pathways, for often younger individuals.

Impact on apprenticeship quality

A key ambition of the Apprenticeship Levy, and associated reforms, was to boost the quality of apprenticeships. New employer-led standards were introduced to ensure that apprenticeships met employer need, and the government introduced new minimum standards for duration and off-the-job training, to align apprenticeship provision with international standards. This section considers the evidence on whether apprenticeship 'quality' has improved because of these reforms.

Changes in the quality of apprenticeships

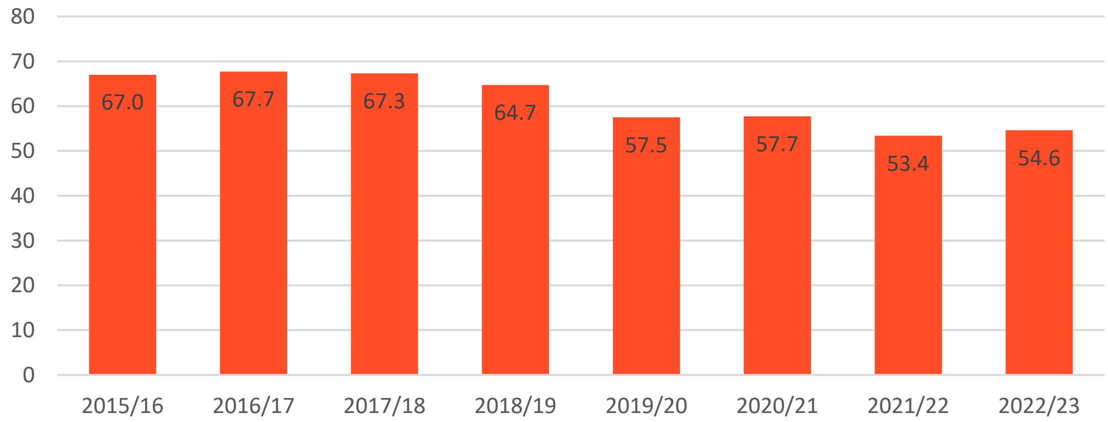
As highlighted above, there have been several areas of improvement to the system over the last decade that should be recognised. Alongside minimum requirements around off-the-job training and programme duration and employer standards, there have also been improvements in how apprenticeship competency is assessed via end-point assessment. Apprenticeships now encompass nearly every sector of the economy, and have coverage across most occupational areas. These are tangible improvements.

However, challenges remain. Turning to apprenticeship achievements – that is, the proportion of apprenticeship leavers who successfully pass the whole framework/standard – as an indicator of quality reveals a concerning picture. In 2022/23, the achievement rate for apprenticeships stood at just 54.6%. It leaves the sector 13 percentage points off of the government's 67% achievement rate target that it hopes to achieve by the end of 2024/25. Moreover, achievement rates compare unfavourably with other parts of the post-16 education and training landscape. For instance, the overall 19-plus education and training achievement rates for England in 2022/23 stood at 84%, with achievement rates for Level 2, Level 3, and Level 4 learning at 82%, 82% and 76% respectively.

Figure 5 shows how achievement rates have changed over time in England. Prior to the introduction of the Apprenticeship Levy, and associated reforms to the system, achievement rates stood at around 67%. By 2022/23 they had dropped to 54.6%, a decline of 12 percentage points.

Figure 5: Achievement rates are considerably lower than pre-levy figures

Apprenticeship achievement rates over time (%)



Source: Apprenticeship statistics, Department for Education.

Achievement rates also vary considerably by sector of study (see Figure 6) – the rates are highest in arts, media and publishing (65%) and lowest in retail and commercial enterprise (47%). As well as varying by sector, they also differ by age: achievement rates are lowest for those aged over 24 (51.6%) and are slightly higher for those aged under 19 (56.3%) and those aged 19 to 23 (58.9%).

Figure 6: Achievement rates are highest in arts, media and publishing, and lowest in retail and commercial enterprise

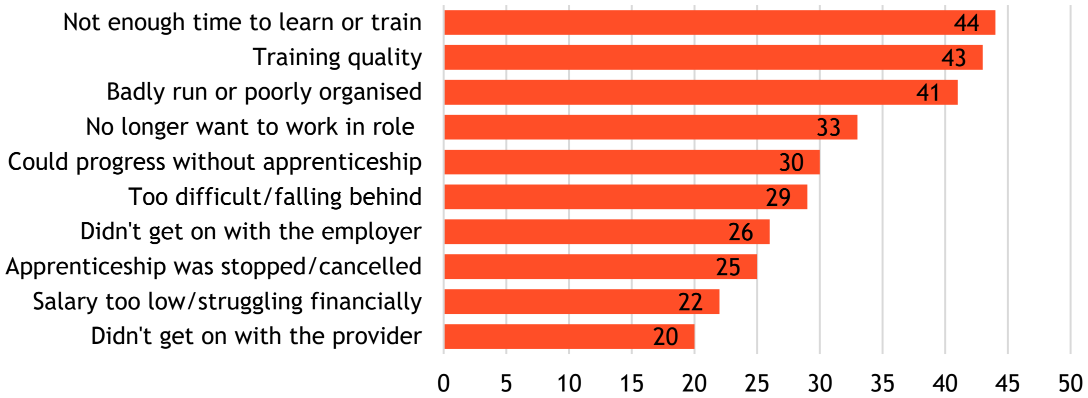
Apprenticeship achievement rate, by sector subject area (%), 2022/23

Source: Apprenticeship statistics, Department for Education.

The reasons for non-completion are complex. However, the recent *Apprenticeship evaluation 2021: learner and employer surveys* provide some insights (see Figure 7). According to the evaluation, the main reasons for non-completion include a lack of learning time, poor quality training and poorly run or poorly organised apprenticeships.

Figure 7: A lack of time to learn and poor training quality appear to be the biggest drivers of non-completion of apprenticeships

Top 10 key or partial reasons for not completing the apprenticeship



Source: *Apprenticeship evaluation 2021: Learner and employer surveys*, Department for Education.

There is also evidence that suggests that a lack of broader wraparound employer support may reduce the retention of younger apprentices. This implies that there are challenges with both the quality of the off-the-job training elements as well as the on-the-job learning experiences of apprentices. It also suggests, given the low overall completion rates, that a sizeable proportion of apprentices are on programmes that do not effectively meet the skills needs of either the individuals or the organisations they work for. The extensive practice among employers to rebadge training as apprenticeships as they seek to use their allowance (as evidenced by the previous section) is also a likely contributing factor to underperformance in this area and highlights the need for more flexible and tailored learning and development opportunities.

Evidence from the *Apprenticeship evaluation 2021: learner and employer surveys* suggest that most individuals who don't finish their apprenticeship tend to drop out before one year of training has been completed (67%), with the average non-completer leaving in month nine of the apprenticeship. While it could be argued that these individuals gain some benefit in terms of skills development from this training, evidence suggests that this productivity benefit is relatively limited given the comparison of wage returns of completers versus non-completers. These low achievement rates cost the public purse a considerable amount of money: we estimate that around £620 million of public funding was wasted in 2021/22 on training for apprenticeships that weren't completed. This was an estimated quarter of the 2021/22 apprenticeship budget (£2.466 billion).[3]

The *Apprenticeship evaluation 2021: learner and employer surveys* also reveal ongoing weaknesses with compliance with the 20% (now six hours) a week off-the-job training component. According to the figures, 46% of learners received less than 20% off-the-job training, while 14% received no off-the-job training at all. Rates of non-compliance were highest in retail, health and education. Further, one in five (21%) apprentices are not even aware of this entitlement, with even lower awareness among apprenticeships in the leisure, travel and tourism and retail sectors as well as entry-level apprenticeships more broadly. It should be noted, however, that while these figures reflect poorly on the apprenticeship system, they represent improvements on previous years.

Ofsted has also noted that there are ongoing challenges with apprenticeship provider quality. In 2022/23, Ofsted found that apprenticeships continue to be the provision type – in comparison with other further education and skills provision – with the lowest performance ratings. Of those who received a full inspection last year, nearly two-thirds of providers had ratings of good or outstanding, but a third were rated as inadequate or requiring improvement.

Ofsted notes that weak/less effective providers are characterised by:

- a failure to consider learners' prior knowledge or experience when planning alongside sub-optimal teaching quality
- a lack on alignment of English and mathematics with industry needs, with a focus on achieving functional skills qualifications instead
- a failure to provide adequate or suitable off-the-job training, or the provision of off-the-job training that is insufficiently integrated with on-the-job training.

In addition:

- employers are not sufficiently engaged in planning or reviewing apprentices' training
- leaders and managers often lack awareness of their provision's shortcomings, as they lack evaluation systems.

[3] We have calculated annual costs based on the average length apprenticeship non-completers (nine months) and calculations are based on the following assumptions: monthly costs are calculated on the assumption that apprentice training is negotiated at 80% of the standards funding band, minus end point assessment costs of 10% (based on figures in IFF research), and divided by the typical duration of the standard. Apprenticeship standards with fewer than 100 leavers and achievers are removed from the analysis.

In terms of apprenticeship quality, it is worth also reflecting back on the findings of the 2012 Richard Review, which provided an assessment of what apprenticeships should be and how they can meet the changing needs of the economy.

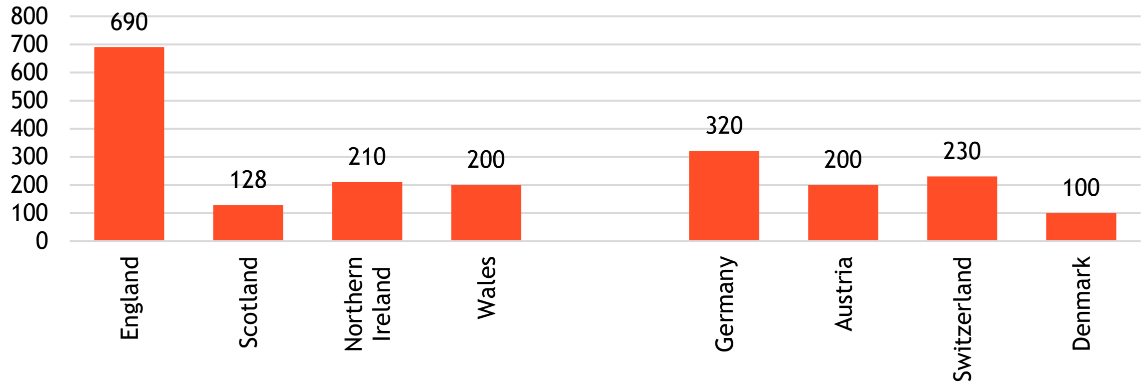
The review set out that an apprenticeship:

- **Must be linked to a real job:** the job they are training for must be real from the outset – they must have the opportunity to learn and apply their skills on the job, at the level to which they are being trained.
- **Must deliver transferable skills:** the successful apprentice must, on completion, be qualified to do the job well in a range of situations and across different companies within a sector, not just within one firm.
- **Involves a new job role:** increasing the skills of people within an existing job that they are already competent in is not an apprenticeship.
- **Must require sustained and substantial skills:** where the transition into a new role can be made relatively quickly, an apprenticeship role is unlikely to be an efficient or proportionate way of investing in the learner.

On these measures there are also several areas of concern. For instance, it has been suggested that a significant portion of apprenticeship standards are narrow and overlapping, restricting the extent to which leaners can develop transferable skills. Some commentators have also noted that the proliferation of these standards indicates a lack of occupational breadth. Presently, there are almost 700 approved standards for delivery in England, a stark contrast to the approximately 200 apprenticeship occupations in Austria, 320 in Germany, 230 in Switzerland, and around 100 in Denmark. Conversely, Scotland, Wales and Northern Ireland have a similar number of apprenticeship occupations compared with other European apprenticeship systems (Figure 8).

Figure 8: England stands out both internationally and compared with the devolved nations in the number of apprenticeship occupational standards, which implies narrower occupations and a lack of occupation breadth

Apprenticeship occupational standards



Sources: *Field, S. (2018) Taking training seriously: Lessons from an international comparison of off-the-job training for apprenticeships in England*. London: Gatsby Charitable Foundation; and CIPD. (2023) *Devolution and evolution in UK skills policy*. London: Chartered Institute of Personnel and Development.

As Field (2023) recently noted, while certain English standards are broad, others are quite limited in scope. For example, Field highlights the following narrow standards that are designed for specific technologies or job roles that are expected to evolve rapidly: dual-fuel smart meter installers, powered pedestrian door installers and service engineers, and anti-social behaviour and community safety officers. Field (2023) goes on to say that “it could be argued that some of the narrower standards are primarily designed to provide additional skillsets for existing workers instead of being a career foundation”.

Furthermore, comparisons with other countries reveal potential weaknesses in terms of duration and the proportion of time spent in off-the-job training. On average, apprenticeships in England are notably shorter, and the off-the-job training component falls towards the lower end of the spectrum. Ensuring that apprenticeship standards build transferable skills and provide occupational breadth would help improve the attractiveness and suitability of the route for both smaller employers as well as younger apprentices starting out on their career pathways. Alongside ensuring occupational breadth, the OECD[4] and others[5] have argued that there needs to be a clearer way of accounting for prior learning within the system. The Richard Review rightly identified that in the past too many apprenticeships had simply been exercises in accrediting existing skills, and the current reforms have been designed to stamp this out. However, the review also argued that there should be mechanisms in place for experienced individuals to achieve recognised occupational competence through end-point assessment but without having to pursue an unnecessary apprenticeship training programme. The OECD argues that most leading apprenticeship countries offer access to an occupational certificate without having to complete a formal apprenticeship:

- In Austria, if individuals can demonstrate sufficient relevant work experience, they can apply for the final apprenticeship examination without enrolling as an apprentice.
- Canada provides an alternative route to trade certification that is open to individuals who meet certain criteria, such as the length of time spent in the trade, and who pass an examination and meet all other requirements to achieve certification by the apprenticeship authority.
- In Germany, individuals may sit an ‘external examination’, which involves the final assessment of the regular apprenticeship programme without completing the programme itself. Access to the exam is limited to individuals with work experience in the target occupation of at least one and a half times the duration of the apprenticeship.[6]

While funding rules require that the cost, duration and content of apprenticeships take full account of prior learning, the OECD argues that in practice this is challenging given that at present no mechanism exists to support ‘top-up training’ or assessments for such individuals (if they require less than the mandated 12-month minimum). Without such a mechanism in place, there is a risk that individuals could be shoehorned into inefficient and expensive apprenticeship programmes. We therefore endorse the OECD’s recommendation that a mechanism that allows for the provision of flexible and modular

[4] Kuczera, M. and Field, S. (2018) *OECD reviews of vocational education and training: Apprenticeship in England, United Kingdom*. Paris: OECD Publishing.
[5] Field, S. (2018) *Taking training seriously: Lessons from an international comparison of off-the-job training for apprenticeships in England*. London: Gatsby Charitable Foundation.
[6] See Kuczera and Field (Note 4) and Field (Note 5).

top-up training should be developed to support individuals who are already experienced in their role to achieve recognised occupational competence.

Impact on apprenticeship starts and opportunities for young people

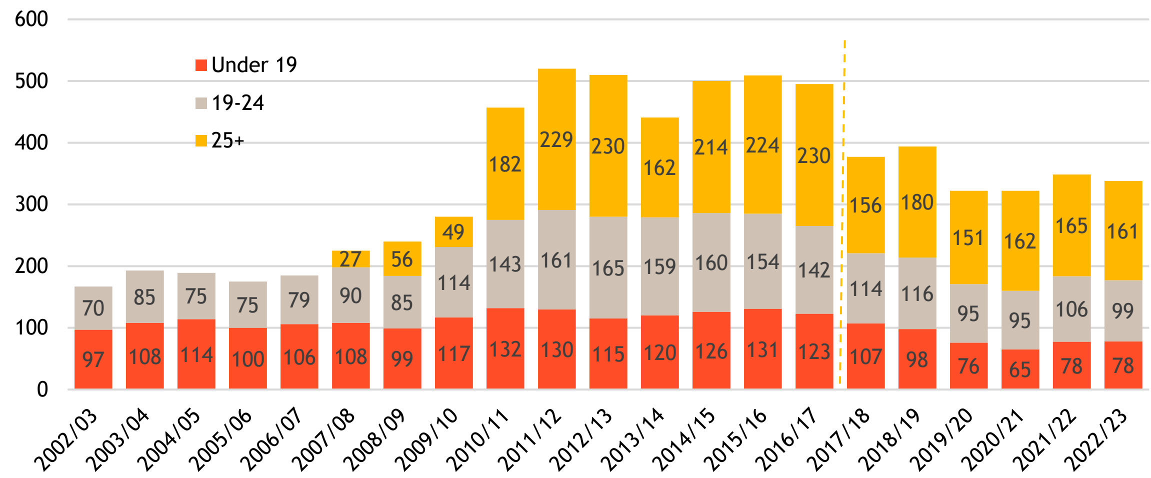
As well as boosting overall employer investment, one of the primary goals of the government's apprenticeship reforms was to increase the number of apprenticeships, particularly for young people, acknowledging the UK's deficiency in intermediate and technical skills provision. The benefits of apprenticeships for young people, especially those most marginalised, [are potentially strong](). However, since the implementation of the Apprenticeship Levy, there has been a significant decline in apprenticeship starts, including those for young people, raising concerns that the current system is still not effectively working as a strong pathway from education into the labour market.

Changing composition of apprenticeships

The fall in the number of apprenticeship starts since the launch of the Apprenticeship Levy in April 2017 has been well documented.[7] In 2022/23 there were a total of around 337,000 apprenticeship starts, considerably below the pre-Apprenticeship Levy figures of 509,000 in 2015/16.

Figure 9: Decline in apprenticeship starts have affected all age groups but young people have experienced the biggest fall

Apprenticeship starts by broad age group, 2002/03 to 2022/23 (thousands)



Source: Apprenticeship statistics, Department for Education.

*(figures may not sum due to rounding)

Base: Ideal purpose, all employers: 2006; main use, employers that offer apprenticeships: 905

Source: *CIPD Labour Market Outlook – Winter 2023/24.*

Figure 9 shows the long-term trend in apprenticeship numbers by broad age category, and the data shows that between 2015/16 and 2022/23, the number of apprenticeship starts:

- fell by 41% for those aged under 19, a fall of almost 54,000

[7] CIPD. (2019) [Addressing employer underinvestment in training](). London: Chartered Institute of Personnel and Development.

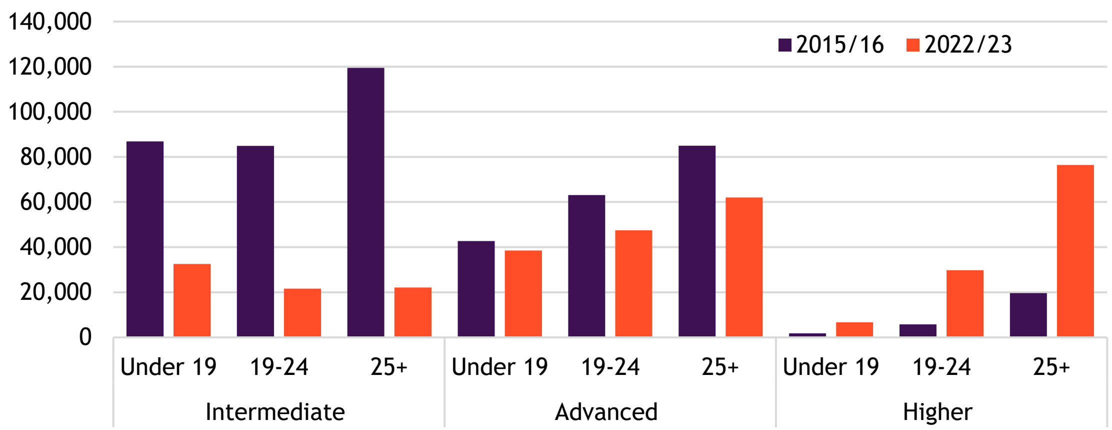
- declined by a just over a third (36%) for those aged 19 to 24 (−55,000)
- fell by 29% for those aged over 25, a decrease of 63,500.

Yet, the shift towards a greater share of apprentices aged 25 and over predates the introduction of the Apprenticeship Levy and associated reforms. In 2005, the apprenticeship system was extended to include those aged 25 and over, which, after the introduction of higher-level apprenticeships in 2010, had a dramatic impact on the age profile of apprenticeship starts.

Figure 10 shows the pattern of apprenticeship starts by age and level for the academic year before the introduction of the Apprenticeship Levy (2015/16) and the current pattern of provision. While all age groups have seen large declines in intermediate apprenticeships (Level 2), the dramatic shift to higher-level apprenticeships (Level 4 and above) has clearly favoured those aged 25 and above.

Figure 10: Younger age groups have not benefited from the shift to higher-level apprenticeship standards

Apprenticeship starts by age and level, 2015/16 and 2022/23



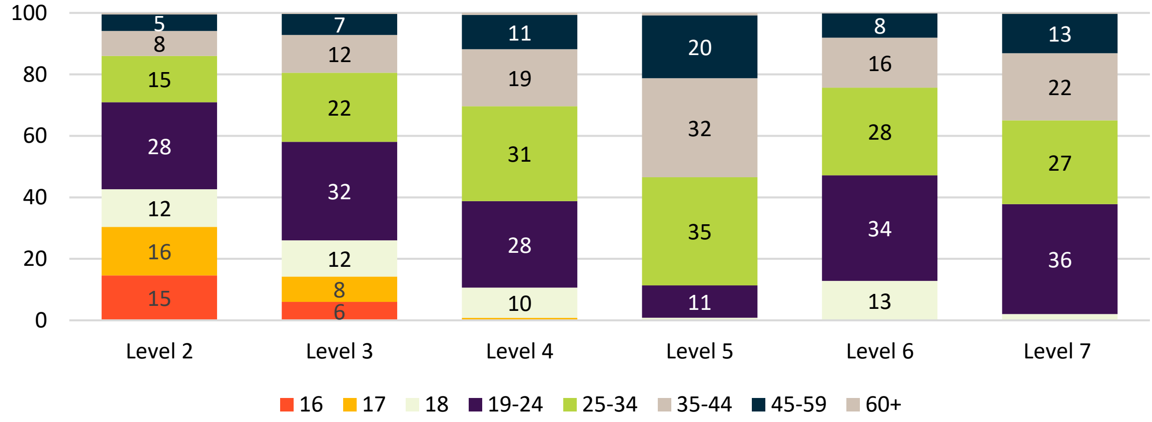
Source: Apprenticeship statistics, Department for Education.

The decline in intermediate apprenticeship opportunities is of particular concern for young people, as it undermines the availability of progression routes. For instance, it is very common for individuals to have multiple apprenticeships. Evidence shows that 45% of 19-24-year-olds who start an apprenticeship at Level 3 to Level 5 have previously completed an apprenticeship, usually at a lower level. Further, the importance of alternative pathways like traineeships, which can lead to apprenticeships, cannot be overstated. Despite robust evidence of strong progression onto apprenticeship programmes for traineeships, funding for this programme was withdrawn in 2023.

A further breakdown of apprenticeships by level and age (as illustrated in Figure 11) shows that the age distribution of apprenticeship entrants varies significantly based on the level of the apprenticeship, particularly within Levels 3–5. Among apprenticeships at Levels 2 and 3, individuals aged 16–18 are more prevalent. They are unsurprisingly less represented at higher levels – given that most in this age bracket are typically pursuing qualifications at Level 3 or below, they will lack the prerequisites for higher-level apprenticeships.

Figure 11: Individuals over the age of 25 make up most apprenticeship starts at Level 4 and 5

Apprenticeship starts by narrow age band and detailed level, 2022/23



Source: Apprenticeship statistics, Department for Education.

Individuals aged 25 and above make up most of the apprenticeship starts at higher levels. They account for up to 61% of starts at Level 4, 89% of starts at Level 5, and over half of those in degree apprenticeships (Level 6). On the other hand, those aged 19-24 are notably underrepresented in higher apprenticeships, particularly at Levels 4 and 5. The over-25s have also disproportionately benefited from the rise of degree apprenticeships, making up more than half (55%) of the growth between 2017/18 and 2023/24.

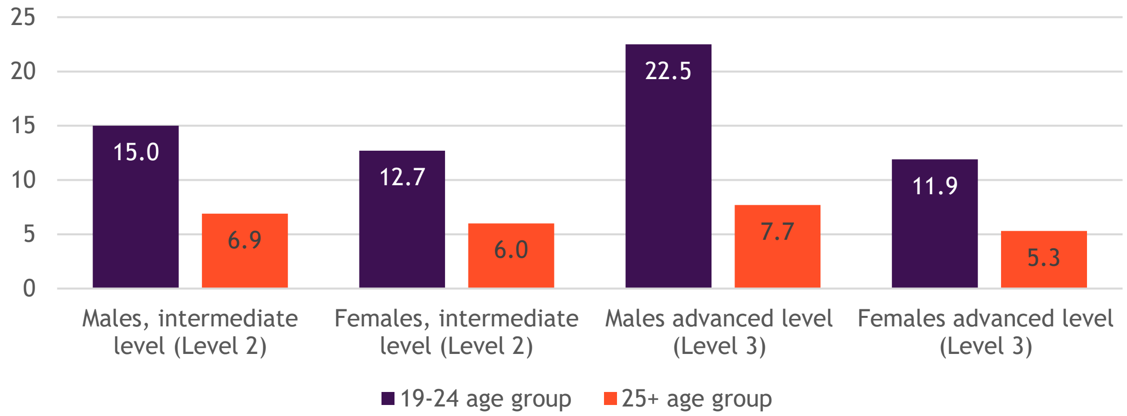
Apprenticeships in England now predominantly attract individuals already active in the labour market rather than those transitioning from school to work, in contrast to many other countries. For instance, the *Apprenticeship evaluation 2021: learner and employer surveys* found over half of apprentices (56%) were already working for the employer where they started their apprenticeship before it began. This was slightly down on previous figures (62% in 2018). Among them, the majority (40% of all apprentices) had been employed by the same employer for at least 12 months prior to starting their apprenticeship, the rest (44% of all apprentices) were new hires. Younger apprentices were much more likely to be new recruits: 75% of under-19s and 55% of 19-24-year-olds were new to the role, compared with just 18% of those aged over 25.

The evaluation also found that individuals undertaking Level 4 and Level 5 apprenticeships were notably more likely to have been employed by their employer before commencing the apprenticeship, at 65% and 90% respectively, in contrast to 48% among Level 2 apprentices and 55% among those at Levels 3 and 6. This is relatively unsurprising given that many Level 5 standards are designed to upskill already experienced employees - for instance to gain accreditation as a manager within that industry. This indicates that apprenticeships at this level are being predominantly used to upskill existing employees.

Yet, research shows (see Figure 12) that most value is added by apprenticeships at a younger age, when apprentices are more likely to be new to a job role rather than 'topping up' existing skills. The data in Figure 12 represents the projected economic benefits of apprenticeships, indicating the extent to which earnings rise upon completion of an apprenticeship, beyond what they would have naturally increased. Across all levels and for both genders, the anticipated earnings gaps associated with apprenticeships are more substantial for apprentices aged 19–24 than for those aged 25 and above, often ranging from two to three times larger.

Figure 12: Younger apprentices are more likely to benefit from enhanced earnings post-completion

Estimated earnings differentials for apprentices, by age group

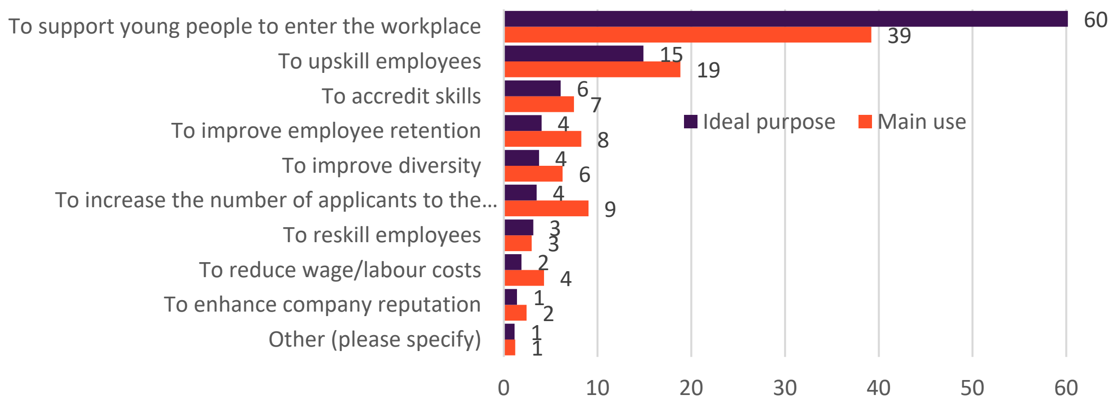


Source: Sheffield Solutions. (2018) [*The value of apprenticeships: Addressing lower wage returns for older apprentices*. University of Sheffield].

Our recent survey of over 2,000 employers shows that organisations recognise the importance of apprenticeships for young people (see Figure 13), with almost 60% reporting that they think that the primary purpose of apprenticeships should be supporting young people to enter the workplace. This compares with just 15% who think that it should be to upskill employees. However, turning to how organisations use apprenticeships in practice reveals a different pattern. While supporting young people remains the largest category, it drops to 39% of employers who report that this is the main role that apprenticeships play in their organisation.

Figure 13: The majority of employers believe that apprenticeships should be mainly used to support young people, yet the actual use of apprenticeships to do so is less prevalent in practice

Employers' view of the ideal purpose of apprenticeships (%) compared with what role apprenticeships play in practice in their organisations (%)



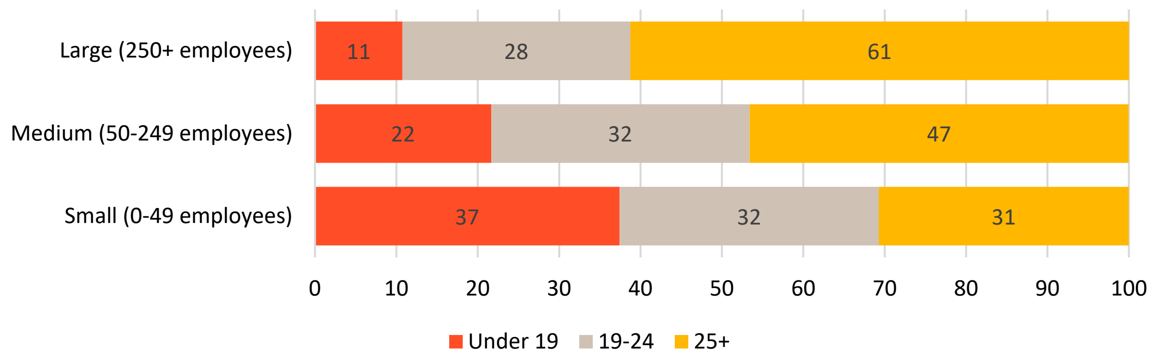
Source: CIPD *Labour Market Outlook - Winter 2023/24.*

As well as changes to the volume and age profile of apprenticeships, there has also been a substantial shift in the type of organisations that take on apprentices. Since the introduction of the Apprenticeship Levy, there has been a collapse in apprenticeship starts among SMEs. This has undermined opportunities for young people as it is this group of employers who are more likely to take on young apprentices and train people with lower qualification levels (Figure 14). Figures on apprenticeship starts by enterprise size show that between 2016/17 and 2020/21 (Figure 15):

- apprenticeship starts for smaller employers decreased by nearly half (−45%)
- in medium-sized enterprises, apprenticeship starts dropped by more than half (−56%)
- larger employers also saw a decline, but this was notably less pronounced (−14%).

Figure 14: Small and medium-sized employers are much more likely to provide apprenticeship opportunities for younger apprentices

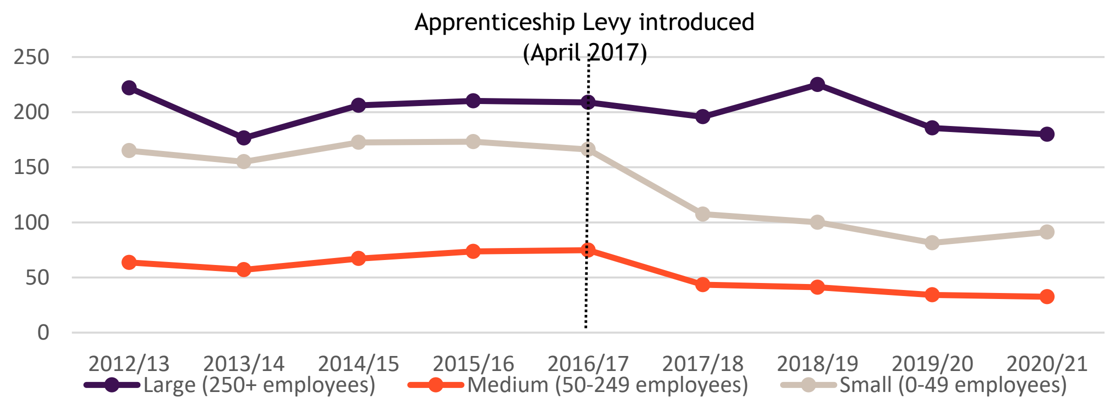
Apprenticeship starts by age band and enterprise size in England, 2020/21 (%)



Source: Apprenticeships in England by industry characteristics, experimental statistics, Department for Education.

Figure 15: Apprenticeship starts for small businesses are 45% below pre-Apprenticeship Levy figures

Apprenticeship starts by enterprise size in England (1,000s)



Source: Apprenticeships in England by industry characteristics, experimental statistics, Department for Education.

Despite the crucial role played by the SME sector in the economy, there are widely recognised barriers to their participation in the skills development system:

- The systems are perceived as overly complex to navigate, with particularly limited awareness of public policy skills interventions among the smallest businesses.

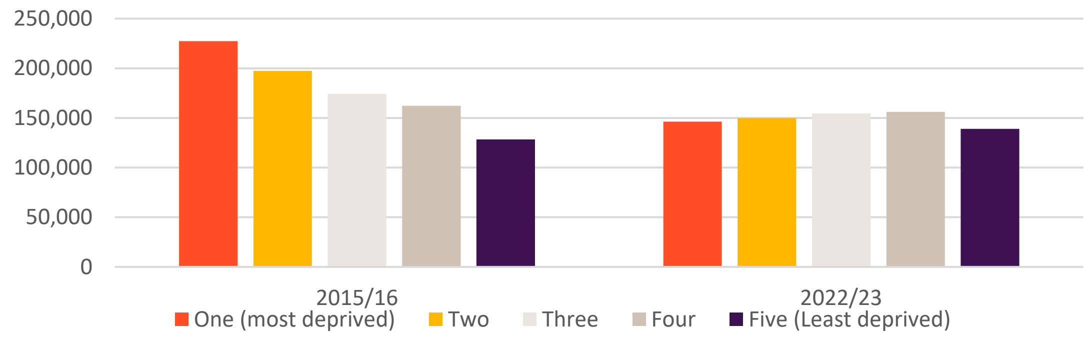
- The lack of dedicated HR personnel often results in minimal strategic workforce skills development, frequently compounded by the absence of allocated training budgets.
- Inadequate people management capability results in a lack of understanding regarding business skills requirements and often leads to an overestimation of skills proficiency.

Persistent socio-economic disparities exist across England, which are also evident in apprenticeship participation rates. Yet, since the introduction of the levy, there has been a particularly sharp fall in the number of apprentices in more deprived parts of the country, which suggests the introduction of the levy, alongside other reforms to the apprenticeship system, has undermined apprenticeships as a vehicle for supporting social mobility and levelling up.

Figure 16 shows that the decline in apprenticeship participation has been significantly more pronounced in areas characterised by high levels of deprivation compared with those with low levels of deprivation. As a result, individuals from disadvantaged areas are now no more likely to start an apprenticeship compared with their more advantaged peers.

Figure 16: Apprenticeships are failing as a vehicle to support social mobility and levelling up

Apprenticeship participation by deprivation quintile 2015/26 and 2022/23



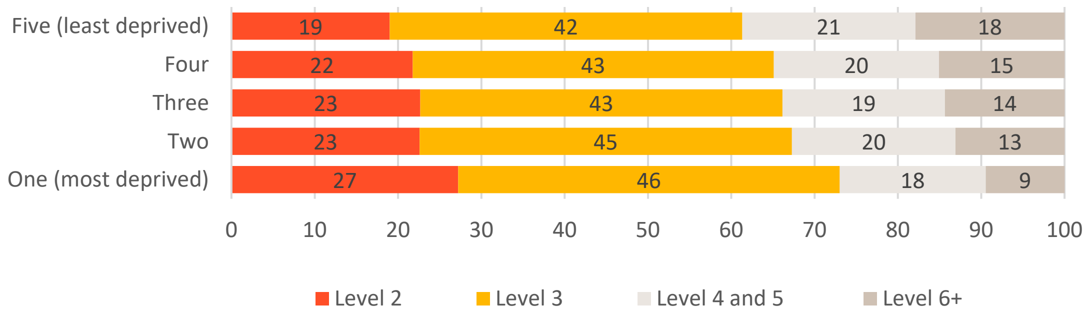
Source: Deprivation tables for further education and skills, DfE

Figure 17 shows that there's a consistent pattern of individuals from more privileged areas engaging in higher apprenticeships. Further, more prosperous areas have benefited disproportionately from the expansion of degree apprenticeships. For instance, 18% of apprenticeship starts in the least deprived areas are at Level 6 and above (degree level) compared with just 9% of apprenticeship starts in the most deprived quintile. Research has also found that individuals who were eligible for free school meals are even less likely to pursue degree apprenticeships than a university degree.

There are also disparities in achievement rates, with Department for Education figures showing that the average achievement rate of apprentices from the most deprived quintile was 49.5% in 2022/23, 8.9 percentage points lower than apprentices from the least deprived areas.

Figure 17: Apprentices who live in more deprived areas are concentrated in lower-level apprenticeships and have not benefited from the growth in degree-level apprenticeships

Apprenticeship starts by deprivation quintile and level, 2022/23



Source: Deprivation tables for further education and skills, Department for Education.

Various factors contributing to these disparities have been identified through research, including financial barriers. Financial barriers are particularly significant for individuals from more disadvantaged areas, for whom local opportunities are scarce, and the low wage rates and travel costs of apprenticeships are prohibitive. Moreover, certain apprenticeship standards have minimum entry requirements, which individuals from disadvantaged backgrounds are more likely to lack, for example maths and English requirements. Furthermore, the complexity of apprenticeship systems may deter those unfamiliar with navigating skills development opportunities.

Box 1: Youth Futures Foundation Youth Employment Toolkit: Insights on the implementation of apprenticeship programmes

As well as providing a quantitative assessment of the evidence base, the Youth Employment Toolkit also brings together qualitative findings and insights from research and practice on implementation of apprenticeships programmes. Key themes from the literature include:

- **effective outreach and recruitment**, with targeted initiatives for under-represented groups
- **preparatory learning and orientation** activities to identify and address gaps in skills or knowledge for young people can improve both recruitment and completion
- **well-structured programmes and learner support**, including pastoral support, progress monitoring, constructive feedback, and line management support and training
- **a good balance between theoretical, technical and interpersonal skills and specialist support for apprentices with additional needs**
- **close collaboration and join-up at all stages between education providers and employers**
- **a close match to local economic priorities** and opportunities in the local labour market and the skills needs of employers.

Source: Youth Futures Foundation Youth Employment Toolkit.

The collapse of apprenticeship opportunities for individuals in disadvantaged areas, particularly the fall in intermediate apprenticeships, has concerning implications for social mobility. Evidence from the Social Mobility Commission suggests that apprenticeships may have a greater impact on earnings for disadvantaged learners than for non-disadvantaged learners. Individuals from disadvantaged backgrounds experience a greater increase in earnings (at age 28) upon completing an apprenticeship compared with those from non-disadvantaged backgrounds. This is particularly evident at the intermediate level, suggesting that apprenticeships effectively facilitate social mobility.

With more than half a million young people not in education, employment or training (NEET), more, and better, pathways into high-quality employment opportunities are needed. For instance, the Youth Futures Foundation Youth Employment Toolkit shows that for every 10 young people who can take part in an apprenticeship as a targeted youth employment intervention, one will get a job who wouldn't have done so without the intervention. Yet, it should also be recognised that young people, particularly those from disadvantaged groups, may require additional support to improve recruitment, retention and completion (Box 1).

Considerations for the next government

The Apprenticeship Levy has consistently failed on all the measures for which it was introduced – addressing poor productivity, reversing the decline in employer investment in training, and enhancing the quantity and quality of apprenticeships, particularly for young people.

There have been some positive shifts, such as the introduction of minimum requirements for off-the-job training and increased employer engagement in standards. However, there has been a significant decline in the number of apprenticeship starts overall and very widespread rebadging of training for existing staff as apprenticeships, as employers seek to spend their levy funds. Closely linked to these changes has been a drastic fall in apprenticeship opportunities for young people, particularly for those who face socio-economic disadvantage. In many cases this has resulted from a collapse in intermediate apprenticeships as well as a large fall in provision of apprenticeships by SMEs. The system is also plagued by very low completion rates, driven, in part, by low-quality training and poorly run and organised programmes.

These challenges underscore the urgent need for the next government to reassess the scope and objectives of the Apprenticeship Levy and consider wider changes to apprenticeship policy.

Whichever party forms the next government, it is critical that any reforms in this space are underpinned by a clarity of purpose about what a broader skills levy is trying to achieve. The CIPD believes this purpose should be to:

- rebalance the apprenticeship system to primarily benefit young people, particularly those who experience socio-economic disadvantage
- boost employer investment in training and tackle critical skills shortages.

Yet, achieving these twin missions requires changes to the apprenticeship system as well as to the broader skills ecosystem as a whole. We discuss these in the next section.

Towards a flexible skills and training levy

Some proponents of the status quo argue against implementing a broader skills or training levy, contending that it would not only reduce the number of apprenticeship opportunities but would also result in significant inefficiencies, as employers would access funding for training they would undertake regardless. For instance, a recent report by the IFS suggests that broadening the Apprenticeship Levy might simply fund training that would have occurred anyway; yet there's strong evidence that this is already occurring under current arrangements. Our survey revealed that 54% of Apprenticeship Levy payers have transformed existing training programmes into apprenticeships to use their allowance.

We believe that the starting point for a consultation on the development of a more flexible skills levy should be that at least 50% of funds should be ringfenced for apprenticeships for young people, with the remainder to be used on other forms of accredited training and development, including pre-apprenticeship programmes and shorter skills interventions, as well as on apprenticeships. Preventing the costly and inefficient rebadging of training should help free up more money for apprenticeships.

Introducing flexibilities that allow employers to use a proportion of their allowance on other forms of training and development should help to minimise this deadweight loss and, perhaps more importantly, ensure that opportunities for young people to access apprenticeships are not eroded further.

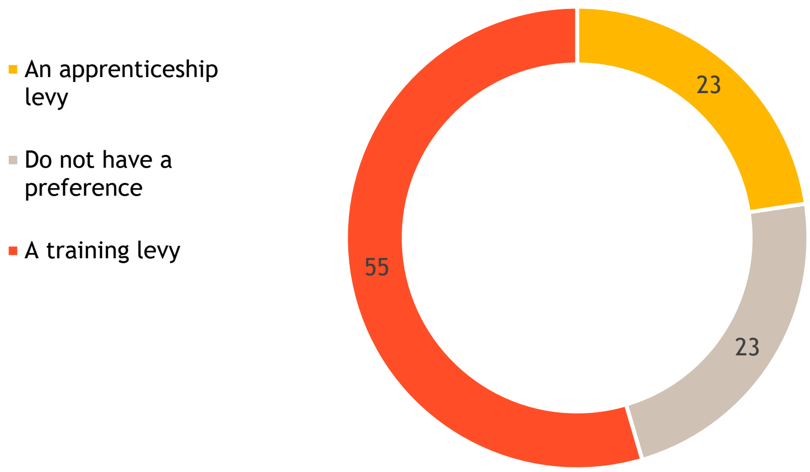
The former requires a strengthened policy framework and social partnership approach to support the identification of current and emerging skills gaps and shortages and the types of accredited training to meet those needs, while the latter could be mitigated via the introduction of an Apprenticeship Guarantee for young people. We consider these in more detail below.

A strengthened framework to address critical skills gaps and shortages

CIPD research has demonstrated employer backing for a broader skills and training levy, with 55% of levy-paying employers expressing a preference for a training levy compared with just 23% supporting an Apprenticeship Levy (Figure 18). However, as previously mentioned, to ensure that these flexibilities lead to an overall boost in employer investment in training, action is needed at both national and sectoral levels.

Figure 18: Strong employer support for a more flexible levy that allows employers to use funding to support other forms of accredited training and development

Preference for an Apprenticeship Levy or a training levy (%)



Base: Employers who pay the Apprenticeship Levy: n=679.

Source: CIPD *Labour Market Outlook – Winter 2023/24*.

A fresh industrial strategy with independent oversight

Last year, we set out our Manifesto for Good Work, calling on the next government to set out a comprehensive and expanded industrial strategy that augments ambitions to elevate the UK into a science and technology superpower, with a focus on enhancing job quality, skills investment and productivity across all sectors. This would require reforms across various interconnected policy domains, including skills development, innovation, business support, and labour market regulations and enforcement.

A refreshed industrial strategy should be underpinned by a comprehensive vision and roadmap for the UK's skills ecosystem capable of delivering a range of technical and adaptable skills demanded by employers. This would seek to bolster investment in workforce planning and development, enabling individuals to adapt, upskill and reskill at various stages of their careers, particularly considering the increasing influence of artificial intelligence (AI) and the imperative of transitioning to a net-zero economy. Oversight of this strategy should be entrusted to a new independent statutory body (such as Labour's proposed Skills England or the Welsh Commission for Tertiary Education and Research), supported by reinforced national, regional and subregional institutions, covering all aspects of tertiary education, skills and training.

A social partnership approach to support the identification of current and emerging skills gaps and shortages

Many countries recognise the importance of organising employers around skills, workforce development and economic growth. These collaborative arrangements, or 'social partnerships', bring together employer and worker organisations, often in conjunction with government, to oversee various aspects of employment and social policy – for instance in Germany, the apprenticeship system is overseen by social partners, organised through statutory 'chambers', while Denmark's vocational 'trade committees' operate at both national and local levels to assess the need for new skills and develop and establish learning programmes.

Without collective organisation to facilitate skills forecasting, collaboration and initiatives for economic development and productivity enhancement, policies in these areas are likely to be ineffective. In the realm of apprenticeships, for example, we have previously highlighted that challenges regarding quality are exacerbated in the UK, particularly in England, due to the absence of an institutional framework and industry-led organisations fostering a collective commitment to skills and apprenticeships.

An increasingly employer-driven system in this context often results in weak and poorly defined demand, primarily driven by individual employers' needs rather than addressing broader sectoral skills gaps. It is evident that robust institutions are needed to articulate demand effectively and shape provisions accordingly. Action is needed to enhance employer engagement in the skills system at both the sectoral and local levels.

Sector bodies can play a crucial role here, addressing both supply- and demand-side skills issues within industries. Strengthening these institutions can foster social partnership and identify common areas of skills shortage; this, in turn, can assist in setting industry priorities for a more adaptable skills and growth levy.

Currently, sector institutions supporting different industries vary significantly, ranging from defunct Sector Skills Councils to employer groups associated with previous government sector deals. Many industry bodies, like the British Retail Consortium and the British Hospitality Association, represent firms in their sectors but may require significant strengthening to play a more meaningful role. Labour's proposed Industrial Strategy Council or Skills England could aim to enhance key sector bodies and bolster their ability to drive collective employer action on workplace practices, improving skills development, job quality and technology adoption.

There is also need for enhanced partnerships between employers and institutions at a local level. Combined authorities are already playing a leading role here, while Local Skills Improvement Plans (LSIPs) have the potential to be a key actor but require long-term and sustainable funding if they are to fulfil this potential and make the required impact.

Broadening the scope of the flexible skills levy

The UK's current levy scheme differs significantly from international counterparts, covering only a tiny fraction of UK employers (approximately 2%) and representing a small scale in terms of its financial magnitude, constituting only 0.5% of payroll bills.

For example, Ireland's National Training Fund (NTF) is financed via an employer levy, which is considerably broader in scope. The NTF provides dedicated funding to aid individuals in transitioning into employment, support those already employed in enhancing their skills, and to promote lifelong learning opportunities. It is financed through a 1% levy applied to 'reckonable earnings' – essentially gross pay – accounting for around three-quarters of all insured employees. The NTF is not limited to apprenticeships but also funds provision in both further and higher education as well as tailored programmes developed in collaboration with employers to meet specific needs. Ireland's NTF has also funded the establishment of sector and local business networks, with a particular focus on small and micro businesses, to provide training and upskilling opportunities.

Any decisions around broadening the Apprenticeship Levy to encompass other forms of training and development will also need to consider longer-term financial sustainability. To secure sustainable funding, the next government should consider, in consultation with employers, whether there is a need to expand the scope of the levy.

An Apprenticeship Guarantee for young people

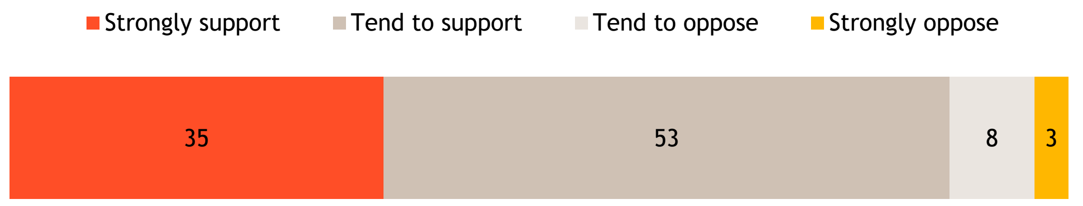
Apprenticeships offer invaluable support for young people transitioning from education to the workforce. However, the evidence presented in this report shows that the apprenticeship system in England has not adequately served young people for an extended period. Most apprenticeship positions are filled by existing employees rather than fresh entrants to the labour market, with a growing proportion of opportunities being allocated to individuals aged 25 and above. It is crucial to rebalance the apprenticeship system to ensure that young people have increased access to these opportunities. It is also critical that measures are put in place to ensure that the introduction of a flexible skills levy does not further erode opportunities for young people.

To help achieve this, we recommend that the next government introduces an Apprenticeship Guarantee for young people up to the age of 24. The rationale for this has been recently set out in The Economy 2030 Inquiry, a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics (LSE). The guarantee would ensure that a Level 2 or Level 3 apprenticeship place is available for every qualified candidate. This was previously set out in the 2009 Apprenticeship Act but was later repealed.

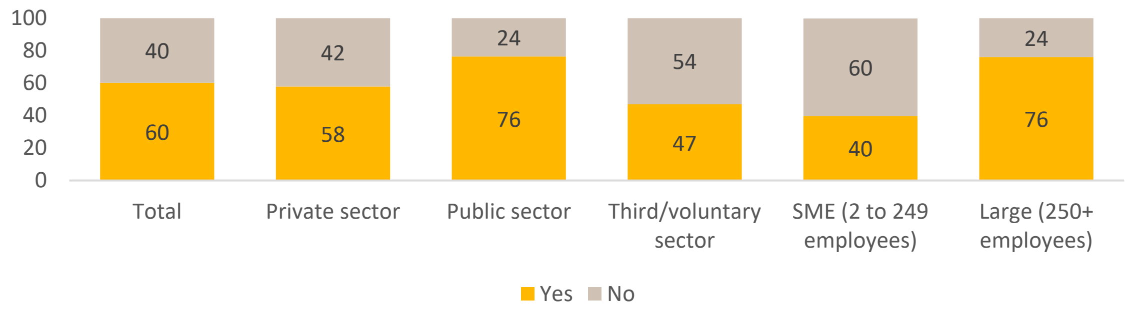
Our recent employer survey suggests that there is strong support for the introduction of an apprenticeship guarantee for young people (Figure 19). The majority (89%) either strongly support or tend to support an Apprenticeship Guarantee, and 60% of organisations report that they would be able to provide an opportunity for a young person if this is brought in.

Figure 19: Strong employer support for an apprenticeship guarantee for young people and ability to provide apprenticeship opportunities

The extent to which employers support or oppose the introduction of an apprenticeship guarantee for under-24s (%)



Whether organisations would be able to offer one or more young people an apprenticeship place than it is currently able to if a guarantee was brought in, by size and sector (%)



Base: All employers ('don't know' removed): n=1,715.

To ensure that sufficient apprenticeship opportunities for young people are available and that they provide a quality career pathway, there is a case for:

- a rebalancing of financial subsidies for apprenticeships towards younger apprentices
- introducing enhanced financial incentives for small businesses
- reviewing apprenticeship standards to ensure that they provide a strong career foundation
- reintroducing a pre-apprenticeship programme, to support people to get the right skills to be able to access, and succeed within, apprenticeships.

Rebalancing incentives to encourage investment in youth apprenticeships

To increase the number of apprenticeship opportunities available to individuals under the age of 25, the next government should consider whether employers should be required to contribute to the training costs of apprentices over the age of 25. Under the previous funding model, training costs were fully subsidised for 16–18-year-olds, 50% subsidised for

19–23-year-olds, and 40% subsidised for apprentices aged 24 and over. To ensure a more equitable distribution of apprenticeship opportunities, the next government should consider whether subsidies should be rebalanced to encourage employers to invest in both younger individuals and those with lower levels of qualification. For instance, this could be achieved via a 50% subsidy for the over-25s who already hold a Level 3 qualification.

Given their high cost, and existing funding mechanisms via higher education loans, consideration should also be given to how degree apprenticeships are funded going forward, potentially restricting their eligibility to those who don't already have a qualification at this level.

Financial incentives to boost apprenticeship opportunities in small firms

Action is also required to boost the number of apprenticeship opportunities in SMEs and reverse the decline in apprenticeship starts among small firms. The government has recently announced a package of support aimed at boosting small firm uptake of youth apprenticeships, fully funding apprenticeship training up until the age of 21. However, the removal of the requirement to co-invest 5% of the training costs in unlikely to shift the dial and more support is required; for small businesses in particular, apprentice hiring incentives can make a difference here (Box 2).

Box 2: Apprenticeship grant for employers of 16-24-year-olds ('AGE 16 to 24')

AGE 16 to 24 was launched in February 2012 in response to rising youth unemployment during the recession. The programme comprised a £1,500 grant per apprentice over and above the cost of training. Initially, to reduce 'deadweight', the grant was available only to SMEs (under 250 employees) who hadn't employed an apprentice within the last three years. This was later extended (August 2012) to include employers with fewer than 1,000 employees who had not recruited or had an apprentice within the last year.

Evaluation evidence showed that the scheme was successful in engaging SMEs, particularly those with fewer than 25 employees, who had never employed an apprentice before. The evaluation further found that the programme delivered a net return to the state of £18 for every £1 spent for intermediate apprenticeships, and £24 per £1 spent for advanced apprenticeships. The study suggested that deadweight levels were around a fifth, based on survey findings that just 22% said that the grant had made no difference to their decision to take on an apprentice.

Source: CIPD. (2020) *Making apprenticeships future-fit*. London: Chartered Institute of Personnel and Development.

Ensuring that apprenticeships provide a strong career foundation

There is a need to ensure that all apprenticeship programmes provide a strong career foundation, develop both occupationally specific as well as transferable skills, and have sufficient occupational breadth. There is also a need to review the content of functional skills in apprenticeships and ensure alignment of English and mathematics requirements with industry needs. We have previously recommended that the Institute for Apprenticeships and Technical Education (IfATE) urgently review all standards to ensure that they deliver quality, with any narrow and overlapping standards removed. This is especially important if apprenticeships are to fulfil the role in providing a strong career pathway for young people. A route for already experienced individuals to achieve recognised occupational competence through end-point assessment without an unnecessary apprenticeship training programme is also needed. More personalised and tailored learning journeys should, over time, help improve achievement rates.

Develop ‘pathway’ apprenticeships through a refreshed pre-apprenticeship programme

The Richard Review advocated for the creation of pre-apprenticeship pathways, emphasising the necessity for a recognised pathway into highly skilled apprenticeships. This recommendation resulted in the emergence of traineeships in 2014, short-term programmes developed to provide 16–24-year-olds with the opportunity to enhance their skills and gain practical experience in professional settings.

An evaluation by the Department for Education reported positive results, with three-quarters of trainees transitioning into further education, apprenticeships or employment within a year of completing the programme. Their evaluation found significant positive results for both the 16–18-year-old cohort and the 19–23-year-old age group. These results were impressive, particularly as almost 50% of the trainees had no GCSE passes at grades A*–C, compared with 18% among non-trainees. Trainees were also 22 percentage points more likely to have special educational needs, alongside poorer school attendance records and higher rates of exclusion. The termination of the traineeships programme has eliminated a crucial initial step on the path to opportunity.

Despite the need for a recognised route into apprenticeships, the government has recently halted the standalone programme, citing low take-up and integrating aspects of the approach back into the Study Programme and Adult Education Budget. The decision faced criticism for removing a crucial ladder of opportunity for disadvantaged young people.

International comparisons show that most other apprenticeship systems offer these types of tailored programmes for individuals who are unable to immediately embark on an apprenticeship journey. In most cases these routes involve large numbers of learners – for every 100 individuals starting an apprenticeship in Germany and Switzerland, there were 52 and 22 pre-apprentices. This type of scale is considerably larger than England’s traineeship programme: in 2022/23 there were just three traineeships started for every 100 apprenticeship starts.

The next government should introduce a refreshed traineeship programme. To boost uptake, this should include financial incentives along the lines of the weekly bursary provided for traineeships in Wales – where individuals are provided with a weekly bursary ranging from £35 to £55 (a benefit that does not interfere with their eligibility for Universal Credit).

Conclusion

In its current form, the Apprenticeship Levy is not working. Employer investment in training continues to decline, and overall apprenticeship numbers have dropped, especially for young people who, the evidence shows, most need and benefit from apprenticeships. The latter trend has been driven partly by the collapse in intermediate apprenticeships, particularly among SMEs. Further, there has been a significant decline in apprenticeships in socio-economically deprived areas since the levy’s introduction, hindering efforts to improve social mobility.

There are also ongoing issues with quality; in particular, the sector is plagued by low completion rates. Our research has highlighted the extensive practice among employers of rebadging training as apprenticeships as they seek to use their allowance, a likely contributing factor to underperformance in this area.

The development of a more flexible skills levy would remove the incentive for employers to rebadge training as apprenticeships and support the provision of other forms of accredited training that can better meet the skills development needs of existing employees. This would ensure that employers could use levy funds to develop both apprenticeship provision and other, more flexible and cheaper forms of training to address critical skills gaps among existing staff.

We believe that the starting point for a consultation on the development of a more flexible skills levy should be that 50% of funds should be ringfenced for apprenticeships primarily for young people and should act as a floor, rather than a ceiling, for employers, who would be able to use the remainder on other forms of accredited training, including pre-apprenticeship programmes and shorter skills interventions, as well as on apprenticeships.

As we have set out in this report, the development of a skills levy would need to be complemented by the development of a renewed industrial strategy, which would have a focus on improving job quality and skills investment and use across all sectors. Employer investment in skills is a derived demand that depends on their business models and strategies and level of HR and people management capability. Consequently, raising employer demand for investment in skills would require changes to complementary areas of policy, such as business support and labour market enforcement.

There would also need to be a focus on strengthening sector-based institutions to identify key skills issues and shortages at an industry level, which could help inform the priorities for a skills levy.

A national-level body such as Skills England could be given the remit to enhance key sector bodies and bolster their ability to drive collective employer action on workplace practices, improving skills development, job quality and technology adoption.

Yet, it is critical that the introduction of a more flexible skills levy does not further undermine apprenticeship opportunities for young people. To ensure young people have increased access to apprenticeships, we are calling on the next government to introduce an Apprenticeship Guarantee for young people up to the age of 24. Our recent employer survey indicates strong support for this, with most organisations expressing willingness to provide opportunities for young people under such a guarantee.

Additionally, to boost the availability of apprenticeship opportunities for young people and ensure these apprenticeships offer a viable and quality career pathway, we propose rebalancing financial subsidies towards younger apprentices.

We also recommend offering enhanced incentives for small businesses, reviewing apprenticeship standards to ensure they offer a strong foundation for the system and can support quality improvement, and reintroducing traineeships to facilitate access to apprenticeships.

It is crucial that the next government tackles the very significant flaws in the skills and apprenticeship system highlighted in this report. If we are to see greater innovation and productivity growth across the economy, there is a need for bold changes to public policy in these areas to enhance employer investment in skills and improve skills development provision for learners.

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