FABIAN SOCIETY

# LEVYING UP

## HOW TO MAKE THE GROWTH AND SKILLS LEVY WORK

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# SUMMARY

## The apprenticeship levy has failed

The apprenticeship levy was intended to create more apprenticeships, meet employer skills needs, and drive social mobility. It has failed on all counts. The levy is also failing to deliver on two of the government's central missions: driving growth and unlocking opportunity.

The apprenticeship levy has **failed to address low investment** in skills. Prior to the introduction of the levy, employer investment in training in the UK was half the EU average. Shockingly, since its introduction, investment has declined by £9.5bn in real terms in England, and apprenticeship starts have fallen by 31 per cent. This has contributed to growing skills gaps, with the number of skills shortage vacancies increasing by 18 per cent since 2015.

The levy has also **exacerbated inequalities in access to training,** shifting opportunities away from people who would most benefit from investment. Since it was introduced, the number of apprenticeships for young people has declined by a third (34 per cent) despite better labour market returns for this group. Despite the previous government's focus on levelling up, the number of starts has declined three times faster in the north-east than in London. While there has been growth in higher-level apprenticeships, many are going to people who are already well qualified. In 2023-24, £430m of levy funding was spent on apprenticeships for people who already had a degree level qualification.

The levy is **neither flexible nor strategic**. It only allows employers to invest in apprenticeships. This restriction has led to existing training being rebadged as apprenticeships, and to additional cost. The levy provides no incentive for investment in industries crucial to growth, and no flexibility to local leaders to drive investment in local priorities.

## The growth and skills levy must unleash growth and unlock opportunity

The Labour government has committed to reforming the levy into a 'growth and skills levy', giving employers more flexibility. However, with the apprenticeship budget overspent last year, ministers face difficult policy choices.

Below, we set out a series of recommendations for the reform of the levy. They are designed to both unleash growth and to unlock opportunity.

First, the levy must boost investment in skills. The government should:

1. Create an employer growth and skills fund, bringing together all funds raised by the levy and the immigration skills charge. This fund should be ringfenced for employer investment in skills.

2. Increase levy contributions from large employers to 0.7 per cent.

3. Lower the threshold to £1m, with medium sized employers paying 0.5 per cent into the levy. This would increase the number of levy-payers three-fold and reverse the decline in apprenticeships at SMEs.

Taken together, the latter two measures would increase revenue from the levy by £2.55bn by 2029/30, providing greater 'headroom' in the budget, enabling flexibility in how funds can be used, and boosting investment.

Second, the levy must rebalance investment. The government should:

4. Refocus levy funds on non-graduates. For most apprenticeship standards, use of levy funds should be restricted to workers without a degree level qualification. This would save £270m on top of the recent restrictions on level 7 apprenticeships, and redirect investment to young people and the less well qualified.

5. Incentivise investment in young people by introducing an apprenticeship grant for employers (AGE). This should provide £3,000 per apprentice aged under 25 at an SME. The cost of the AGE - including the measures set out below – would be £515m, which should be funded through the levy.

6. Introduce an apprenticeship grant for providers (AGP) of £1,000 per apprenticeship start at an SME. Current incentives for providers working with young or disadvantaged apprentices should be increased. This would cost £219m, funded through the levy.

The levy must be both more flexible and strategic. The government should:

7. Give employers across all sectors greater flexibility in how they can use their levy funds. There is strong support from employers for this, with 70 per cent wanting flexibility to use levy funds on other forms of high-quality training beyond apprenticeships.

8. Drive investment in priority sectors. Apprenticeship starts on 'standards' identified as crucial for the high-growth sectors featured

in the government's industrial strategy should be eligible for an additional £3,000 grant as part of the AGE.

9. Align skills policy with immigration policy, and incentivise investment in areas where there are skills gaps in the UK workforce. Apprenticeships linked to occupations on the immigration salaries list should be eligible for a £3,000 payment as part of the AGE.

10. Establish sector skills boards to provide strategic leadership for the skills system. Bringing together employers, unions and providers, the boards should work with Skills England to set training standards, prioritise investment through the levy, and provide intelligence.

11. Give local areas a greater role in the skills system. A local apprenticeship fund should be piloted, giving local mayors the ability to align skills policy with local growth plans.

The table below shows estimates for the revenue raising and spending measures proposed in the report for the year 2029/30. The revenue raised would significantly exceeds the additional spending, providing substantial 'headroom' in the employer growth and skills budget. This would both enable greater flexibility and drive additional investment in skills.

## TABLE 1: THE FINANCIAL IMPACT OF OUR PROPOSED REFORMS

| **Revenue raising/spending reduction measures** | | **Additional spending measures** | |
|---|---|---|---|
| Increase levy to 0.7 per cent for large employers | £1,900m | Apprenticeship grant for employers | £515m |
| Lower threshold to £1m | £650m | Apprenticeship grant for providers | £219m |
| Restrict use of levy funds to non-graduates | £270m | LSIP funding | £10m |
| | | Sector skills boards | £8m |
| **TOTAL** | **£2,820m** | **TOTAL** | **£752m** |

# 1. INTRODUCTION

## Growth and opportunity: why the skills system matters

An effective skills system is essential both to boosting growth and to widening opportunity – two of the government's central missions.

First, a well-functioning skills system can support employers to invest in their workforce and ensure they have the skills that they need to thrive. There is extensive evidence linking the skills of the workforce to productivity. A third of productivity growth between 2001 and 2019 was attributable to improvements in skills in the workforce.[1]

Second, an effective skills system is essential to ensure people can access the opportunities created by growth. This is particularly important for adults who faced barriers to success in school, giving them a second chance to achieve their potential.

An effective skills system is more important now than ever. In the coming decades, we are likely to see a transformation in the labour market, driven by advances in technology including artificial intelligence. Estimates suggest that between 10 per cent and 30 per cent of UK jobs have the potential to be automated in the coming years, with many more being transformed by technology.[2] As the labour market evolves, and as the skills employers need change, it is vital that the training system helps workers to adapt.

However, as we set out below, investment in skills – both by employers and the state – has declined in recent decades. This has contributed to the stagnation in UK productivity and wage growth and it creates barriers to opportunity.

A decade ago, the Conservative government announced the introduction of the apprenticeship levy. This sought to increase the number of apprenticeships, meet the skills needs of employers, and support progression and social mobility. Ahead of the promised reform of the system, this report explores the impact of the apprenticeship levy and sets out recommendations for the new 'growth and skills levy'. It is based on a literature review, analysis of apprenticeship data, interviews, a workshop with employers, providers and experts, and a survey of 2,000 employers.

# 2. WHY HAS THE APPRENTICESHIP LEVY FAILED?

In this chapter, we explore the impact of the apprenticeship levy. We show that the levy has failed to deliver on most of its objectives and is in urgent need of reform.

## The apprenticeship levy

A decade ago, the then Conservative government announced the introduction of an apprenticeship levy.

In announcing the levy, the chancellor, George Osborne, justified the levy on the basis that it would increase apprenticeship numbers, ensure they were high quality, and avoid freeriding by employers.[3] The formal aims of the apprenticeship levy were to:[4]

- Meet the skills needs of employers.
- Create progression for apprentices.
- Widen participation and social mobility.
- Create more quality apprenticeships.

The levy – which came into effect in 2017 – is paid by employers with a payroll bill of over £3m. This means it applies only to 2 per cent of the largest employers nationally, though these organisations account for a significant share of overall employment.[5]

Employers pay 0.5 per cent of their total pay bill above this threshold into a digital account. These funds can be accessed to pay for the training or assessment costs of apprentices they employ. A proportion of unspent funding can be passed on to other employers, including in their supply chains.

While only larger businesses pay the levy, unspent funding from levy-payers is used to subsidise the cost of training apprentices at SMEs. Non-levy paying employers cover only 5 per cent of the training costs for apprentices they employ, with the rest covered by levy funds.[i]

Alongside introducing the levy, the government made several other changes, which sought to increase the quality and esteem of apprenticeships. This included a new set of employer-designed 'standards', end-point assessment, a minimum requirement of 20 per cent of time spent in off-the-job learning, and a minimum duration of 12 months.

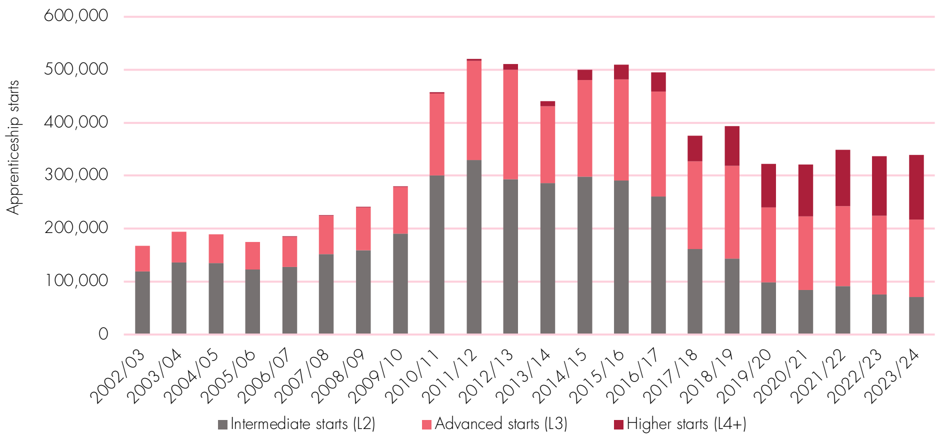
## The levy has failed to address chronic low investment in skills

One of the central aims of the apprenticeship levy was to create more apprenticeships, and to boost employer investment in skills.[6] It has been an abject failure in this regard.

### Apprenticeship starts have declined

As figure 1 shows, the number of apprenticeship starts has plummeted since the levy was introduced. In 2016/17, the year before the levy, there were 495,000 starts. In 2023/24, the last complete year for which data is available, there were just 340,000, a decline of almost a third (31.4 per cent).

FIGURE 1: APPRENTICESHIP STARTS FELL FOLLOWING THE INTRODUCTION OF THE LEVY




Source: Department for Education, Apprenticeship statistics, 2025

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[i] Employers with fewer than 50 employees do not cover any training costs for apprentices aged 16-18, care leavers, or those with an education health a care plan.

## The decline in starts has been largest among apprenticeships that deliver the best returns

Apprenticeships can deliver positive economic returns. However, these vary by level and age.

Apprenticeships at level 2 and 3 have a substantial positive impact on employment and lifetime earnings, and a strong benefit-cost ratio. Level 2 and 3 apprenticeships deliver £5 of economic value for every £1 of economic cost, nearly double the benefit-cost ratio of level 4 and 5 apprenticeships (£3).[7]

As figure 1 above shows, there has been an enormous decline in starts at level 2 since the levy was introduced (73 per cent), with a smaller but significant decline at level 3 (26 per cent). Over the same period, the number of starts at level 4 and above, which tend to be more costly and deliver less value for money, have tripled, increasing by 234 per cent.

### TABLE 2: EMPLOYMENT AND WAGE RETURNS FOR APPRENTICESHIPS ARE HIGHER FOR YOUNGER PEOPLE

| Level | Age | Effect on employment rates (%) | Effect on wages (%) |
|---|---|---|---|
| 2 | 16-18 | 7 | 13 |
| | 19-23 | 6 | 11 |
| | 24+ | 4 | 8 |
| 3 | 16-18 | 7 | 18 |
| | 19-23 | 5 | 11 |
| | 24+ | 3 | 6 |
| 4/5 | 19-23 | 2 | 15 |
| | 24+ | 2 | 10 |

Source: DfE, The net present value of further education In England, 2025

Apprenticeships tend to deliver better economic returns for young workers. As table 1 above shows, the increase in the employment rate seen among young people aged 16-18 who complete a level 3 apprenticeship is over double that seen for people aged 24+, and the wage premium is three times larger.[8] Similarly, analysis by University of Sheffield found wage increases for 19-24 year olds completing an apprenticeship were over double those for adults aged 25 and over.[9]

Yet again, it is these apprenticeships that have seen a larger decline. As figure 5 below shows, the number of apprenticeship starts for young people has fallen rapidly since the introduction of the levy.

The rapid decline in apprenticeship starts at level 2 and 3, and the decline in starts for young people, should be a cause for concern, both in terms of spreading opportunity and driving growth.

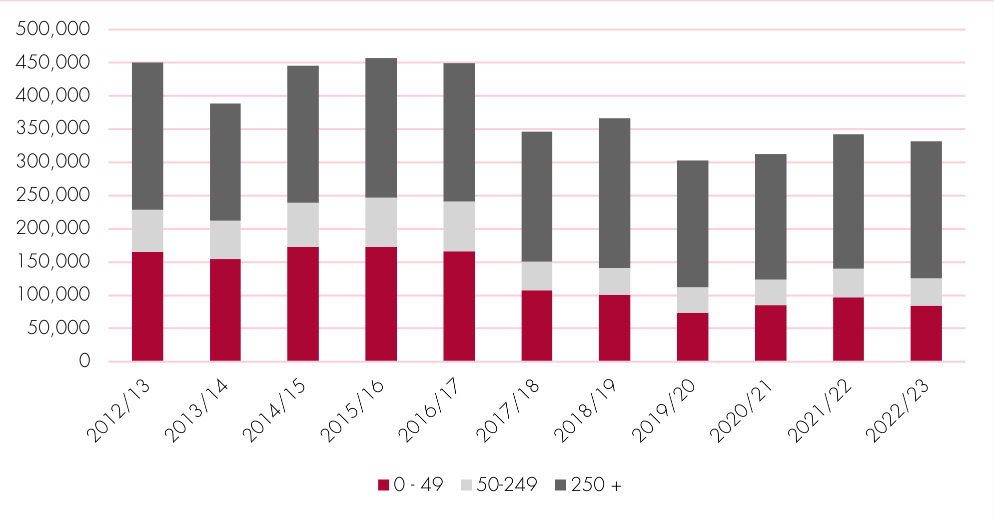
## The fall has been driven by the decline in apprenticeship starts at SMEs

The apprenticeship levy and the wider system is failing to meet the needs of small and medium sized enterprises (SMEs) in particular.

SMEs had traditionally been the engine of the training system. Ahead of the introduction of the levy, employers with fewer than 250 workers employed the majority (53 per cent) of apprentices,[10] and accounted for almost three quarters of employer investment in skills (72 per cent).[11]

The number of apprenticeship starts at SMEs plummeted following the introduction of the levy. Between 2016/17 and 2022/23, the number of apprenticeship starts at SMEs fell by almost half (48 per cent), compared to a decline of just 2 per cent at large employers. SMEs account for 97 per cent of the decline in apprenticeship starts since the levy was introduced.

FIGURE 2: APPRENTICESHIP STARTS HAVE FALLEN BY NEARLY HALF AT NON-LEVY PAYERS SINCE THE LEVY WAS INTRODUCED




Source: Apprenticeships In England by industry characteristics, 2025

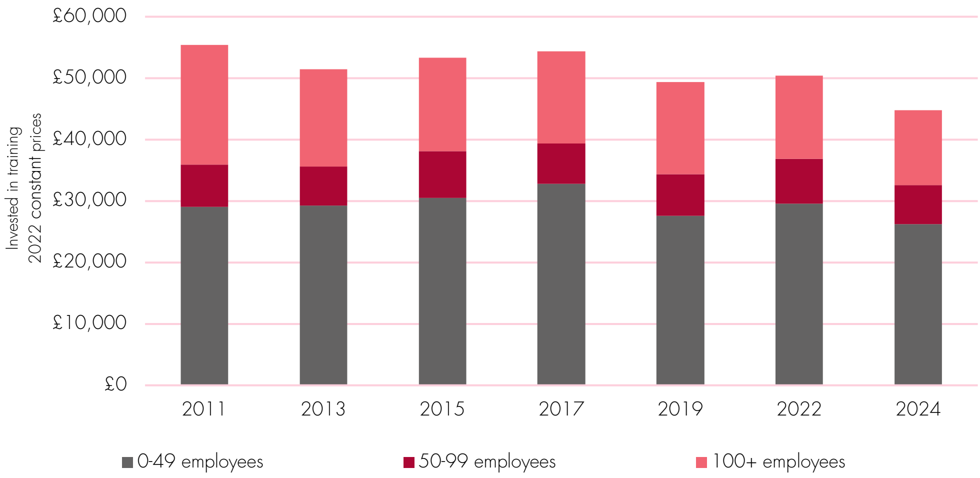
The decline in apprenticeships at SMEs may appear surprising given non-levy payers only pay up to 5 per cent of the cost of training apprentices they employ. However, this demonstrates that there are many other costs and barriers to employing an apprentice. Employers must cover wage costs, supervise and support apprentices, provide on-the-job training, and backfill their role when they are in off-the-job training. This can be more challenging for SMEs than for larger employers with established HR functions. In addition – as we set out below – the levy has shifted incentives for providers, encouraging a focus on supporting large, levy-paying employers.

## Employer investment is low and declining

In 2015, ahead of the introduction of the levy, UK employers invested less than half as much (45 per cent) as the EU average in continuing vocational training.[12]

Addressing this chronic underinvestment was one of the aims of the levy. However, since it was introduced, employer investment has declined further. Total employer investment in skills in England declined by £9.5bn in real terms between 2017 and 2022. The decline across the UK was £10.9bn.

FIGURE 3: EMPLOYER INVESTMENT IN TRAINING IN ENGLAND HAS DECLINED SINCE THE INTRODUCTION OF THE LEVY



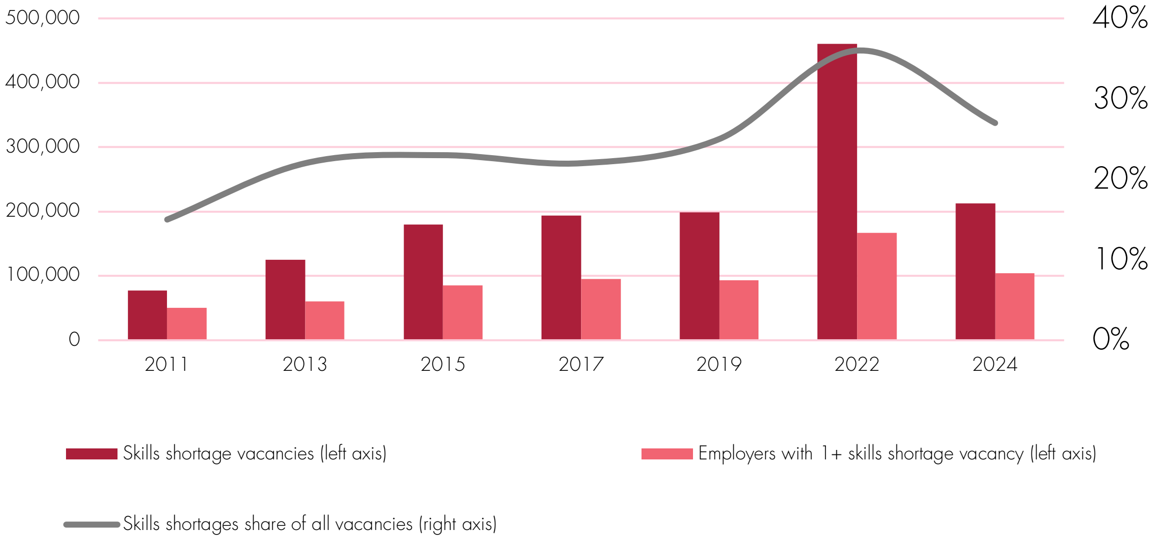

Source: DfE, Explore education statistics; Employer Skills Survey, 2025.

## Skills gaps have increased

The apprenticeship levy sought to meet the skills needs of employers by making the system more employer-led, and responsive to their skills needs.[13] However, as apprenticeship starts and employer investment have declined, we have seen an increase in skills shortages, which are increasingly holding our economy back.

Skills shortage vacancies are roles that remain unfilled due to a lack of candidates with sufficient skills or experience applying. Between 2015, the most recent survey before levy was introduced, and 2024, the number of skills shortage vacancies in England increased by 18 per cent.

FIGURE 4: SKILLS SHORTAGE VACANCIES HAVE INCREASED SINCE THE INTRODUCTION OF THE APPRENTICESHIP LEVY




Source: DfE, Explore education statistics: Employer Skills Survey, 2025

The apprenticeship levy has failed to boost either apprenticeship starts or the low levels of employer investment in skills. The decline in both apprenticeship starts and employer investment represents a drag on growth, contributing to growing skills gaps, and sluggish productivity growth.

## The levy has exacerbated inequalities in access to training

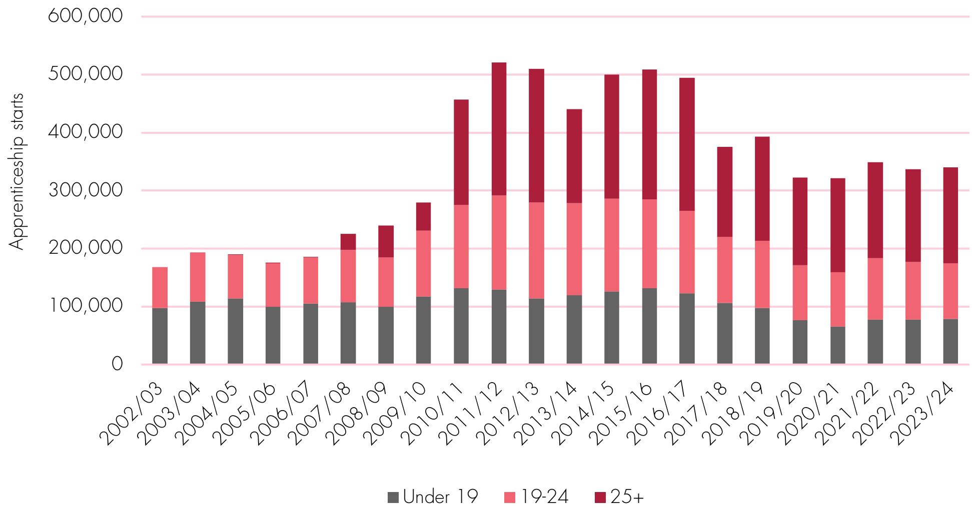
While total employer investment in skills matters, so too does the distribution of investment. The UK has long suffered from stark inequalities in access to training. The levy has aggravated these inequalities, by shifting investment away from those who could most benefit.

### Apprenticeship opportunities for young people have declined

The skills minister at the time the levy was introduced argued one of its aims was "ensuring that young people get their first step on the career ladder".[14]

However, as figure 5 below shows, the number of apprenticeship starts for young people has declined significantly since the levy was introduced. In 2016/17, there were 265,000 apprenticeship starts among young people aged 16-24. By 2023/24, there were just 175,000 apprenticeship starts among this age group, a decline of a third (34 per cent). Nearly half (48 per cent) of apprenticeship starts are now among workers aged 25 and over, something out of keeping with most effective apprenticeship systems internationally.[15]

## FIGURE 5: THE DECLINE IN APPRENTICESHIP STARTS HAS BEEN LARGER FOR YOUNG PEOPLE




Source: DfE, Explore education statistics: Apprenticeships, 2025

The decline in apprenticeship starts for young people is bad for opportunity. The decline has coincided with a rise in the number of young people not in education, employment or training (NEET). The number of young people NEET across the UK rose from 791,000 young people (11.2 per cent) in early 2017, ahead of the introduction of the levy, to 923,000 (12.5 per cent) by the end of 2024.[16] Research by Youth Futures Foundation has shown that apprenticeships have a significant positive impact on youth employment outcomes.[17]

The decline in apprenticeship starts for young people represents a significant risk to the government's commitment to deliver a youth guarantee. This policy, currently being piloted in local areas, will seek to ensure all young people aged 18-21 have access to an apprenticeship, training, or support to find work. Delivering this commitment will require a reversal in the decline in apprenticeships for young people.

The decline is also bad for growth. As set out above, apprenticeships for young workers have better labour marker returns than those for older workers.

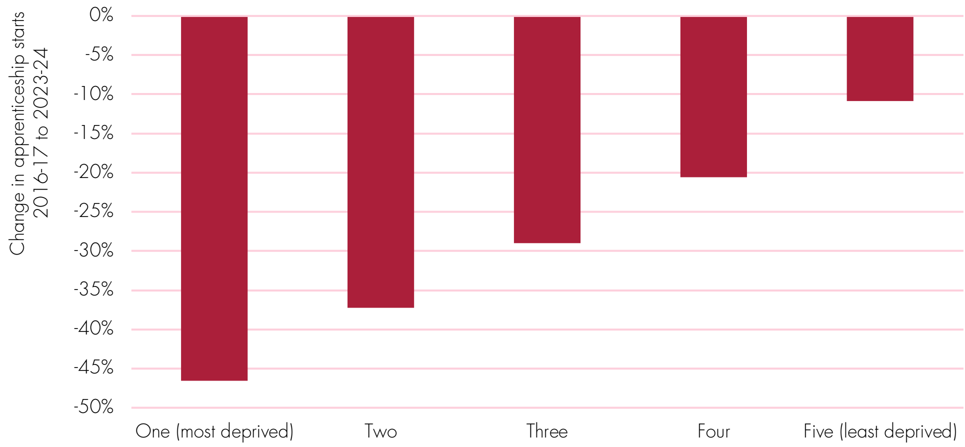
## Apprenticeship starts have declined more in economically disadvantaged communities and regions

One of the stated aims of the levy was to "widen participation and social mobility in apprenticeships, to ensure that more people from a diverse range of backgrounds have access to the benefits of apprenticeships at all levels".[18] The previous government was also committed to 'levelling-up', by narrowing economic gaps between regions.

However, since the introduction of the levy, apprenticeship opportunities – particularly those at a higher level – have shifted away from disadvantaged people, communities and regions.

As figure 6 shows, since the levy was introduced, the number of apprenticeship starts among people living in the most deprived neighbourhoods has fallen by half (47 per cent). This is four times larger than the decline in starts in the least deprived neighbourhoods (11 per cent).

FIGURE 6: APPRENTICESHIP STARTS IN THE MOST DEPRIVED NEIGHBOURHOODS HAVE NEARLY HALVED UNDER THE LEVY




Source: DfE, Explore education statistics: Apprenticeships, 2025

There has also been a shift in who is accessing higher level apprenticeships. Before the levy was introduced, 22 per cent of higher level apprenticeship starts were among people living in the most deprived communities. Just 17 per cent of starts went to people in the least deprived communities. This pattern has now reversed. People living in the least deprived communities now account for a greater share of higher level starts (21 per cent) than those in the most deprived communities (17 per cent).

A similar pattern is visible when considering the change in apprenticeship starts across different regions. As figure 7 below shows, the decline in apprenticeship starts has been largest in regions which have lower levels of qualification among the working age population, lower productivity and lower pay. The decline in apprenticeship starts has been three times larger in the north-east (45 per cent) than in London (15 per cent).

FIGURE 7: THE DECLINE IN STARTS HAS BEEN LARGEST IN THE REGIONS WITH LOWER LEVELS OF QUALIFICATIONS


Source: ONS, Annual Population Survey, 2025, and DfE, Explore education statistics, Apprenticeships, 2025

## More apprenticeships are going to people who are already well-qualified

Employers have long been more likely to invest in training workers who are already well qualified than in those who have low or no qualifications. Across the UK as a whole, workers with a degree level qualification are almost four times as likely to have received job-related training recently compared to those with no qualification.[19]

The apprenticeship levy appears to have exacerbated inequality in access to training, with a growing share of apprenticeships going to people who are already well-qualified.

Recent analysis by SMF found that 56,000 people starting an apprenticeship in 2023/24 – or one in six – already had a level 6 qualification, equivalent to a bachelor's degree. The proportion of apprenticeship starts going to graduates was significantly larger for higher level apprenticeships. Three in four (72 per cent) people starting a level 7 apprenticeship already had a degree level qualification.[20]

The cost of training these already highly qualified workers is substantial. The SMF estimates that some £431m of levy funding in 2023/24 went to apprenticeships for people who already had a degree.[21]

The shift in apprenticeship starts away from young people, those with lower levels of qualifications, and those from disadvantaged backgrounds is a direct result of the apprenticeship levy. Large employers have sought to maximise their use of their levy funds by offering apprenticeships – including at higher level – to existing employees, who are often already well-qualified. At the same time, the number of apprenticeship starts at SMEs – who traditionally have been more likely to employ younger apprentices – has plummeted.

This shift is a significant cause for concern. The decline in apprenticeship starts for young people, people from disadvantaged communities, and people with lower levels of qualifications has created barriers to opportunity. It is also bad for growth because apprenticeships for younger workers and those at lower levels have better labour market returns.

## The levy is neither flexible nor strategic

Currently, the apprenticeship levy is neither flexible nor strategic. It offers employers limited flexibility as to how they can use their funds. Local leaders are not able to work with employers to tailor the system to local needs. Before the recently announced changes, there was no link between the apprenticeship levy and the industrial strategy. And there is no link between the levy and immigration policy.

### The levy offers little flexibility for employers

Currently, apprenticeship levy funds can only be used by employers to invest in the costs of training and assessing apprentices. Employers are not able to use the levy either to cover the wider costs of employing an apprentice, or to invest in any other form of training.

The inflexibility of the levy has caused a number of issues:

- Employer frustration: many employers and employer organisations have expressed frustration about not being able to use levy funds on other forms of training that might better meet their needs.
- Rebadging: CIPD research has found that over half (54 per cent) of levy-paying employers have sought to rebadge existing training as an apprenticeship, in order to make it eligible for levy funding.[22] This has contributed to significant deadweight in the system.[23]
- Higher cost: there is evidence to suggest some employers have used their levy funds to fund training through apprenticeships which

> could be delivered more quickly and at a lower cost through other forms of training.[24]

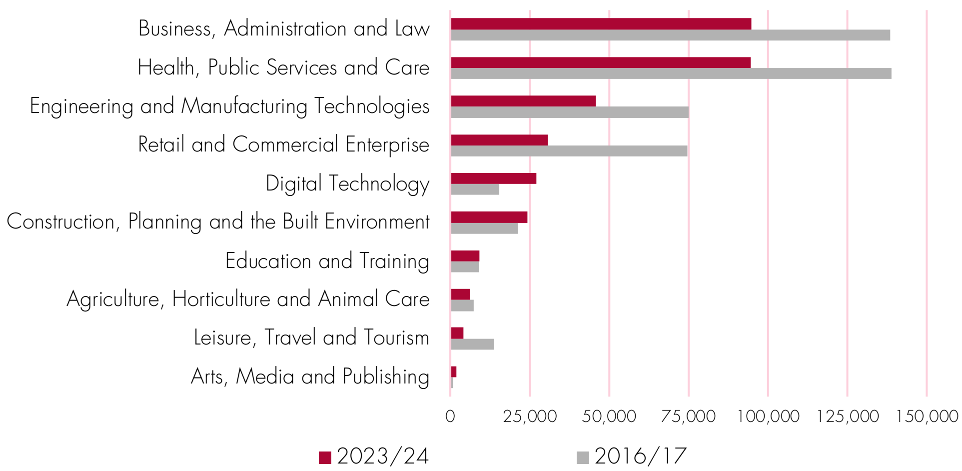
The government has committed to offering employers greater flexibility in how they can use their funds. However, as yet few additional flexibilities have been announced. As we set out below, the limited flexibility offered so far is likely due to the pressure on the apprenticeship budget.

## The levy is insufficiently linked to industrial strategy

At present, the apprenticeship levy is 'sector blind'. There are no incentives within the system for training in priority sectors or occupations.

Figure 8 below shows the change in apprenticeship starts by industry since the levy was introduced. There has been an increase in apprenticeship starts in some sectors relevant to the government's industrial strategy and wider missions, such as digital technology (up 75 per cent) and construction, planning and the built environment (up 14 per cent). However, there has also been a worrying decline in other crucial sectors including engineering and manufacturing (down 39 pe cent) and health, public service and care (down 32 per cent).

FIGURE 8: APPRENTICESHIP STARTS HAVE DECLINED ACROSS MOST INDUSTRIES, INCLUDING SOME CRUCIAL TO THE INDUSTRIAL STRATEGY AND MISSIONS




Source: DfE, Explore education statistics, Apprenticeships in England by industry characteristics, 2025

This is starting to change. The government recently released an industrial strategy, setting out eight priority sectors – the 'IS-8' – which it sees as crucial to driving future growth. The strategy sets out plans to align our skills system with the IS-8 priority sectors. From April 2026, some non-apprenticeship short courses supporting industrial strategy sectors will be eligible for levy funding. These include courses in areas such as digital, artificial intelligence, engineering, creative industries and advanced manufacturing.[25]

However, these new flexibilities remain relatively limited. And beyond the limited flexibilities, there are no additional incentives for employers in these industries to invest in the skills that we need to unlock future growth.

### The levy is highly centralised, with no flexibility for local leaders

There has been significant progress in recent years in employment and skills devolution. This includes the devolution of the adult skills fund, which funds non-apprenticeship further education, and the introduction of local skills improvement plans, which seek to ensure the post-16 technical education system is responsive to local needs.

The government has committed to further devolution within the skills system, and there is an English Devolution bill currently passing through parliament.

However, the apprenticeship system remains highly centralised. Locally elected leaders have no ability to shape the system, or to align incentives with local growth plans.

## The failure of the levy is due to a flawed ideology and a misunderstanding of employer behaviour

The apprenticeship levy was designed based on the idea that the system would work best if employers were put in charge. This rested on the assumption that employers would make rational decisions in a skills marketplace, purchasing training that meets their business needs, and that this would be beneficial both for those employers, for workers, and for the economy as a whole.

This assumption has proven to be flawed. While employers have responded rationally to the apprenticeship levy, the outcome of their individual decisions has not contributed either to boosting growth or to broadening opportunity.

Many levy-paying employers have sought to maximise their use of their levy funds by rebadging existing training as apprenticeships, leading to significant deadweight and additional cost. Levy-paying employers have also sought to maximise investment in existing staff, including those who are already well qualified.

At the same time, we have seen a decline in apprenticeship starts for young people, including a huge decline at level 2. It is these lower-level apprenticeships which are crucial to helping young people start their careers and which offer the best economic returns. Making matters worse, many SMEs have been alienated from the system.

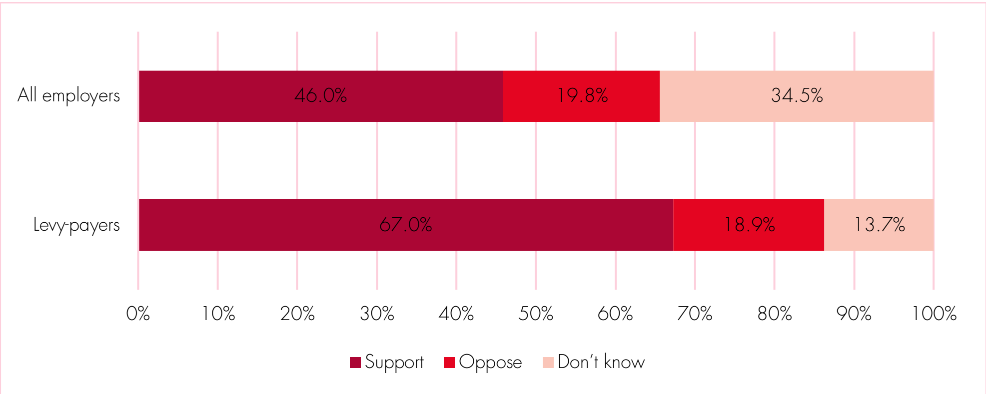
The current apprenticeship system is neither driving growth nor spreading opportunity. We need a more ambitious and strategic employer skills system, which seeks to both boost employer investment and steer investment to where it can deliver most impact.

# 3. REFORMING THE LEVY: WHAT DO EMPLOYERS WANT?

We undertook an employer survey to understand perceptions of the levy and priorities for reform. The survey of over 2,000 employers was undertaken by YouGov as part of CIPD's Labour Market Outlook. Fieldwork took place between June and July 2025, with responses weighted to be representative of all employers by size and sector.

Despite the many challenges with the apprenticeship levy, and the frustrations employers have with the system, there remains relatively strong support among employers for a levy. A plurality (46 per cent) of all employers, and a strong majority (67 per cent) of levy-paying employers support the principle of a levy to increase employer investment in training. Support for the levy has grown over time. In 2016, ahead of the introduction of the levy, just one in three (35 per cent) employers supported the principle of a levy.[26]

## FIGURE 9 – TWO-THIRDS OF APPRENTICESHIP LEVY PAYERS SUPPORT THE PRINCIPLE OF A LEVY

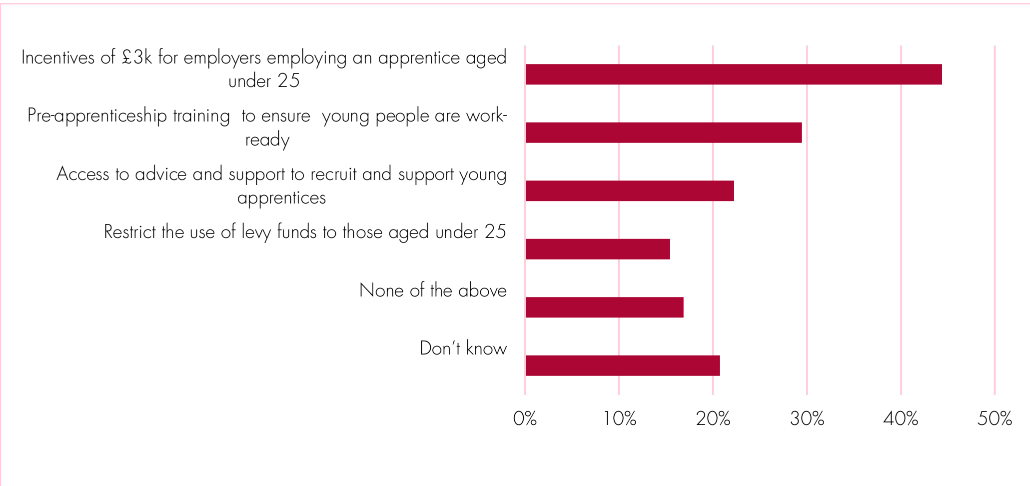



Source: YouGov/CIPD, Employer survey, 2025

However, employers are relatively sceptical of the impact of the apprenticeship levy on their overall investment in training. Just one in five employers (19 per cent) say the levy has increased their investment in skills. Unsurprisingly, levy-payers are more likely to agree, though only 41 per cent say the levy has led them to increase investment.

Employers are evenly split on whether levy funds should be focused on young workers. Thirty-nine per cent say that funding should prioritise investment in apprenticeships for young people, while 37 per cent say that funding should not prioritise any particular age group. When asked what would be the best way to encourage them to take on a young apprentice, employers were most likely to cite incentive payments (44 per cent).

## FIGURE 10: EMPLOYERS SEE FINANCIAL INCENTIVES AS THE MOST EFFECTIVE WAY TO INCREASE THE NUMBER OF YOUNG APPRENTICES




Source: YouGov/CIPD, Employer survey, 2025

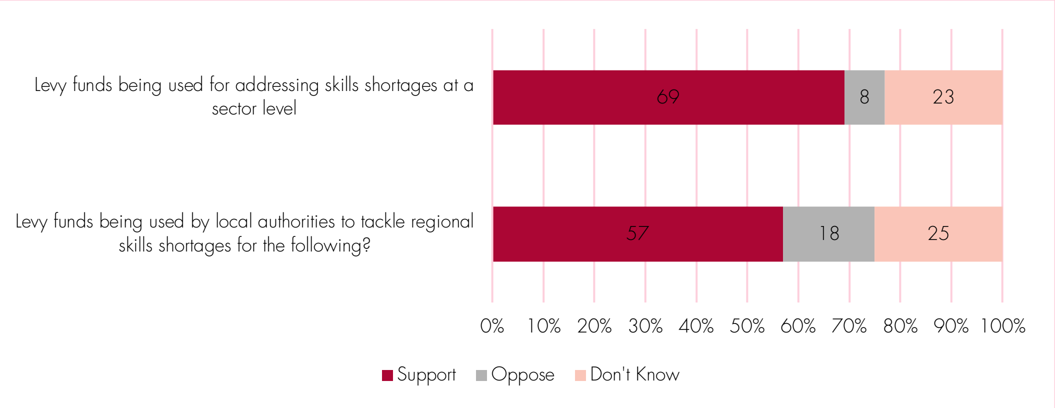
Employers are keen to maintain flexibility in terms of the level at which they can invest their levy funds. Half of employers said employers should be able to invest in apprenticeships at any level. Just 15 per cent of employers wanted to prioritise apprenticeships at level 2-4, with 10 per cent wanting to prioritise investment in higher level apprenticeships.

Employers are broadly supportive of prioritising investment in industrial strategy sectors. Four in 10 employers supported prioritising these sectors, with only three in 10 opposed. Interestingly, this support was relatively broadly spread across industries. A plurality of employers in most sectors outside of the IS-8 supported the prioritisation of these sectors.

We explored a number of options for the use of apprenticeship levy funds:

- There is strong demand for employers to have **more flexibility on the type of training** they can use their levy funds on. Seventy per cent of respondents said they wanted individual employers to be able to use levy funding to invest in other forms of accredited training that meets their needs, with just 6 per cent disagreeing.
- There is similarly strong support for action to **address skills shortages at a sectoral level**. Sixty-nine per cent of employers support levy funds being used in this way, with just 8 per cent disagreeing.
- There is also support for a greater role for **local government in tackling regional skills shortages**. A majority of employers (57 per cent) support levy funds being used in this way, with less than one in five (18 per cent) opposing this.

## FIGURE 11: THERE IS STRONG EMPLOYER SUPPORT FOR LEVY FUNDS TO BE USED TO TACKLE SKILLS SHORTAGES AT A SECTORAL AND REGIONAL LEVEL




Source: YouGov/CIPD, Employer survey, 2025

There is little support among employers for reducing the threshold at which employers start paying the levy. Just over one in four (27 per cent) supported extending the levy to small employers with over 10 employees. Half (50 per cent) supported keeping the current threshold. Perhaps unsurprisingly, opposition was stronger among non-levy payers (60 per cent against vs 20 per cent in favour).

There is more openness to increasing the level of the levy, particularly among levy-payers. Forty-four per cent of levy-paying employers said their priority would be keeping the levy at 0.5 per cent of payroll, even if that meant limited flexibility in how they could use their funds. However, 39 per cent supported an increase in the levy in return for more flexibility in how they can use their funds.

There was some scepticism about reducing the minimum length of an apprenticeship. Just 25 per cent of respondents said that employers should be able to offer apprenticeships shorter than 12 months, with over half (56 per cent) believing this should remain the minimum duration.

# 4. THE GROWTH AND SKILLS LEVY

In their manifesto , Labour committed to reforming the apprenticeship levy into a 'growth and skills levy'.[27] Employers were told that the growth and skills levy would give them greater flexibility to use their levy funds as they saw fit, including on high quality training other than apprenticeships.

## Policy choices

The government has committed to giving employers more control over how they use their funds. There is a clear case for this, and our employer survey found strong employer support. However, the government faces difficult trade-offs.

Giving employers greater flexibility around how they use their levy funds could lead to a further decrease in apprenticeship starts, as employers shift some of their levy funds to other forms of training. It also risks leading to a further overspend in the apprenticeship budget. The apprenticeship budget in England was over-spent for the first time last year, with DfE having to cover the excess from other budgets.[28] If employers were able to use their levy funds on other types of training, there would likely be even greater pressure on the budget. Continued overspends could have a significant impact on non-levy paying SMEs, who are reliant on unspent levy-funds from large employers.

To avoid this and to create more 'headroom' in the levy budget, the government has:

- **Restricted the use of levy fund**s. Earlier this year, the government announced that employers would no longer be able to use levy funds on level 7 apprenticeships for people aged 22 and over. The government hopes this will 'rebalance' training toward lower levels.[29] We estimate that around £200m a year is currently being spent on level 7 apprenticeships for this age group.[ii]

- **Increased the apprenticeship budget.** The government recently announced that the apprenticeship budget for 2025/26 will be £3.1bn, an increase of £346m on 2024/25.[30]

Taken together, the restrictions on the use of levy funds at level 7, and the increase in the budget for 2025/26, create additional 'headroom' of £551m in the apprenticeship budget.

Even with this additional headroom, the government appears to be offering only limited flexibility for employers to use their levy funds on other forms of training. As set out above, only a small number of non-apprenticeship courses, supporting some industrial strategy sectors, will be eligible for levy funds from next year.[31] There has been no such flexibility offered to employers in other sectors, who account for the vast majority of employment.

[ii] We estimate that 19,320 people aged 22 or over started on level 7 apprenticeships in 2023/24. The average cost for a level 7 apprenticeship is £18,148 and the retention rate was 58.5 per cent (Richmond, T, A level of uncertainty, SMF, 2025)

# 5. GROWTH AND OPPORTUNITY: MAKING THE LEVY WORK

This report has shown that the apprenticeship levy has not delivered on its aims. This section sets out recommendations for the design of the growth and skills levy, so that it both unleashes growth and unlocks opportunity.

## Boosting investment in skills

Employer investment in training is lower in the UK than in most comparable advanced economies, and it has continued to decline since the introduction of the levy. Our low levels of investment are a drag on growth.

The government has committed to reforming the levy to give employers more flexibility in how they can use their funds. However, as we set out above, the apprenticeship budget was overspent last year. Despite the changes announced so far, there is likely to be ongoing pressure on the apprenticeship budget. This limits the ability to offer additional flexibility unless more funding is brought into the system.

In reforming the levy, the government should seek to boost the size of the funding pot available to employers, enabling both more flexibility in how funds can be used and greater total investment in skills. It should do so through ensuring all funds raised by the levy are invested in skills, and through both increasing the levy and broadening the levy over time.

### 1. Create an employer growth and skills fund

At present, not all of the funding raised by the apprenticeship levy is invested in apprenticeships. A significant proportion of funding is retained by the Treasury, with no guarantee that it will be invested in skills.

As table 2 below shows, between 2017/18 and 2024/25, £4.5bn of funding raised by the apprenticeship levy was retained by the Treasury. This represents almost a fifth (18 per cent) of funding raised by the levy.[iii]

## TABLE 2: THE TREASURY HAS RETAINED £4.5BN OF FUNDING RAISED BY THE LEVY SINCE 2017/18

| | App. levy revenue (£bn) | DfE app. budget (£bn) | Underspend of app. budget (£bn) | Barnet Consequentials (£bn) | HMT topslice (revenue minus apprenticeship budget and Barnet consequentials) (£bn) | Total funding not spent on skills (underspend + HMT topslice) (£bn) | Proportion of levy funding not spent on skills (per cent) |
|---|---|---|---|---|---|---|---|
| **17/18** | 2.27 | 2.01 | 0.42 | 0.38 | -0.12 | 0.31 | 13.4 |
| **18/19** | 2.71 | 2.23 | 0.49 | 0.42 | 0.06 | 0.55 | 20.4 |
| **19/20** | 2.80 | 2.47 | 0.55 | 0.46 | -0.13 | 0.42 | 14.9 |
| **20/21** | 2.91 | 2.47 | 0.60 | 0.46 | -0.02 | 0.59 | 20.1 |
| **21/22** | 3.21 | 2.47 | 0.01 | 0.46 | 0.29 | 0.30 | 9.3 |
| **22/23** | 3.58 | 2.55 | 0.09 | 0.48 | 0.55 | 0.64 | 17.9 |
| **23/24** | 3.84 | 2.59 | 0.07 | 0.48 | 0.77 | 0.85 | 22.0.8 |
| **24/25** | 4.10 | 2.73 | -0.05 | 0.51 | 0.86 | 0.81 | 19.8 |
| **TOTAL** | 25.426 | 19.51 | 2.23 | 3.65 | 2.26 | 4.47 | 17.6 |

Sources: House of Commons Library, Apprenticeships policy in England, 2024, and DfE, Next generation of builders and carers set to rebuild Britain, 2025

The government should create a new ‘employer growth and skills fund,’ bringing together all of the revenue raised by both the growth and skills levy and the immigration skills charge, minus the funding allocated to the devolved nations in line with the Barnet formula. These two funds are both intended to support investment in skills, and the revenue raised should be used accordingly.

The employer growth and skills fund would be significantly larger than the current apprenticeship budget. The total revenue from the apprenticeship levy and the immigration skills charge – minus the Barnet consequentials – was £3.9bn in 2023/24. This figure is two-thirds higher than the apprenticeship budget in England in the same year (£2.6bn).

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[iii] Fabian Society analysis based on House of Commons, Apprenticeship policy in England, 2024

### The immigration skills charge

The immigration skills charge (ISC) is a levy on employers who bring in skilled foreign workers under the employer sponsorship system.

On introducing the ISC, the government explained the measure aimed to incentivise investment in the resident workforce, and to reduce reliance on migrant workers. They explained that "income raised by the charge will be put towards addressing skills gaps in the UK workforce."[32]

However, the ISC is not ring-fenced for skills, and there is no transparency around how funds are used. The recent immigration white paper again stated that funding from the ISC would be used at the spending review to support training in priority sectors.[33] However, the spending review did not confirm how much funding from the ISC would be invested in skills.[34]

The ISC has raised £2.1bn since it was introduced in 2017/18, with £668m of revenue in 2023/24 alone. The government recently announced plans to increase the immigration skills charge by a third (32 per cent).[35]

Research by CIPD has found that employers who sponsor visas for migrant workers are actually more likely to offer apprenticeships to UK born workers.[36]

## 2. Increase the levy for large employers

As set out above, the revenue currently raised by the apprenticeship levy is not sufficient to enable employers to have significantly more flexibility in how they can use their funds.

The rate of the apprenticeship levy – at 0.5 per cent of payroll – is low compared to similar levies in other countries. For example, Ireland's National Training Fund is set at 1 per cent of earnings.

The government should increase the level of the levy over time to boost total employer investment in training, and to enable greater flexibility in how employers can use their levy funds.

Levy-paying employers are open to an increase in the level of the apprenticeship levy. Our survey found that while 44 per cent would prefer the levy to stay at the current level, 39 per cent would be open to an increase in the levy in return for additional flexibility in how levy funds can be used.

Increasing the levy from 0.5 per cent to 0.7 per cent – without changing the payroll threshold of £3m – would raise an additional £1.9bn by 2029/30.[37]

## 3. Require more employers to contribute to the levy

The apprenticeship levy is very narrowly based. It only applies to a small number of large employers with a payroll of £3m or more. This means just 2 per cent of employers across the UK pay the levy.[38]

Employers are sceptical about extending the levy. Just 27 per cent support extending the levy to organisations with 10 or more employees, with half preferring to keep the current threshold.

However, there is a strong case for expanding the levy. Few SMEs pay the levy, meaning they do not have 'skin in the game'. The number of starts at SMEs has plummeted by almost half since the introduction of the levy. By contrast, apprenticeship starts at large employers have remained broadly flat over the same period.

The limited number of employers paying the levy undermines one of the supposed principles of the system. In announcing the levy, in 2015, the chancellor said that the measure would prevent employers who do not invest in apprenticeships from 'freeriding' on others who do.[39] Yet the vast majority of employers do not pay the levy.

The narrow base of the apprenticeship levy is relatively unusual. Similar schemes, such as the National Training Fund in Ireland, apply to all employers.

Expanding the levy would deliver a dual benefit. First, it would increase the total size of the levy, with more employers paying in, and fewer employers reliant on the unspent funds of levy payers. Secondly, it would give SMEs 'skin in the game', encouraging more to invest in training.

The government should require more employers to contribute to the levy. They should lower the threshold for the growth and skills levy over time: to £2m by 2027/28, and then to £1m by 2029/30, with a potential further extension to smaller businesses in future years.

While it is right that medium-sized employers should pay into the levy, they should pay in at a lower rate than larger employers, at 0.5 per cent. An extension of the levy should come alongside additional support for SMEs. This should include significant financial incentives for SMEs and business support focused on SMEs (see below).

Setting the levy at 0.5 per cent for employers with a payroll of £1-3m would raise around £650m a year by 2029/30.[iv] This measure would increase the number of employers paying the apprenticeship levy by a factor of three, bringing the total to over 100,000.[v] The impact on individual SMEs would be relatively modest. A business with 50 employees on average pay would pay just over £4,500 a year, on average, through the growth and skills levy – 0.2 per cent of their total pay bill.

Expanding the scope of the levy would encourage more employers to recruit apprentices and invest in other forms of training. Reversing the decline in apprenticeship starts at non-levy paying employers seen since 2017/18 would mean an additional 115,000 apprenticeship starts a year.

Taken together, increasing the rate of the levy to 0.7 per cent for large employers, and lowering the threshold as set out above, would increase the amount of funding raised by the levy by £2.55bn by 2029/30, an increase of over half (53 per cent) compared to current forecasts. This could help to reverse the decline in investment in skills, enable greater flexibility for employers to use their funds as they see fit, and pay for the apprenticeship grants for both employers and providers that we recommend below.

While boosting investment in skills is vital, it is important to recognise that employers have faced increasing labour costs in recent years due to rises in both employer national insurance contributions and the minimum wage. The increase of the levy and the lowering of the threshold should therefore be delivered gradually, and in consultation with employers.

## Rebalancing investment in skills

Employer investment in training in the UK is highly unbalanced. Rather than mitigating prior educational inequality, this imbalance in employer investment actively increases inequality.

Since the introduction of the levy, the number of apprenticeships for young people has plummeted, just as the number of young people NEET has risen. We have seen a shift in apprenticeship opportunities away from those with lower levels of qualification toward the already well-qualified; a sharp

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[iv] Modelling by Public First for AELP found that this measure would have raised an additional £400m in 2020. We have inflated this figure in line with the actual increase in levy from the apprenticeship levy since then, and the OBR's forecast increase up to 2029/30.

[v] Public First/AELP estimated that reducing the threshold from £3m to £1m in 2020 would have increased the number of levy payers from around 23,000 to around 81,000. We have assumed a further increase by 2029/30 due to the impact of inflation on employer payrolls over the decade.

decline in apprenticeships in disadvantaged communities and regions; and a precipitous decline in apprenticeship starts at SMEs.

The growth and skills levy should seek to rebalance investment in skills by creating more opportunities for both non-graduates and young people, as well as by boosting investment at SMEs.

## 4. Refocus levy funds on non-graduates

A significant proportion of apprenticeship starts – particularly at higher levels – are currently for people who are already well qualified.

The government is seeking to 'rebalance' apprenticeship spending by preventing employers from using levy funds on level 7 apprenticeships for workers aged 22 and over. This measure is likely to have only a modest impact. We estimate that the cost of level 7 apprenticeships for workers aged 22 and over in 2023/24 was around £200m. However, the savings generated by the policy change may be significantly lower than this figure, as employers and providers may respond by putting workers aged 22 and over on similar standards at level 6. More needs to be done to rebalance employer investment, and to incentivise training for young people and those with lower levels of qualification.

The government should refocus levy funds on non-graduates. Rather than further restricting the use of levy funds based on age and level, the government should instead limit the use of levy funds to apprentices who do not already have a graduate level qualification.

In 2023/24, 56,000 apprenticeship starts – or one in six – were for people who already had a level 6 qualification, equivalent to a bachelor's degree. Graduates accounted for a significantly larger proportion of apprenticeship starts at higher level standards, which tend to be much more costly.[40]

Preventing employers from using growth and skills levy funds on apprenticeships for workers who already have a degree would save around £430m a year compared to the current system, or around £270m after the planned restrictions on the use of levy funding for level 7 apprenticeships take effect in January.[vi] This saving could be invested in other forms of training.

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[vi] £430m of levy funding was spent on apprenticeships for people with a graduate level qualification in 2023/24, of which £182m was for starts at level 7. The government's plan to restrict levy funding for level 7 apprenticeships to workers aged 22 and over would impact 89 per cent of starts at that level. We estimate the restriction of funding at level 7 would reduce the amount of levy spent on graduates by £162m (ie £182m x 89 per cent). Therefore, the

Preventing the use of levy funds on apprenticeship starts for graduates would be a powerful tool to rebalance investment in training. While employers should still be able to offer apprenticeships to graduates, the costs of this training would have to be covered from outside the levy.

This measure would drive a significant rebalancing of investment:

- From the already well qualified to those with lower levels of qualifications.
- From older workers and existing employees who are more likely to have level 6 qualifications, to younger workers taking their first step in a career.

The government should consider exempting some apprenticeships from this restriction, including those that are identified by sector skills boards as crucial for IS-8 sectors, and those that are linked to the immigration salaries list (see below). This would ensure employers are still able to use their levy funds for upskilling graduates in areas which face significant skills gaps.

## 5. Incentivise investment in young people and at SMEs through an apprenticeship grant for employers (AGE)

In addition to refocusing levy funds on non-graduates, the growth and skills levy should seek to reverse the decline in apprenticeship starts among young people and at SMEs.

The number of apprenticeship starts for young people aged under 25 has declined by a third since the introduction of the levy. Similarly, the number of starts at SMEs has declined by nearly half.

The levy currently covers only the cost of training and assessing apprentices. Employers are not able to use their levy funds to cover any of the wider costs of employing an apprentice, which range from the cost of providing on-the job training and supervision to the apprentice's pay.

Employers can access an £1,000 grant for recruiting an apprentice who is aged 16-18; aged 19-24 with an education, health and care plan; or aged 19-24 and in care. However, as these grants are available for only a small

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additional saving of banning the use of levy funds on people with graduate level qualifications would be around £268m (ie £430m - £162m). This is likely to be a conservative estimate. If employers and providers respond to the restriction by putting workers aged 22 and over on similar apprenticeships at level 6. This would reduce the savings generated by the government's policy change. Conversely, it would increase the potential savings of restricting levy funds to non-graduates.

minority of apprentices, their value is low, and awareness is low, meaning they have a limited impact.

Prior to the introduction of the levy, there were much stronger incentives for employers to provide apprenticeship opportunities for young people.

- **An age-related apprenticeship subsidy**. Employers received a variable level of subsidy for training costs based on the age of the apprentice. Apprentices aged 16-18 were eligible for 100 per cent subsidy and those aged 19-24 were eligible for 50 per cent. Those aged 25 and over were ineligible for the subsidy.[41]
- **The apprenticeship grant for employers**. Announced in February 2012, this scheme offered a financial incentive of £1,500 to employers taking on an apprentice aged 16-24. The scheme proved effective at boosting apprenticeships among young people, with two in three (67 per cent) apprentices supported by the programme being age 16-18. The scheme was effective at targeting SMEs. The evaluation found the AGE had limited levels of deadweight, and that it made employers more positive about recruiting young apprentices.[42]

There is more recent evidence of the impact of financial incentives for employers. During the Covid pandemic, additional financial incentives were introduced for employers to take on an apprentice. These led to an increase in apprenticeship starts of 21 per cent. Following the reduction in the incentives, apprenticeship starts fell by 12 per cent.[43]

The government should introduce a new apprenticeship grant for employers to both boost apprenticeship starts at SMEs and redirect investment back towards young people.

The grant should be set at £3,000 per apprenticeship start, and available to:

- SMEs employing an apprentice aged 16-25, at a cost of £260m.[vii]
- Large employers who have not recruited an apprentice in the last year and who take on an apprentice aged 16-25. This measure would cost an estimated £2m.[viii]

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[vii] There were 126,000 apprenticeship starts at SMEs in 2022/23. We have assumed that 52 per cent of these apprentices are aged 16-24 in line with the figure for all apprenticeships, meaning an estimated total of 65,400 apprenticeship starts among this age group at SMEs. We further assume the number of apprenticeship starts among this age group at SMEs increases by a third as a result of the grant.

[viii] There were just 380 large employers (250+ employees) who did not have any apprenticeship starts in 2022/23. We assume one in three large employers who do not

This incentive would be both larger and broader than current incentives for employers. The grant should be paid in two instalments in order to incentivise employers to support apprenticeship completion:[ix] £1,500 on the apprentice starting employment, and £1,500 on the apprentice completing the apprenticeship.

Including the additional elements set out below, the apprenticeship grant for employers would cost around £515m a year, which could be funded from the larger growth and skills levy.

In addition to the positive evidence of the previous scheme, our employer survey suggests that this measure would be effective at incentivising employers to recruit more young apprentices. Nearly half (44 per cent) of employers said that financial incentives of up to £3,000 would make it more likely that they would recruit an apprentice aged under 25. This was significantly more impactful than the other potential policy levers.

## 6. Shift incentives through an apprenticeship grant for providers

In addition to incentivising employers to take on more young apprentices, we need to incentivise providers to play their part.

The apprenticeship levy has shifted incentives for apprenticeship providers and driven a focus on large, levy-paying employers at the cost of SMEs.

Providers engaging with large employers know that they have levy funds to invest and that they will likely have an established HR function and the potential to employ a large number of apprentices. On the other hand, providers know that SMEs are unlikely to pay the levy or have HR capacity, and that they are unlikely to be able to employ a large number of apprentices. As a result of this, it is far more cost-effective for providers to engage with large levy-paying employers, rather than to support SMEs to take on an apprentice.

This inbuilt incentive for providers has contributed to the shift in apprenticeship starts we have seen. Starts have remained flat at large employers, but they have fallen by almost half at SMEs.

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currently employ an apprentice would take on an apprentice each year, with the number of apprentices funded through the grant capped at 5 per organisation.

[ix] Just 61 per cent of apprentices completed their apprenticeships in 2023/24 (Powell, A, Apprenticeship policy in England, House of Commons Library, 2025)

Currently, providers can access a grant of £1,000 toward the additional costs associated with supporting an apprentice who is aged 16-18; aged 19-24 with an education, health and care (EHC) plan; or aged 19-24 and has been in the care of their local authority. However, these grants are small in value, they have a limited impact, and they provide no additional incentive to support SMEs.

The government should introduce an apprenticeship grant for providers to incentivise training providers to engage with SMEs, and to support employment of young apprentices.

The grant should be based on the following:

- £1,000 per apprenticeship start at SMEs. This would cost £167m per annum.[x]
- An additional £1,500 per apprenticeship start for apprentices aged 16-18, or aged 19-24 with an EHC plan or care leavers. This would increase the current incentive by 50 per cent, at a cost of £52m per annum.[xi]
- These grants would shift incentives for providers, encouraging them to engage with SMEs by promoting the benefits of training, helping them to understand the system and the financial support available, and assisting them with the process.

The total additional cost of the apprenticeship grant for providers would be £219m,[xii] with the grant funded through the larger growth and skills levy.

## Making the levy more flexible and more strategic

At present, the apprenticeship levy is sector-blind and centralised. The levy does not incentivise investment in any particular sectors, and it is not effectively linked to the industrial strategy. The levy also does not give locally elected leaders any ability to incentivise investment in priority areas.

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[x] There were 126,000 apprenticeship starts at SMEs in 2022/23 (DfE, Explore education statistics, Apprenticeships, 2025). We assume the number of apprenticeship starts at SMEs will increase by a third due to the additional incentives for providers and employers.

[xi] This cost is based on an assumption that apprenticeship starts for 16-18 year olds increase by a third compared to 2023/24 levels.

[xii] The additional cost excludes the cost of current incentive payments to providers for 16-18 year olds, people with EHCPs or care leavers.

We need to make the levy both more flexible and more strategic; ensuring employers can invest in the training that best meets their needs, linking skills policy to industrial strategy and immigration policy, and powering skills devolution.

## 7. Give employers greater flexibility across all sectors

Under the apprenticeship levy, employers can only use their levy funds to cover the cost of training or assessing apprentices. As we set out above, the lack of flexibility in the type of training employers can invest in has caused a number of issues, including rebadging of training as apprenticeships, high levels of deadweight, and additional cost.

The government has committed to giving employers greater flexibility around how they can use their funds as part of the reform of the levy. So far, however, the government has announced little by way of additional flexibility, limited to a small number of courses, for a small number of industrial strategy sectors.[44] While these sectors are crucial for growth, they account for only a small proportion of total employment.

The government should give all employers greater flexibility around how they can use their levy funds. Employers in all sectors should be able to use growth and skills levy funds on other forms of high-quality training aside from apprenticeships. These courses should be identified by Skills England in partnership with the sector skill boards (see below). Courses should be identified based on:

- **Labour market need**: identified skills shortages for occupations linked to the course.
- **Labour market returns**: demonstrable evidence of a positive impact for individuals in terms of employment and wage returns.
- **Additionality**: the extent to which flexibility would increase investment, rather than funding existing training.

There is very strong employer support for this measure. We found seven in ten employers (70 per cent) want the flexibility to use levy funds on other forms of accredited training to meet skills needs. A mere 6 per cent are opposed.

The limited additional flexibility offered so far by the government is largely due to the limited funding left in the apprenticeship budget. As we set out above, giving employers this greater flexibility would require greater investment through the levy in order to avoid further pressure on the budget or a decline in apprenticeship starts.

## 8. Drive investment in priority sectors

The apprenticeship levy is currently 'sector-blind', with no prioritisation for particular sectors.

It is right that employers across all sectors should be encouraged and supported to invest in the skills. However, we also need to better link our skills system to our industrial strategy, so that these policy levers work in tandem to unleash growth.

The government should ensure that the growth and skills levy drives investment in priority sectors. The levy should be more strategic, incentivising investment in the skills crucial to growth across the IS-8 sectors and other strategic priority sectors. This should be delivered through a combination of:

- Employer grants**:** apprenticeships seen as critical to unlocking growth in the IS-8 sectors – and others in sectors crucial for delivering on the government's missions, such as construction and health and care – should be eligible for a £3,000 grant as part of the AGE. These apprenticeship 'standards' should be identified by the sector skills boards (see below), working with Skills England. This element of the AGE would cost around £112m.[xiii]
- Funding band reviews: Skills England should urgently review the funding bands of apprenticeship standards identified as critical to IS-8 sectors. They should do the same for the construction and health and care sectors. Currently, many funding bands are below the cost of delivery. This acts as a disincentive for providers to offer these standards, and it means employers have to pay extra on top of their levy funds. Skills England should ensure the funding bands accurately reflect the cost of delivery to make sure that providers can deliver high quality training, and that employers do not have to pay extra.

The priority apprenticeship standards should be identified by sector skills boards (see below) and by Skills England. These should be standards that address existing skills shortages and that are crucial for unlocking future growth.

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[xiii] We assume this would apply to c. 37,000 apprenticeship starts. We assume that IS-8 sectors employ apprentices at the same rate as other sectors, and that 36 per cent of apprenticeship starts in these sectors would be on standards identified as a priority, in line with the density of skills shortage vacancies nationally. We further assume that the number of apprenticeship starts on these standards would increase by a third due to the grant.

## 9. Introduce sector skills boards to oversee the system

The UK suffers from a lack of strong sectoral institutions. In other countries, such as Denmark and Germany, sectoral bodies play an important role in coordinating the training system and ensuring that it works for employers.

The UK did have a network of sector skills councils, set up from 2002 onwards. These aimed to support employers to develop and manage apprenticeship qualifications, to reduce skills gaps, and to boost the skills of the workforce and productivity. However, sector skills councils faced significant budget cuts after the global financial crisis, leading many to scale back their work, or to close altogether.

Alongside the new national body Skills England, the government should establish sector skills boards as strong sectoral institutions to lead the skills system.

Sector skills boards should first be established or designated in the IS-8 sectors, as well as in other sectors crucial for the government's missions, such as construction and health and care. They should build on existing sector skills councils or other bodies where they are present, such as CITB, or else be set up as new organisations.

Sector skills boards should be based on social partnership, with representation from employers – including from SMEs; from relevant unions; from specialist providers; and from the government.

Sector skills boards should be responsible for:

- Setting standards, by working with Skills England to design and maintain apprenticeship standards and other vocational qualifications so that they meet employer needs and stay up to date.
- Prioritising investment, by working with Skills England to identify which non-apprenticeship qualifications should be eligible for funding through the levy, and which apprenticeship standards should be eligible for incentives under the AGE.
- Providing intelligence, including monitoring changing skills needs and emerging skills gaps and forecasting future skills demand.
- Boosting demand by working with employers to encourage investment in training.

The sector skills board should be funded through the growth and skills levy. A budget of £1m for sector skills boards in each of the IS-8 sectors would represent just 0.2 per cent of the total funding raised by the levy in 2026/27.

There is very strong employer support for this measure. We found that 69 per cent of employers support a proportion of the levy funds being used to address skills shortages at a sector level, with fewer than one in ten (8 per cent) opposed.

In addition to this funding from the levy, sector skills boards should be encouraged to seek funding from employers in their sector to supplement their income and ensure their future sustainability.

## 10. Link skills and migration policy

The government is seeking to reduce net migration from the historic high reached under the previous government. As part of this process, the government is aiming to reduce overseas recruitment in favour of training UK workers.[45] including through increasing the immigration skills charge.

However, there is currently no link between the apprenticeship levy and the immigration system, and there are no additional incentives for employers to invest in skills that are in short supply in the UK-based population.

The government should better link skills and immigration policy in order to incentivise investment in areas of skills shortages among the UK workforce. As part of the AGE, employers should be eligible for a £3,000 payment for employing apprentices on standards that are linked to occupations on the immigration salaries list. This list identifies a small number of specific jobs where there are labour shortages, and for which there are lower salary thresholds for migrant workers.[46]

The incentive would cost around £135m a year. It would better link immigration and skills policy, driving investment in training in the occupations where there are identified skills gaps, and reducing the demand for migrant labour among UK employers.[xiv]

## 11. Give local leaders the power to shape the system

At present, locally elected leaders have no ability to shape the levy so that it meets local needs. This contrasts with the government's broader approach, which seeks to devolve powers to locally elected leaders to enable them to meet local needs, and drive local growth.

Local authorities are well placed to shape the levy. They often hold strong relationships with local employers, undertake complementary initiatives to

[xiv] There are 17 apprenticeship standards with a close link to occupations on the immigration salaries list. In 2022/23, there were 30,070 starts on these apprenticeships. We assume starts will increase by 50 per cent, due to a combination of the apprenticeship grant for employers incentive, and the increase in the immigration skills charge.

support apprenticeship uptake, and have a wider role in supporting a functioning labour market and skills system.

The growth and skills levy should empower local leaders to work with employers to shape the skills system so that it better meets the needs of the local economy and local communities.

The government should:

- Continue funding for local skills improvement plans (LSIPs) and the Local Skills Improvement Fund. Mayoral strategic authorities should be given a greater role in LSIPs, alongside local employers. This should include funding of £10m per annum for LSIPs, funded through the larger growth and skills levy.
- Pilot a devolved apprenticeship fund with two mayoral strategic authorities. The fund should enable mayors to offer additional incentives for local employers to recruit apprentices in standards that are seen as crucial to local growth. This will enable locally elected leaders to align incentives in the skills system with local industrial strategies. The devolved apprenticeship fund should be rolled out to all mayoral strategic authorities, subject to a successful pilot.

Alongside shaping the incentives in the local system, local authorities can play a crucial role in supporting local businesses to engage in training. Mayoral strategic authorities should use regional growth funding to provide local business support services for employers, with a strong focus on upskilling and SMEs. SMEs – particularly small and micro firms – often have limited HR capacity, making it more difficult to recruit, train and retain the workers they need to grow.

These local business support services should help employers to:

- Develop their HR and people management capability.
- Understand the benefits of training, and how training could improve their business performance.
- Understand the training system and the financial support available.
- Identify suitable courses and providers.

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