

# Saving apprenticeships

A policy primer

Baroness Alison Wolf

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## ABOUT THE AUTHOR

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Professor Alison Wolf (Baroness Wolf of Dulwich DBE) is the Sir Roy Griffiths Professor of Public Sector Management at King's College London. She sits in the House of Lords as a crossbench peer.

Her research focuses on the interface between education and the labour market, with particular reference to higher education and vocational education and training. In 2011 she completed the Wolf Review of Vocational Education for the Coalition government, and its recommendations were accepted in full. She was a member of the Sainsbury Review of Technical Education (2016) and the Augar Review of post-18 education and funding (2019). She was seconded to the No 10 Policy Unit as an expert adviser to the Prime Minister on skills and workforce from 2020-2023. She was the founding Chair of Governors and is currently Deputy Chair of Governors of King's College London Mathematics School, a specialist state school for gifted young mathematicians, and is a trustee of the University Maths School Network.

## EXECUTIVE SUMMARY

### **Apprenticeships ought to have a central role in delivering economic growth and public services**

The current government has, rightly, highlighted ‘skills and skills policy as central to the country’s economic future, and the futures of its young people. Skill shortages threaten the future of our industries and public services, and drive inward migration at a time when we also have rising rates of inactivity, most worryingly among the young.

If we do not improve our skills system, we will not be building the houses we need, capitalising on our strengths in frontier technologies, or ensuring that our hospitals have a stable high quality workforce. And the government’s ‘Youth Guarantee’ that every 18-21 year old will be ‘earning or learning’, will only be worthwhile if the jobs and training on offer actually increase participants’ skills and future prospects.

**Our apprenticeship system is absolutely central** to all of this: both to our skills system generally, and to young people’s future in particular. After many years in which central government neglected apprenticeships in favour of a succession of top-down, and uniformly unsuccessful, training schemes, the last quarter-century has seen a renewed focus on apprenticeships. Labour, Coalition and Conservative governments alike have focused on reviving apprenticeships, responding in part to the general public’s huge and justified enthusiasm for them. While large parts of the current government’s skills policy remain unclear, it too has signalled its enthusiasm for apprenticeships, including a strong commitment to increasing openings for young people.

Some of the reforms introduced by our 21st Century governments have been valuable and it is important that they be retained. These include, notably, the legislated commitment to national standards, and the moves to embed employer input and mandate substantial amounts of off-the-job training which followed the 2012 Richard Review. These changes moved English apprenticeships closer to the best European systems, such as those of Germany and Switzerland (apprenticeships in the devolved nations is run separately).

### **Yet young people outside the labour market are being squeezed out of apprenticeships by older people using existing funding pots for in work upskilling**

However, other aspects of the system work far less well, and need urgent reform. In the best apprenticeship systems, and indeed in the not-so-distant English past, apprenticeship forms a core part of a society’s commitment to young people, creating a high quality route to skilled employment and adult life. But today, in England, openings for young people are in decline, with apprenticeships increasingly taken up by older people, and by existing employees rather than new entrants to the labour market, or to the occupation in question.

This development runs directly counter to the core purpose of apprenticeship, and to the features that make it so economically, as well as socially, valuable. The economic returns to the individual and to the country are demonstrably greater for the young, and for new entrants, than for older established employees. In addition, other apprenticeship developments run counter to past and present government priorities:

- Provision has declined more in poorer than in more affluent areas.
- Only a small minority of apprenticeships – around 20% – are in skill shortage areas
- Small and medium enterprises (SMEs) are most likely to take on young apprentices, but they account for a declining number of apprenticeship starts, which are increasingly in large organisations
- ‘Level 2’ and ‘Level 3’ apprenticeships are the most important and accessible for young people. But expenditure on these is being crowded out by the rapid expansion of higher-level apprenticeships, which on average cost far more.

### **The apprenticeship levy incentivises large companies that pay it to use it on their own staff, which limits the budget for SMEs taking on new apprentices**

None of these developments was foreseen or desired by the architects of our current system. They derive from the two central aspects of its current organisation and delivery, both of which need sustained change: namely the design of the apprenticeship levy, and the centralised, web-based nature of programme delivery. Both need substantial change, short and longer-term. But our problems also derive from an underlying failure to distinguish between apprenticeship, as a national training pathway, and enterprise-specific workplace training. Our system tries to encourage and subsidise both through the same mechanism. The result is that it does neither well.

Our current apprenticeship levy is unique to this country. It applies only to organisations above a certain size. The money they pay can be set against training for their apprentices, while ‘unused’ levy funds pay for apprenticeship training in SMEs, or are simply retained by the Treasury. The total amount spent on training is never more than the total levy ‘take’, even though the levy is not formally or legally hypothecated. The amount of money available for SMEs is correspondingly capped on an annual basis. This system has been very successful in incentivising levy-payers to take on apprentices. However, it also has incentivised them to enrol existing older employees as ‘apprentices’, and to move to longer, higher-level and expensive apprenticeships.

### **Apprenticeship levy funding should be restricted to younger people, as a staging post towards a system that covers large and small employers**

The incentives created by the levy account in large part for the undesired and undesirable changes in apprenticeship numbers and types. The government has already signalled some changes, involving restrictions on ‘Level 7’ (Master’s degree

level) apprenticeships, but it needs to go further, immediately, in order to **incentivise employers to take on young apprentices**. In the short term:

- Funds should be ring-fenced for young apprentices
- Training costs should be covered only in part for those who are over 25.
- Funding should be automatic and on-demand for all 16-18-year-old apprentices, who would automatically be funded if in full-time education.

Longer-term, the levy needs a more comprehensive overhaul. Rather than running two completely separate systems, we should follow international best practice and operate a **single system for all employers**, with the same set of incentives and obligations. The levy should be a universal one, though with a sliding scale. This would enable the government to simply reduce payments for the biggest employers, and so also reduce the incentive to create ‘apprenticeships’ simply in order to use up levy funds.

### **Decentralising SME recruitment, and devolving funding and power to mayoral combined authorities will make it easier to attract employers**

‘Fixing the levy’ would make a substantial difference. But it is not the only problem. The current organisation of funding and recruitment is highly centralised, bureaucratic and opaque. There is no coherent action to provide training for smaller employers whose apprentices need to be grouped in order to create a viable training cohort. Moreover, although labour markets, especially for the young, are primarily local, local authorities, notably mayoral combined authorities (MCAs), have no official or effective role in apprenticeship.

The underlying model for English apprenticeship is of an entirely inappropriate ‘on-line market’. The result is a system which creates huge barriers to SME recruitment. In contrast, all countries with high-quality apprenticeship systems are rooted in local institutions, but with a clear governmental commitment to providing accessible training institutions for all apprenticeship occupations. **The government has committed itself to further devolution, and should make apprenticeship one of its priority areas.** Funds should be devolved to mayoral combined authorities and other local authorities, who should also take on responsibilities for ensuring quality training provision. Alongside this, there should be a new strategic role for central government in providing for small or geographically dispersed occupations.

Apprenticeship must be restored to its provenly effective and historic role, providing young people with in-depth training in a new occupation. This is more important than ever, given on the one hand our skills challenge, and on the other the growing need to address youth unemployment and inactivity, recognised in the government’s ‘Youth Guarantee’ of training, education or help getting a job.<sup>1</sup> Yet the government is actually renaming and remaking the apprenticeship levy as a general ‘Growth and Skills’ levy, administered by a new body, ‘Skills England’. There is a major risk that, in the process, it will not protect and increase spending on genuine apprenticeships.



## **Distinguishing apprenticeship from in work upskilling is critical – these two separate activities should be funded separately**

Our current apprenticeship problems derive, most immediately, from the perverse incentives created by our levy's unique structure, and from the dysfunctional nature of our centralised delivery system. But there is also a third, underlying problem, and challenge. We have consistently confused apprenticeship and workplace training, and as a result done neither properly.

Far too many 'apprenticeships' are really about employer upskilling, enabled but also carried out in a very inefficient way in order to use levy funds. Meanwhile, there is no dedicated policy for workplace training outside of apprenticeship. In renaming the apprenticeship levy, there is a risk that the government will not only continue to conflate the two, using the same pot of money but that there will a growing accretion of burdensome rules and regulations about what can and can't be covered at any given time. Apprenticeship is vitally important, and needs dedicated and immediate attention. But alongside it, we also need a new, clear and separate policy for employer training.

## CHAPTER ONE – INTRODUCTION

Growth, productivity and migration dominate economic debate in English politics and policymaking. Our growth is anaemic; our productivity growth is at historically low levels; and we have major skill and employment shortfalls which drive high levels of inward migration.

A skilled workforce is central to growth and productivity, especially in high-income economies. All governments recognise this. And yet for decades we have failed to create a 'skills system' which serves the economy efficiently. Part of it works well: we educate and train large numbers of good scientists, for example. Our successful services sector recruits its lawyers, accountants, and economists from our highly-regarded universities. But alongside this, we are manifestly failing to train enough 'craft-level' engineers, skilled construction workers, IT technicians – any occupation, in fact, for which training is best delivered outside universities.

At the centre of this failure is our dysfunctional approach to apprenticeship. A good apprenticeship system contributes hugely to economic success and to equalising opportunities. The popularity of apprenticeships with the general public is well-founded: they are good for the people who get them, good for their employers, and good for the economy. But there is growing and vocal discontent, also well-founded, with our current approach.

Recent speeches by the Prime Minister and the Secretary of State for Education recognise this and promise reform. Their first commitments are promising. But we have been here before, a good many times. If there is to be a serious long-term improvement in our current system, policymakers need both to understand exactly which bits are not working, and which bits are and why; and to undertake a sustained programme of reform over several years.

This paper looks in detail at how England's apprenticeship system is currently organised, how it got that way, why is going wrong, and also at what is worth keeping. From that it then draws out a list of necessary reforms – some short-term and easy, others more complex and long-term, and discusses how these can be delivered.

## CHAPTER TWO – THE IMPORTANCE OF APPRENTICESHIPS IN TODAY’S ECONOMY

The British public loves apprenticeships. In polling before the 2024 General Election ‘More apprenticeships’ was the clear winner when people were asked for their education spending priorities, well above schools, childcare or lowering university fees.<sup>2</sup> Post-election polling confirms the trend.<sup>3</sup> Nearly twice as many people (76%) want greater opportunities for apprenticeships as think that there should be more opportunities to attend university (36%).

What are these apprenticeships that the public wants to increase? If you look at government websites, or walk past companies’ promotional advertising, let alone attend “Apprenticeship Week” functions, there seems to be a clear consensus. Apprentices are young, eager, employed under the tutelage of committed adults and headed for an excellent working future. That vision of apprenticeship as something for young people embarking on their career is why apprenticeship is at the heart of the government’s ‘Youth Guarantee’. It’s a traditional view, and it’s what most people mean by the term.

Apprenticeships of this sort have been around for centuries. They have served employers, the economy and apprentices themselves very well, in this country and across the globe. A traditional apprenticeship remains highly worthwhile today. As in the past, young apprentices have a very high chance of moving into well-paid permanent employment and career success.<sup>4</sup> Learning-while-working remains extremely effective, not just in long-established sectors such as engineering and construction, but also in core new technologies such as IT and bioengineering. It is the basis of all medical training, even though we don’t normally call it that: clinical placements and post-degree foundation training on the job are a totally fundamental part of becoming a doctor.

Apprenticeship, in this traditional form, prepares people for a skilled occupation in the labour force, not a specific role with a specific employer. It was, and in high-participation systems remains, an integral part of how society prepares young people for adult life, and a respected alternative to university study.<sup>5</sup> It also serves employers well. Otherwise, why would they do it? The early part of an apprentice’s employment typically delivers a net loss for the employer, but by the end they are both benefitting.<sup>6</sup>

Moreover, we know from research in ‘high apprenticeship’ jurisdictions with large numbers of young apprentices, that companies which are highly committed to apprenticeship also have higher average rates of innovation and growth.<sup>7</sup> This is almost certainly because such ‘high apprenticeship’ societies also all have locally rooted systems, in which employer groups and associations play a major role. If, as an employer, you are involved in your local system, you also come into more systematic contact with up-to-date ideas, through the formal ‘off-the-job’ training that your apprentices attend, and by learning what other apprentice employers in your sector are doing.

But in England, the traditional model of apprenticeship is in absolute and relative decline. Rather than the inspirational young people beloved by and paraded to politicians, the typical English apprentice is now an older employee following an established managerial or professional career. Young people struggle and fail to find an apprenticeship, undermining the country's ability to provide valuable opportunities for all.<sup>8</sup> Worse, this shift also significantly reduces the benefits to the national economy, because returns to apprenticeship training are much higher for young apprentices than for older ones.<sup>9</sup>

At the root of this failure is a growing confusion about what apprenticeship can and should be. Apprenticeship is about learning a new occupation. Ongoing workplace training it is not. But our system, in practice, conflates the two.

Public and private sector enterprises frequently provide training for their employees: statutory, such as fire or health-related, but also non-statutory and typically designed to update skills, introduce new equipment and procedures, or build teams. Such training is sometimes quite short, sometimes longer. But it will always emerge from a diagnosis of the specific enterprise's requirements, rather than the needs of the economy overall.

Workplace training obviously plays an important part in maintaining and increasing productivity. It is rightly a cause for concern that employer spending has been declining for many years. We need to understand better why that is the case, and what could or should be done to reverse the trend. But that is a different task from supporting a national apprenticeship system.

By systematically confusing the two, we have undermined apprenticeship, while also distorting employers' approach to upskilling the existing workforce. This confusion, as discussed below, is baked into the current funding system. The resulting problems are then further compounded by a delivery system which is, typically for this country, highly centralised and Whitehall-driven. Funding and delivery alike especially militate against SMEs' ability and willingness to hire apprentices: an outcome which, this paper argues, is very bad for the effectiveness of the system overall, and especially bad for less economically successful regions.

It has become increasingly obvious that our apprenticeship policy is failing. Employers who pay the 'apprenticeship levy' have lobbied hard for change, and secured a pre-election promise of reform from the current government. The national media has highlighted falling apprenticeship numbers. Multiple think-tank reports, along with a recent House of Lords inquiry, have tracked and criticised apprenticeship trends.<sup>10</sup>

We need reform, and the current government has committed itself to change. But in order to create a successful system for our young people, and our economy, we need to understand exactly how and why things have gone so wrong. The following structure is how this rest of this paper sets out to do so:

- **Chapter Three** of this paper describes the current system and structure of apprenticeship.

- **Chapter Four** explains how it evolved, including why past policies led, completely unintentionally, to the current situation.
- **Chapter Five** sets out proposals for both immediate and long-term reform, within the context of the policy changes already announced by the current government.

## CHAPTER THREE – UNDERSTANDING THE CURRENT STATE OF APPRENTICESHIPS

### The current apprenticeship system

England's apprenticeship system is in large part a twenty-first century creation. The Labour governments of the 2000s committed to the development of official national standards ('frameworks'), and created the National Apprenticeship Service, a quango which organises and funds apprenticeships across the whole of England. Its creation consolidated activities previously shared among multiple agencies and departments, and which had developed gradually as governments started to regulate and subsidise the apprenticeship system.<sup>11</sup> The Labour government also removed any upper age limit on apprenticeships. Two further major reforms then took place under the 2010-15 Conservative/Lib Dem Coalition and its Conservative successor. The first was concerned with the nature and content of apprenticeships, and followed the recommendations of the 2012 Richard Review. The second changed the way they were to be funded by introducing a new tax, the "Apprenticeship Levy". Much about those reforms was well-argued and justified, and should be retained. But a good deal did not go to plan.

These reforms signalled a clear change from the policies of the preceding decades. Post-war governments have, without exception and regardless of party, expressed their commitment to building new high-status vocational routes for young people, alongside the academic. But apprenticeship numbers declined during the 1970s. Governments' response, especially since the 1980s, was a constant succession of short-lived initiatives such as the 'Youth Training Scheme' which poured large amounts of public money into centrally controlled and Whitehall-designed training programmes. They generally failed to create opportunities for progress, and were often open to abuse, and sometimes to outright fraud.<sup>12</sup>

The core of the problem was, ironically, the enthusiasm of successive governments for fast and visible change. In August 2024, Bridget Phillipson the Secretary of State for Education, followed every single one of her 21<sup>st</sup> century predecessors by talking up the importance of vocational and technical routes within the country's education and training system. In a *Sun* op-ed, she also placed particular emphasis on young people, apprenticeships and labour shortages in skilled trades. Academic routes are not the only ones worth valuing, she stressed: working in technician jobs or well-paid trades "helps people get on in life and drive economic growth across the UK. But too few young people are pursuing these careers and it's holding Britain back."<sup>13</sup>

*Any of her predecessors since 2000 – or, indeed, 1970 – could have made exactly the same speech.*<sup>14</sup> 'Parity of esteem' for academic and vocational routes has been a favourite theme. Unfortunately, political imperatives meant an emphasis on delivering numbers, fast. That translated into a succession of new initiatives delivered through repeated short-term contracts, given by Whitehall to public and private 'training providers', who were expected in return to deliver numbers against targets – and did so. Successive ministers, Chancellors and Prime Ministers were then able to stand up and boast, in good faith, of how many people were being

trained on the latest publicly-funded national training programme. But the research repeatedly highlighted low quality and very poor outcomes.<sup>15</sup>

In the 2000s, there was, in response, renewed interest in 'apprenticeships'. Their reputation with the public had remained high, in spite of governmental scepticism about their old-fashioned 'time-serving' approach. In some sectors, where employers were actively involved, good quality apprenticeships had endured. Sadly, new government-funded programmes to deliver more 'apprenticeships' were at first equally obsessed with how many places could be created and announced at speed.

In pursuit of targets and numbers, what the government bought, once again, was largely low-quality programmes, delivered with no real engagement with or input from employers. It became common for providers to recruit by approaching an organisation, offering to enrol existing employees at no cost, and with near-zero involvement or effort by the employer. Training could often be minimal to non-existent, but the provider made their numbers and collected their fee.

During the first two years of the 2010-15 Coalition Government, the numbers game proceeded unabated. But within the Department for Education, there was in fact growing concern about the quality of these schemes:<sup>16</sup> for example, in 2011, a national survey found a fifth of 'apprentices' reporting that they received no training whatsoever.<sup>17</sup> A good many did not even know that they were 'apprentices'.<sup>18</sup> Scandals erupted, and the national press began to take note. In 2012, 10% of all the apprenticeships in England were with Morrisons, the supermarket chain: 52,000 in total at one point, mostly older employees. A Panorama programme in April 2012 highlighted the case.<sup>19</sup> And two months later, DfE and BIS commissioned Doug Richard to lead the 'Richard Review' which in turn led to comprehensive reform of apprenticeship content and regulation.

**The Richard Review**<sup>20</sup> reaffirmed the principles of traditional and effective apprenticeship systems. Apprenticeships involve *new roles*, and the learning of *substantial skills*. The Review stated that apprenticeships train "people for real and specific skilled occupations, (but) we must also ensure that an apprenticeship is broad enough to equip someone with genuinely transferable skills". Apprenticeships should be seen as part of how a state educates its citizens:

*"At its heart an apprenticeship is a form of education. It requires a job, which requires an employer, but it is still a form of education, which implies that a key beneficiary is the apprentice and that as a society we have an obligation to support its delivery. But the employer also benefits and it is in their interest to have apprentices."*

And above all, looking back as well as forwards

*"There has been a drift towards calling many things apprenticeships which, in fact, are not... Simply enough, not all instances of training on a job are apprenticeships. ... An apprenticeship without a job is a form of vocational training. An apprenticeship in an old job is on the job training. There must be a job and the job role must be new. "*

Those principles are fundamental, and they lie at the heart of all the successful systems, such as those of Switzerland and Germany, which Britain has admired, rightly, for many decades. The employer must offer a job, and must benefit, and for the apprentice, there must be a new role, and a broad training.

The reforms which followed the Review specified that, in future, all apprenticeship design was to be led by employers rather than government-appointed committees or contractors. There were to be higher minimum standards for training content, a clear and monitored requirement for off-the-job training, and a minimum length of at least a year. While lower than the normal two or three year European minimum, a one year rule meant that many low-quality, short programmes would be abolished. The reforms also recognised (at least in principle) that the state has a strong interest in ensuring broad skills development, and that this must be built into apprenticeship training.

New ‘trailblazer’ groups of employers started work fast, developing apprenticeship standards, although it took until 2017 for the Institute for Apprenticeship (IfA) to be formally established to oversee and assist in this process. The idea was to create something akin to Germany’s hugely respected Federal Institute for Vocational Education and Training, the BIBB. However, the English addiction to constant re-invention of institutions quickly re-asserted itself. In 2019, new legislation turned IfA into IfATE, the Institute for Apprenticeship and Technical Education. IfATE in turn will shortly be abolished and its functions moved into a new organisation, ‘Skills England’.<sup>21</sup>

The reforms that followed directly from the Richard Review have been substantial and positive, and it is important to remember this. They delivered two core requirements for any apprenticeship system worth the name: that an apprenticeship (and a set of apprenticeship standards) should directly reflect the requirements of a skilled occupation, not an individual workplace; and that employers should be central to both design and delivery. Ministers were aware that their introduction would reduce the total number of apprenticeships, as swathes of very short, cheap, low-level ‘apprenticeship’ programmes were abolished. However, it was assumed that this fall would level off once the switch was complete.

The second major reform, transforming apprenticeship funding, came in the 2016 Finance Act, where an **apprenticeship levy** was introduced, active from 2017. The levy is a tax on payroll and therefore under direct Treasury control, and the rates are specified in the legislation, although they could easily be changed in any future Finance Bill. Again, there were good principled arguments for this move, as well as a straightforward financial one.

The most successful apprenticeship systems in the world all require employers as a group to be financially invested in apprenticeship, over and above the direct wage costs they incur. Requiring a clearly defined widespread contribution, which goes towards the cost of apprentice training, ensures a mirroring widespread buy-in from employers. They all have a stake in ensuring that apprenticeship works well, and that their money is not wasted. Employers who take on an apprentice therefore do not feel that they are at the mercy of free-riders. And they are actively incentivised to take on an apprentice (who will probably become a valuable employee by the end of their



training) because a significant part of that training is free at the point of use. As we shall see, England's levy has indeed incentivised levy-paying employers to take on apprentices, just not in the way government envisaged.

The exact nature of employer levies varies a great deal between countries. Sometimes they are formally hypothecated, and can only be spent on apprenticeship; sometimes they are taxes which form part of general revenue, but it is understood that the money will be directed towards apprenticeship. They are normally paid by all but the very smallest employers, often with a sliding scale which imposes less proportionately, as well as absolutely, on small employers. What they have in common is that a single, well-understood system applies to everyone.

It is also normal for governments to contribute directly to the cost of off-the-job training for apprentices, over and above the 'take' from levies or apprenticeship taxes. This reflects the state's interest in ensuring broad and high quality training, a strong skills pipeline and opportunities for all young people. There is also, in most systems, a clear and explicit understanding that apprentices themselves are beneficiaries. Internationally, apprentices remain, generally, young; and low apprenticeship wages are the norm, in recognition of apprenticeship being a form of education.

So how does our current system measure up?

### **How England funds apprenticeships<sup>22</sup>**

The structure and impact of the apprenticeship levy are absolutely central to understanding contemporary apprenticeship – both its virtues and its vices. In the period before its introduction, there was considerable discussion (including by this author) of the potential of employer levies.<sup>23</sup> However, no-one outside government and very few people inside it predicted the highly distinctive, and indeed unique levy design that was actually introduced. The two most important features are that:

- It is only paid by large firms. Although it is set as a general tax on payroll, there is an offsetting allowance, which means that payments only cut in when payroll reaches £3 million. Wage inflation has raised the numbers who are liable, but the vast majority of enterprises and employers pay no levy.<sup>24</sup>
- In England, levy-payers who employ apprentices can monitor their levy payments, and see how the amounts they will be paying over as 'pure' tax receipts for the Treasury reduce in proportion to the training expenditure on those apprentices. (This must be with a registered training provider, and training costs are subject to occupation-specific limits.) All such expenditure is tracked through individual accounts, meaning that the levy-payers have an individual running balance which they can monitor.<sup>25</sup>

All employers of apprentices, whether levy-payers or not, pay them wages, and are also bound by apprenticeship law and regulations, including a commitment to support at least 20% off-the-job training time. But the levy's design means that England in effect, and uniquely, runs two quite separate systems.

All levy-payers have a strong financial incentive to recoup their payments and, therefore, to track them. Other employers make no direct financial contributions to the overall system. The system of individual offsets also means that the levy is in practice quasi-hypothecated, even though its formal status is that of a tax which goes into general revenue.<sup>26</sup> Under current arrangements, if levy-payers ‘spend’ the entire levy, the Treasury will not have any levy revenue left to use, although it will have covered the training expenses of apprentices employed by levy-payers.

In addition, the Treasury has in practice, up to now, introduced a further level of hypothecation. The levy take is treated, in practice though not officially or in law, as setting the maximum amount of public money that can be spent on apprenticeship across the country: the government makes no commitment to spend more than the levy raises, and does not expect to spend more either. It does not, however, commit in principle to using the whole levy (as would be the case with a fully hypothecated tax).

Non levy-payers who take on an apprentice are entitled to largely free training. But the amount of such training that is available is limited by annual allocations made by Treasury to the Department for Education (DfE). Because total spending is capped, a year’s allocation will never be more than the expected unspent levy balance. It may, however, be less (and in the early years of the levy, this was consistently the case, and on a large scale).<sup>27</sup>

In high-recruitment high-quality apprenticeship systems such as those of German-speaking Europe, access to training is effectively guaranteed to any employer. In England, we make no such guarantee: if the pot of money given to DfE runs out, that is it. The levy is, formally, a tax, and so there is no obligation on the government to increase allocations in response to demand, even if the levy is ‘under-spent’. Obviously, this affects the Department of Education’s behaviour. The Treasury exerts enormously tight control over policy: so not only is there little incentive for their junior partner to be creative, but too much success in encouraging ‘non-levy’ apprenticeship growth spells immediate and major trouble.

As noted above, apprentices, employers and governments all have a stake in apprenticeship. So all should in principle contribute to its support. To summarise England’s overall financial structure at present:

- The government’s contribution to funding apprenticeship is covered entirely by a (newish) tax on employers, the apprenticeship levy.
- Employers contribute financially to the cost of formal training if they are large, and so pay the levy. All employers of apprentices pay wages and provide on-the-job training and supervision.<sup>28</sup>
- Minimum wages for apprentices are set separately from, and somewhat below, other minimum or living wages. UK apprenticeship wages have risen proportionately in the last 15 years, and are currently high by international standards. A high proportion of current apprentices are paid well above the apprenticeship wage.
- Apprenticeship training for young apprentices is not demand-led, unlike 16-19 education and university education.

England's unusual financial settlement also has two other important structural characteristics, which follow from the basic design and are important in understanding current challenges.

- The government assumed, from the start, that levy-payers would not commit to levels of apprenticeship training that used up the entire levy. On the contrary, they assumed that the levy would be a source of funding for apprenticeships across the economy. They also seem to have assumed – wrongly – that this would be both obvious and acceptable to levy-paying employers.
- Controversy over the levy has made apprenticeship highly visible at national government level. This has some major advantages: problems and also benefits have become far more widely recognised than under previous arrangements. But it also means that the views of, and lobbying by, a sub-group of levy-paying employers have dominated discussion, with small and medium businesses ignored.

### **Apprenticeship in the mid 2020s: a stocktake**

When, in the 2000s and 2010s, governments reformed apprenticeship standards and apprenticeship funding, they genuinely expected a better fit than before between apprenticeship starts and labour market needs; that skills shortages would be mitigated; and that, by 2024, there would be a much improved apprenticeship route available to young people. Reality has proved very different.

The reforms did eliminate the very short, low-level, misnamed 'apprenticeships' that were funded in huge numbers for many years. And in some levy-paying companies there has been a genuine increase in high-quality openings for young people. But a decade on, the statistics show:

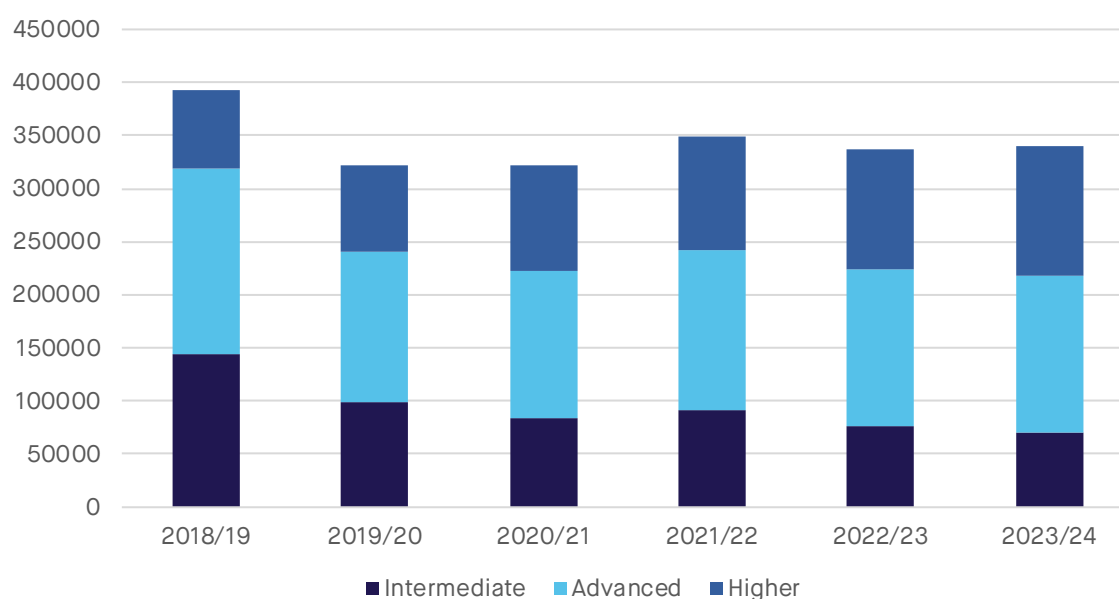
- Significantly lower numbers of apprenticeships than in 2018/19 (i.e. well into the reforms) as well as under the old system
- A marked decline in the absolute number of young people obtaining apprenticeships
- A decline in the share of apprenticeships taken up by young people
- Increasing proportions of expenditure going to higher-level (including degree-level) apprenticeships, rather than to trade and technician level occupations.
- A decline in the proportion of apprentices in SMEs compared to large companies
- A decline in the number and share of apprenticeships which go to people in economically deprived regions
- Only a small proportion of apprenticeships offered in skill-shortage areas
- Major excess demand for apprenticeships, with far more young people, in particular, seeking an apprenticeship than there are apprenticeships available.

These depressing trends have been tracked and discussed in detail by a number of analysts.<sup>29</sup> The most important thing to underline is that they are all interconnected, as will become obvious if we look in some detail at total numbers; apprentices' ages; and which employers are hiring apprentices.

Figure 1 highlights the fall in total numbers and the accompanying shift to higher level apprenticeships. Intermediate apprenticeships, classified as 'Level 2' or GCSE equivalent, are relatively low-skill, though they include some which provide core and essential early training for skilled trades, and in the past they were a very common first destination for young school-leavers. Advanced apprenticeships are, roughly speaking, skilled trades, and classified as Level 3, or A level equivalent. They are also the dominant level in other European countries' systems, and include occupations in which we have acute skill shortages. Higher level covers everything above this, up to and including post-graduate 'level 7'.

The most popular level 7 apprenticeships are 'Accountancy or Taxation Professional' and 'Senior Leader'. About 11,000 people started a Senior Leadership in the two years from 2021-23, over 90% in levy-paying organisations. Training costs in 2022-23 alone were £67 million. Yet this is obviously and visibly an 'apprenticeship' which is actually delivering continuing professional development for existing managers, frequently combined with an MBA.<sup>30</sup> Other level 7s include 'Senior People Professional', 'Academic Professional', and an economics Professional Master's apprenticeship developed and used by a good many government departments to deliver MSc's to their employees.<sup>31</sup> Apprenticeships at graduate/postgraduate levels are extremely rare in other countries. But Degree and Masters level apprenticeships were highly praised and actively supported by recent Conservative ministers. And universities are, obviously enough, pleased to be involved as paid providers.

**Figure 1: Apprenticeship starts 2018-23, by type**



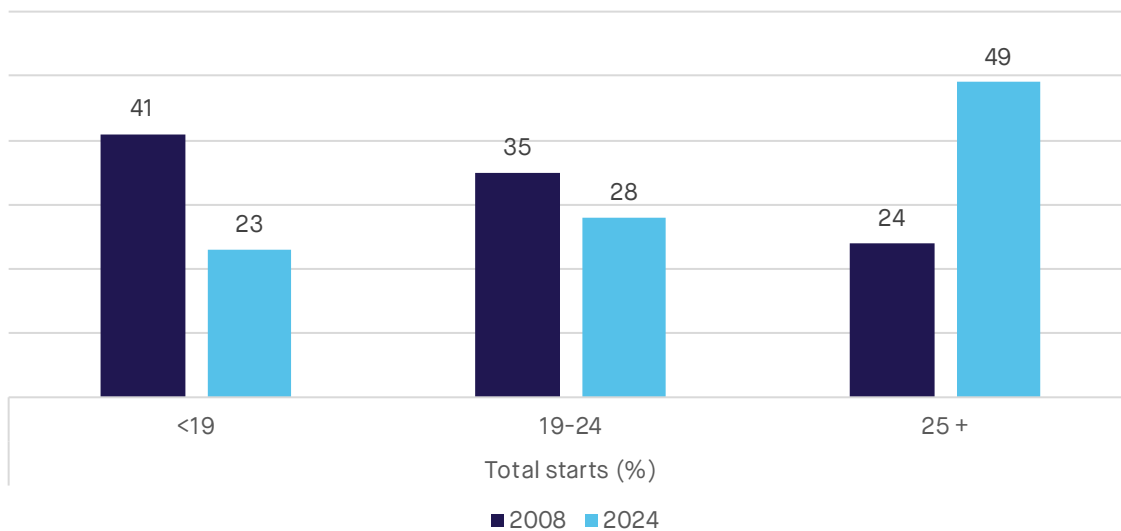
Source: Education statistics (Apprenticeships) <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeship>

Figure 1 in fact under-displays the extent to which there has been a shift away from intermediate and advanced (Level 2 and Level 3) apprenticeships, because it only shows the numbers starting in a given year. But while Intermediate apprenticeships typically run for one or at most two years, higher apprenticeships can run for as many as five or six. So an individual starting a higher level apprenticeship will probably be part of the total apprenticeship population for much longer than someone starting an intermediate one, and also, critically, drawing down funding for years longer. Hence, over time, more and more of the levy funds are being spent on existing, higher-level apprentices. **By 2022/23 only 31% of the government’s apprenticeships spend supported new apprenticeship starts whereas 62% was spent on the ongoing costs of apprentices who had started in previous years.**<sup>32</sup>

The shift to higher apprenticeships has been accompanied by a major change in apprentices’ age profile. Figure 2, below, shows and compares the age distribution of English apprentices in 2018/19 and 2023/4.

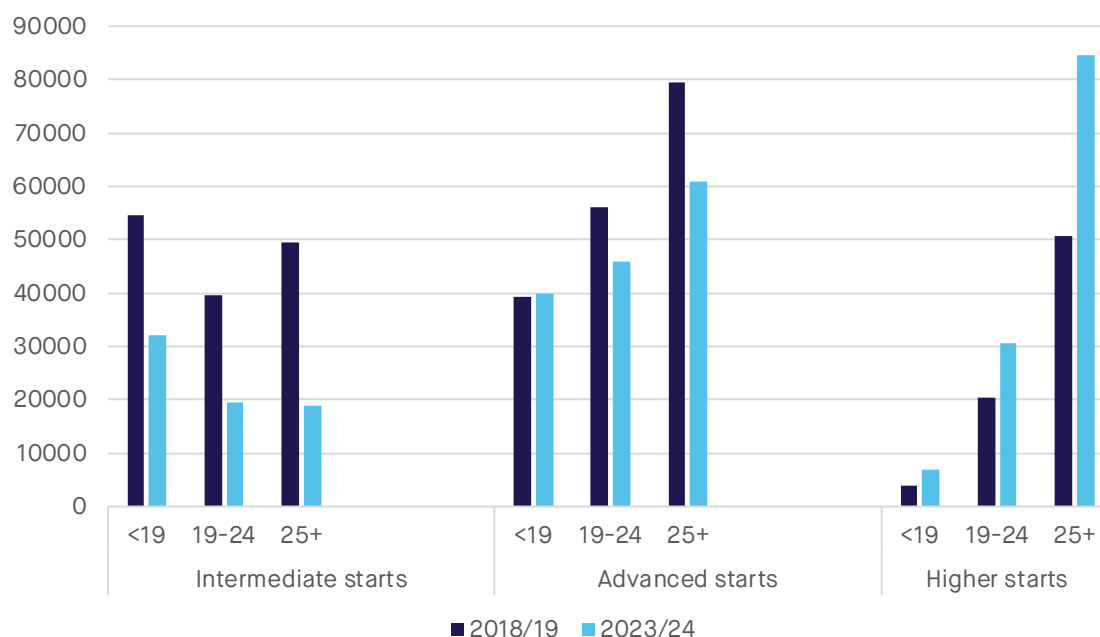
In the rest of Europe, apprenticeship remains essentially a system of post-secondary provision for young people. Back in the 1950s and 1960s, when a very large proportion of 15 or 16 year old school leavers went into apprenticeships, the English system was far more mainstream. As recently as 2008, 41% of apprenticeship starts involved young people under 19, and another 35% were aged 19-24. Not any more, as Figure 2 demonstrates, these figures are now 23% and 28% respectively.<sup>33</sup>

**Figure 2: Percentage of apprenticeship starts by age group**



Source: Education statistics (Apprenticeships) <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships>

The shifts to higher-level apprenticeships, and to older apprentices are interconnected, as we can see in Figure 3. In the space of a few years, following the introduction of the levy, there has been a very marked shift not just from workplace entry level (‘Intermediate’) to higher-level apprenticeships, but to higher-level apprenticeships *for older adults*.

**Figure 3: Trends in Intermediate, Advanced and Higher level starts by age**

Source: Education statistics (Apprenticeships) <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships>

By 2023/24 there were more higher level apprenticeship starts for people aged 25+ (including degree level) than the entire number of intermediate starts, at any age. And while the 2018-24 period saw an increase of 10,330 in the number of 19-24 year olds starting higher level (including ‘degree’) apprenticeships, that is swamped by the 33,800 increase for older adults being enrolled as ‘higher level’ apprentices.

‘Advanced’ (level 3) apprenticeships, which would include most of the skilled trades, fell in numbers, although here, openings for young people under 19 more or less held up, albeit at a low level: around 39,800, equivalent to 6% of the 17 or 18 year old cohort. Another 7,030 17/18 year olds started higher apprenticeships (including ‘degree’ apprenticeships) sometime in 2023-24, and 6,670 did so the year before. For comparison, in 2022/23 473,000 England-domiciled students started a first degree in a UK institution.<sup>34</sup>

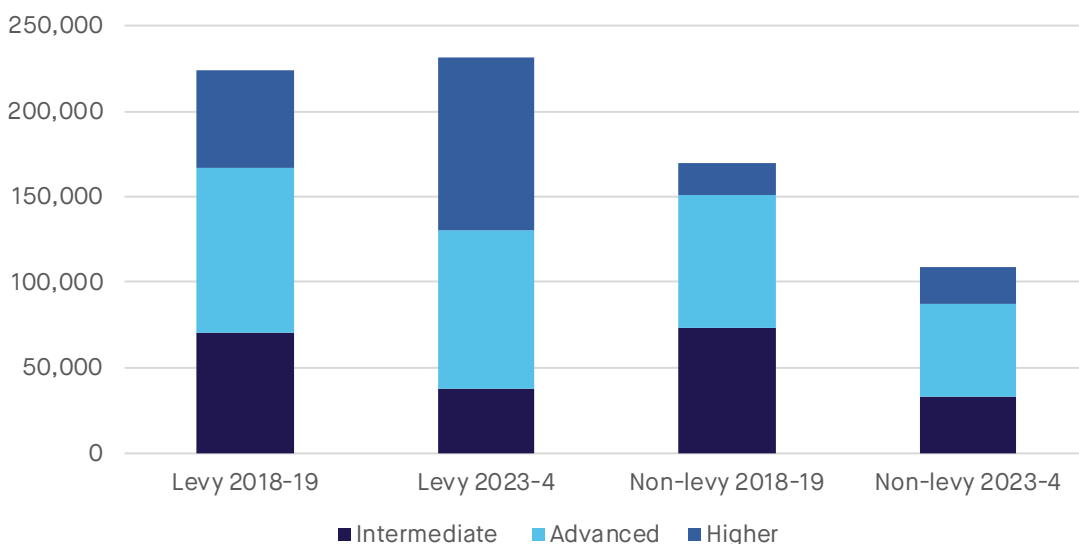
Our demand-led system ensures that any school-leaver qualified to do so can be sure of finding a university place. In contrast, demand from the young for apprenticeships hugely outstrips supply. An ongoing UKRI-funded study of young people’s trajectories, for which I am part of the research team, found that, among young people in year 13 (the final year of secondary school), three had tried and failed to obtain an apprenticeship for every one that succeeded.<sup>35</sup>

Few people would argue that apprenticeship should be completely unavailable to adults who want to change careers, and learn major new skills. And it would be nice to believe that these ‘adult’ apprenticeship numbers represent hundreds of thousands of older people acquiring important, scarce new skills and changing their

jobs, careers and lives. But of course they don't, as the nature of many fast growing higher apprenticeships will quickly suggest.

MBA's and 'Senior Leader' apprenticeships are not the stuff of career change. And a very large proportion of older apprentices are people who already worked for their current employer before starting their apprenticeship.<sup>36</sup> They almost certainly work for a large levy-paying enterprise. 76,400 apprentices aged over 25 started higher level apprenticeships in 2022-3. Just 870 of those, at a time of acute engineering skill shortages, started a level 4 (HNC/Higher Certificate level) engineering apprenticeship.<sup>37</sup>

**Figure 4: Apprenticeship starts by employer levy status**



Source: Education statistics (Apprenticeships) <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships>

Figure 4 compares recent trends for levy-paying and non-levy paying (SME) employers. It confirms that the trends described above are driven by levy-payers' behaviour. As the levy-payers gained expertise in using 'their' levy, their recruitment to intermediate apprenticeships fell, and to higher apprenticeships rose. The total number of apprentices they employed rose slightly (as did the number of levy-paying firms).<sup>38</sup> In the 2022/23 financial year, 69% of the overall spend was on apprenticeships for levy paying employers whereas only 29% was spent on apprenticeships for non-levy paying employers.<sup>39</sup> SME recruitment has fallen substantially in absolute terms. SMEs still recruit more under-19s than the levy-payers. But among older apprentices, the majority are in levy-paying organisations.

Because degree apprenticeships are overwhelmingly confined to large levy-paying organisations, they are also disproportionately found in prosperous areas.<sup>40</sup> And a large proportion of degree apprenticeships go to older, existing employees, many of whom are already graduates. Degree apprenticeships were nonetheless strongly promoted by ministers in the Conservative governments of 2015-24. They do have an obvious appeal. As a recent 'university guide' enthused "University can be an

expensive business, but there is a way to get a degree and earn money. Since 2015, degree apprenticeships have offered an alternative route.”<sup>41</sup> Obviously, this sounds appealing. But very few young people will ever get one.

In terms of skills development and supply, our current spending is not just short-changing the young and pulling money away from poorer areas. It is also deeply inefficient. We are using up very large and increasing amounts of levy funding on older existing employees. This makes no sense at national level, since the returns to apprenticeship are much higher for young people.<sup>42</sup> But on top of that, many, if not most, of these older apprentices fail to meet the Richard Review definition of an apprentice as someone in a new job role that requires substantial learning. Rather, what they are engaged in is workplace training and upskilling or ‘continuing professional development’ (CPD).

Such upskilling may be useful in and of itself. But our system incentivises and underwrites a very inefficient and wasteful approach. It does not make sense to use apprenticeship funding to deliver workplace training for employees. And it also does not make sense to deliver large parts of firm-specific workplace training via complex national apprenticeship standards.

Apprenticeship standards are and must be written with a new, inexperienced employee in mind: they lay out the route to occupational mastery, via detailed training content. There will rarely, therefore, be a one-to-one fit with an employer’s specific upskilling needs for current employees. The constant calls from employers for greater flexibility in apprenticeship training, such as the possibility of delivering just parts of the required content, reflect this. If they were training a new employee from scratch, for the specified occupation, there would be no such mis-match. Similarly, when employers call for freedom to spend levy funds on non-apprenticeship training, they are underlining that upskilling and initial apprenticeship training are two very different beasts.

The current government is replacing the ‘Apprenticeship Levy’ with a ‘Growth and Skills’ levy. This is an opportunity for positive reform: but for that, we need to understand exactly why the current system turned out as it has, and not the way that was intended. Chapter Four therefore explores in some detail the route by which these largely unexpected, and undesired, trends emerged. Chapter Five then discusses what can and should be done.



## CHAPTER FOUR – HOW DID WE GET HERE?

‘Follow the money’ is always good advice in understanding events: and in the case of apprenticeship, the introduction and specific design of the apprenticeship levy are of critical importance.

### The dynamics of the apprenticeship levy

The UK’s apprenticeship levy, as noted earlier, has a very unusual design. Because it is only paid by a small minority of employers, it is only in these enterprises that the levy has any direct impact on employers’ incentives to take on apprentices. The designers of the levy believed that it would shift employers’ incentives significantly. For levy-paying employers they were totally right.

Levy payers have, over the last few years, spent a large and increasing proportion of the total levy, and on current trends will very soon be spending it all. In the process, as we have seen, they have driven a big change in the composition of apprenticeships. And when you look at the national policy priorities of both the previous and current governments, the result is a massive mis-match.

- The previous government prioritised ‘Levelling Up’, but provision has declined in poorer areas.
- The current government is committed to a ‘Youth Guarantee’, currently young people are being crowded out by existing employees.
- Both the previous and the current government were and are preoccupied with glaring skill shortages, which hold back growth, and feed into unpopular migration policies. But only a small minority of apprenticeships – around 20% – are in skill shortage areas.<sup>43</sup>

None of this was foreseen in 2016. And the single most important driver is the design of the current levy.

When the levy was introduced, ministers and officials assumed that the levy payers would only spend a quite modest proportion of the total raised. This would ensure that there was plenty left to pay for provision by SMEs. Indeed, I have heard ministers, senior officials and advisers bemoaning the fact the government did not explain clearly enough to ‘business’ that this was the intent, as though a clearer explanation would have significantly changed employer behaviour and ensured that they happily held back from maximising their levy use.

I find this deeply implausible. However, they are right that the current outcomes were not self-evident. After all, *apprenticeships cost employers money*, even when the formal training is paid for. Apprentices are paid wages. They have to be released for formal training during paid time. And they need to be supervised and instructed while on the job. Across the full term of an apprenticeship, employers must be confident that they will normally get out more than they put in, or they will hold off. And in well-functioning systems, they normally do. But maintaining that system, with a good supply of apprenticeship places, requires both carrots and sticks.

The unexpected outcome of England’s levy is the result of the way it:

- Offers employers an individual route to reducing the net amount they pay into government coffers.<sup>44</sup>
- Makes employers hyper-aware of how much they owe at any given time (and of the fact that they must ‘spend’ it fast to gain an offset)
- Offers employers multiple opportunities for delivering what is in essence upskilling for existing workers inside an apprenticeship wrapper

Without all three of these factors, each of which is unique to the English system, levy-payers would be neither so determined to minimise the amount retained by the Treasury, nor manage to spend so much of a sizeable levy.

This does not mean that current apprenticeship training is all low value – on the contrary. The levy strongly incentivises large companies to consider how best to make use of apprenticeships; and the reforms introduced after the Richard Review have substantially improved quality. Many of the apprenticeships based in levy-paying enterprises are clearly very good: celebrations of apprenticeship have no trouble finding inspirational examples of young people qualifying as engineers, accountants, cyber specialists etc. Senior executives in tech and engineering companies report that, having originally expanded their apprenticeship recruitment (and reduced graduate recruitment) simply as a response to the levy, they are delighted with the result. Not surprisingly, such apprenticeships attract huge numbers of young applicants, the vast majority of whom are disappointed.

But alongside this, a great deal of training is being shoe-horned into an apprenticeship framework in a very inefficient way. “We can help you spend your levy” became the calling card of successful training providers. Not ‘the levy’. *Your* levy.

A very recent concrete example will illustrate the current dynamic. This autumn (2024) a new ‘level 5’ apprenticeship was announced, a ‘specialist teaching assistant’ (Level 5 is a higher education level, one level below a full bachelor’s degree). This allows the recruitment of new people as teaching assistant apprentices, with a specialty. It also, equally importantly, allows existing staff to become apprentices and acquire the specialty that way. The cost of training each of these apprentices is set at £12,000.

The coverage of the change in *Schools Week*, one of the main education sector publications, makes the main motivation completely clear. “Sector leaders see the move as positive. They can dip into the apprenticeship levy to fund it,” *Schools Week* explains. “Employers with an annual wage bill of more than £3 million must pay 0.5 per cent of that bill into the apprenticeship levy. But a lack of routes for staff can mean many schools struggling (sic) to spend it.”<sup>45</sup>

Having more specialised training assistants in our school classrooms may well be quite useful. But is this expensive and complicated approach really a good way to provide some specialist training for staff? Without the levy, it is surely not how schools would go about it.

Many levy-payers’ apprenticeships – for health service professionals, civil servants, lawyers, general managers – follow the same dynamic. Some good training will occur:

for example, spending money to ‘develop...top executives with the skills they need to run a leading company’ is not an inherently bad idea<sup>46</sup>, though hardly what the levy’s designers envisaged. There may well be an overall increase nationally in the total amount of upskilling training that large employers undertake. But *in terms of resource allocation and outcomes, at an aggregate national level, this is a hugely inefficient use of tax revenue.*

If employers were paying directly, rather than via their levy liabilities, they would not be doing that training in the way they do. To repeat: employers want ‘flexibility’ because the training content of an apprenticeship was designed – by employers – for people learning a new occupation. It was not designed for current experienced employees for whom some upskilling makes sense, and who are currently being enrolled on training programmes which do not fit their needs.

The key driver here is the system of individual employer levy accounts. But a number of other factors are also important (though also easier to change).

- There are no restrictions on apprentices’ age, prior employment, or prior education. A ‘degree apprentice’ could have a PhD (and some do).
- It is very easy for small groups of employers to create new apprenticeship standards, whose numbers have ballooned
- The previous Conservative government actively encouraged ‘higher’ and degree apprenticeships, including allocating substantial funds to universities to subsidise their delivery.

All of these mean that it is much easier than it needs or should be to use levy money for forms of training which are far removed from core apprenticeship delivery. And this has major implications for the non-levy-payers of our SME sector. They operate under a very different regime, and also make a lot less noise.

Small businesses always find it hard to lobby government, or influence policy, and in this case, they are also less immediately motivated, since they do not pay the levy. As discussed above, over time there has been less and less unspent levy for their use, and on current trends there will soon be none. This is not something of which most of them will or can be aware. But it is not the only issue. Our current bifurcated funding system creates major institutional barriers to developing and growing apprenticeships in the SME sector which go well beyond the money running out.

### **Apprenticeships against the odds: the case of SMEs**

Most of the UK organisations which employ people are small or medium sized. In the public sector, large organisations dominate. But in the private sector, there were, in 2023, about 8,000 large employers (250+ employees) compared to 36,900 medium sized (50 to 249 employees).<sup>47</sup> Some of the latter paid the levy, many did not. The vast majority of the country’s 5.5 million small businesses did not employ anyone – but that still left 1,400,000 of them which did. Overall, in 2023, SMEs accounted for 61% of total employment .

In every country with a large and successful apprenticeship programme, small and medium employers are critically important, and typically employ a significantly larger

proportion of apprentices than their share of the total workforce.<sup>48</sup> Even now, although they have lost ground in terms of total numbers since the levy was introduced, they remain absolutely critical for young English apprentices. The most recent government figures for apprenticeship starts show that, while non-levy-payers accounted for under a third of all new apprenticeships, well over a half of those they took on were under 19.<sup>49</sup>

SMEs play a major role in some the country's critical 'skills shortage' sectors, notably engineering and construction. They include some of the country's most productive and innovative companies. Whether or not a developed country remains highly prosperous and successful depends in large part on whether it continues to produce and nurture new, small enterprises; we should make it easy for them to train and develop specialised technician and craft employees as they grow. At the same time the SME sector also has a very long tail of companies with low productivity, many of which would benefit from the productivity increases associated with being an active apprentice employer.<sup>50</sup>

Finally, as noted earlier, the large companies which dominate the levy-paying list and the levy debate are concentrated in a limited number of localities. Many areas, including the most disadvantaged, do not house large companies, which are liable for the levy and therefore keen to employ apprentices. If apprenticeships are going to flourish in disadvantaged localities, it will have to be through SMEs. Instead, apprenticeship numbers generally have fallen faster in less prosperous regions.

For all these reasons, nurturing and increasing SME-based apprenticeships should be central to government policy. But when one examines the route to employing an apprentice, it becomes somewhat surprising that any small business ever does it at all.

Some of this is a result of funding. As noted earlier, the Treasury treats the apprenticeship levy as though it was hypothecated, in the sense of setting a maximum level of expenditure on apprenticeship training. It has resisted any open-ended commitment to fund training for all apprentices that firms take on, or even for all young apprentices. Instead, it drip-feeds DfE from the shrinking pot of unspent levy funds.

But funding is only a part of the problem. Equally important is the way that apprenticeship is organised as a national, centrally-run, web-based system with no direct involvement of local or mayoral authorities, or employer organisations.<sup>51</sup> The model is that of a market, and not just any sort of market either: it is, rather, that of a country-wide on-line retailer like Amazon, with no bricks-and-mortar outlets at all. This is completely inappropriate, especially for SMEs.

### **Markets? Or market failure?**

The theory underpinning England's current approach is that employers, of all sizes, should be offered a free choice within a provider 'market'. There is an important truth here. We want and need employers to be deeply involved with the 'providers' who train their apprentices. Employers will know, very quickly, if the training is any good,

and are also the source of information on changing practices and requirements. So a close relationship between trainers and employers is the single most powerful way to ensure quality: and its absence was a major reason why so much went wrong with government-funded training in the recent decades.

But to any economist, the current arrangements scream ‘market failure’. For any market to function properly, buyers must have good and reliable information. Otherwise, they are at the mercy of those who choose to conceal, embellish or indeed just lie. And a successful ‘transaction’ also needs to be fairly simple, without huge costs and burdens for the buyer or applicant. As any college or university admissions office will tell you, if engaging with their website is slow, complex and challenging, most potential applicants quickly disengage.

Now consider a small English employer interested in taking on an apprentice, perhaps for the first time. It’s informative to just go on-line with an ‘employ an apprentice’ search. Scroll past the advertisements from would-be providers looking for your custom, and get onto the official government website. The first thing you are told is that you **must** use, and engage directly with, the national apprenticeship service. You duly click. Immediately you are faced with a page setting out a range of demands: the need to register, the requirement to create two separate log-ins, the need to create an account, set aside funds, etc.

This is, of course, a fairly familiar sort of online experience. But when we struggle, crossly, to engage with a bank, or a government agency, or get a visa for a foreign trip, we have a very strong motivation to succeed. No small employer *has* to take on an apprentice: something which will cost them money and time, and where the reward may be a good way down the track.

Assuming they are still up for the task, they will then need to choose appropriate apprenticeship standards from a list of over 600, choose a provider that can train to them, and then choose the future apprentice’s final (‘end-point’) assessor – which has to be a different organisation. Follow that track and you may also find (as I did on a recent random visit) that when you ask for a provider in Greater London the website suggests a college in Somerset.

The current system is a reaction to the old, discredited approach of handing government contracts to providers and sending them off to enrol and stack up ‘apprentices’. But it replaces one problematic approach with another. Employers of apprentices are not consumers hunting for a ‘best buy’, with a *Which?* report to hand. And nor is apprenticeship a parallel to our university system, in which young people choose, often with quite intense school support, from a fairly limited selection of large institutions. Conceptualising it as such was a category error.

### **Training providers and ‘government failure’**

In practice, unsurprisingly, few small employers who employ apprentices report coming to it cold. In some sectors, such as construction or hairdressing, apprenticeship survived the endless ups and downs of training policy over the last forty years, and some established training institutions also survived. Employers in these sectors were mostly once apprentices themselves, and have an obvious port of

call. But even then, the system can be opaque: I think, from personal experience, of small builders keen to give a proper apprenticeship to a young worker, and at a total loss about where to turn.

Other employers will start their engagement with apprenticeship by finding, or indeed, as before, being found by providers, who will then help take care of the attendant bureaucracy. This has an obvious logic – just as levy-paying firms have an incentive to spend, providers have an incentive to recruit employers who will send them apprentices to train. But in an environment where many colleges barely engage with apprenticeships and where the independent provider sector continues to be opaque and unstable, the information problems are huge.

Some providers are excellent; others will join the long list of providers who have become insolvent over the years, or simply close shop. Of the independent (non-public-sector) apprenticeship providers operating in 2018, over a third had ceased to train apprentices by 2022.<sup>52</sup> And there is no efficient mechanism for creating viable training groups for small specialist occupations, which are often scattered around the country. The Federation of Small Businesses reports that apprenticeship paperwork is hugely burdensome and therefore expensive, that hiring an apprentice is often difficult, but also that, time and again, their members simply cannot find a suitable training provider.<sup>53</sup>

To understand quite how problematic our system has become, we should look at the organisations of high-quality high-participation systems in other parts of Europe. Three features stand out, not one of which England shares:

- First, local institutions are deeply involved in apprenticeship delivery, and everyone knows who they are, whether they are part of local government (like Swiss cantons or French town halls) or employer-led (like German chambers of commerce).
- Second, there is a clearly identified, established set of training institutions, and again, everyone knows where their local ones are. Once an employer has taken on an apprentice, with the contract signed, the apprentice simply attends, for free, with a place guaranteed. And while delivery is firmly local, ensuring that training is available for niche (but often strategic) occupations is a national responsibility.
- Thirdly, the structure of the system is the same for everyone, large employer or small. Large companies are not incentivised to behave in ways which exhaust the funding pot for SMEs.

We, by contrast, have no local or employer-led institutions involved in the process of recruiting apprentices, and dealing with registration and regulation. We have two different funding systems, which are effectively in conflict. We have no clearly organised, familiar national network of training institutions. With all this centralisation, there is no-one is responsible for ensuring, at national level, that training opportunities exist for key occupations which are small, or scattered. We don't even yet, in late 2024, have the national list of approved providers mandated by the 2022 Skills and Post-16 Education Act.<sup>54</sup> We have only a constantly changing

cast of providers touting for business, and a centralised registration service operating on-line.

In summary:

The levy incentivises levy-paying firms to create apprenticeships, and it has moved apprenticeship policy centre-stage. It also strongly incentivises and enables a move towards expensive high-level apprenticeships in non-skill-shortage areas, including many which are ‘apprenticeships’ in name only, delivering what is effectively professional development and upskilling in a very rigid way.

Meanwhile, in the SME sector, available funds are limited, dependent on predicted levy underspends and Treasury controls, and handed out on a short-term basis. The rigid and often impenetrable national system, and the absence of any local infrastructure, place major obstacles in the way of apprenticeship delivery.

We need, instead, a reformed system which serves the entire economy, rather than a sub-set of it, and which supports in-depth high-skills training for the young. In other words, a system that actually delivers apprenticeships. **Getting there requires five key changes.** Some are quite simple: others require a longer-term programme. The first two urgent requirements are that we move:

1. To incentivise and enable **all** employers to take on apprentices
2. To incentivise all employers to take on **young** apprentices

*In the short term*, this means making changes within the existing funding system. So we need to free up funds from the levy to underwrite an expansion in SME-based training (change number 1): and we need to shift levy-payers away from training for established staff and towards apprenticeships for young people learning a new occupation (change number 2). In the *medium to long term*, we should move to a single, economy-wide system for collecting employer contributions and underwriting apprentice training.

In addition to these two changes we also need to make major improvements in

- (3) the extent to which apprenticeship starts reflect and address the **economy’s overall requirements**, including, specifically, national and local **skill shortages**: and in
- (4) the **institutional framework** which supports and delivers apprenticeship recruitment and training

In the *short term*, this means moving, at speed, to create a system which it is easy for all employers to access and use. The current system is deeply skewed in terms of which occupations, and employers, are represented: and as I have argued above, this is only partly because funding is increasingly used up by levy-payers. It is also because it is so hard for SMEs to access. So we need improvements, at speed, in our approach to registering and training apprentices, one which is easy for all employers to understand and use. This must include access to direct, informed advice from individuals who know the *local* area. Only then can we have a system which actually

reflects the entire economy's skill requirements, not just those of a sub-set of employers.

It also means establishing a **stable national system of training institutions/providers**, which are well known and easily identified by employers, and which provide for all recognised apprenticeship occupations. Central government will have to take the first steps here. It should also accept and retain responsibility for ensuring that small, but often critical, occupations (notably at craft and technician levels) have access to quality training. But in the *medium to long term*, the funding, running and oversight of apprenticeship training, along with the recruitment of apprentices, need to be **much more locally-based**. Local institutions, such as mayoral authorities, are far better placed than Whitehall to recognise local skills needs, stimulate recruitment, and to provide a clear port of call for employers. Stronger local involvement also makes it easier for the apprenticeship system to respond if there is a national need for specific, and possible short-term, expansion of training in a particular occupation or sector.

Finally, we need to

(5) develop a policy for **non-apprenticeship workplace training, and the upskilling of existing staff** which is different from and clearly distinguished from apprenticeship policy. This means reducing the amount of levy money which, though branded as 'apprenticeship training', is actually firm-specific and/or intended to upskill employees. At the same time we need to incentivise and encourage employers to undertake such training, which is fundamental to improved productivity.

There are, unfortunately, far fewer exemplars of international good practice available here than in the case of apprenticeship, and in this paper I have focused on creating effective apprenticeship, rather than on general 'workplace training' policy. But in moving to its promised 'Growth and Skills Levy', the government should also develop a distinctive strategy for non-apprenticeship training, or risk compounding the current, and highly inefficient, conflation with apprenticeship.



## CHAPTER FIVE – STRATEGIC REFORMS FOR A MODERN APPRENTICESHIP SYSTEM

This paper started by underlining the difference between apprenticeship and general workplace training. Workplace training provides what a specific enterprise needs. Apprenticeship prepares someone for a skilled occupation. It is and should be distinctive, not least because of its role in offering young people an effective, recognised and highly respected pathway into stable adult employment.

We currently operate with an ‘apprenticeship levy’, paid by a small minority of employers, and with results which have been at best mixed. It will also soon be reformed. The current government promised levy-paying companies that it would introduce new ‘flexibilities’ into what is now to be a ‘growth and skills’ levy, rather than an apprenticeship levy, and that a new quango, Skills England, would be established which would improve and coordinate skills training, including through levy reform. The Labour manifesto provided very few details on either levy changes or the activities of Skills England, but post-election, there have been some important statements.

At the 2024 Labour Conference, the Prime Minister recognised and targeted apprenticeships’ uneven recruitment and the trend away from young people,<sup>55</sup> stating that:

*I have never thought we should be relaxed about some sectors importing labour when there are millions of young people, ambitious and highly talented, who are desperate to work and contribute to their community.*

*And trust me, there are plenty of examples of apprenticeship starts going down at the very same time that visa applications for the same skills are going up, and so we will get tough on this...*

*So we will introduce new foundation apprenticeships.*

*Rebalance funding in our training system back to young people....*

*The first step to a youth guarantee that will eradicate inactivity and unemployment for our young people – once and for all.*

And on the same day, he and the Secretary of State for Education elaborated on the speech, announcing a “new growth and skills levy which will replace the existing apprenticeship levy and include new foundation apprenticeships.”<sup>56</sup>

*The new levy will also allow funding for shorter apprenticeships, giving learners and employers greater flexibility over their training than under the existing system – where apprenticeships must run for at least 12 months.*

*The training eligible for funding under the new levy will develop over time, informed by Skills England’s assessment of priority skills needs.*

*The Department for Education will set out further details on the scope of the offer and how it will be accessed in due course.*

*To fund this, employers are being asked to rebalance their funding for apprenticeships, asking them to invest in younger workers. This will also involve businesses funding more of their Level 7 apprenticeships – equivalent to a master’s degree and often accessed by older or already well qualified employees – outside of the levy.*

So as policy stands, we have in view (1) a suite of new short, probably six-month apprenticeships; (2) ring-fencing of funds for ‘foundation apprenticeships’ for young people; (3) permission to use levy funds for training in specific areas identified by a government quango as meeting national priority skill needs; and (4) a reduction in levy-payers’ ability to use levy funds for level 7 training: a change which has been confirmed by Jacqui Smith, the Minister for Skills. There will also be a more general requirement to spend more on ‘younger workers’, presumably though not necessarily, over and above the foundation apprenticeships initiative.

How far do these changes address the major issues with our current apprenticeship system? Can or will they deliver the major structural reforms recommended in the previous section?

## **Evaluating the reforms**

There are, first of all, some very positive steps here.

First, and crucially, there is a focus on the young. The government has recognised that apprenticeships should be largely for young people, but are decreasingly available to them, and has registered its determination to reverse this trend.

Second, there is a proposal to reduce the amount of money being spent on level 7 apprenticeships. Ministers have recognised that level 7 expenditures are particularly likely to involve professional development rather than anything that can reasonably be viewed as an apprenticeship, are for older people and expensive to boot.

The level 7 announcement feels like a no-brainer. Indeed, under the previous government there were several attempts, by various ministers and advisers, to ‘de-list’ the level 7 apprenticeships which were most obviously a form of continuing development for existing senior employees. They were seen off by internal opponents, and unsurprisingly, the backlash against any major change has already started: apparently it will “disproportionately impact on public services” or “be devastating for the nursing workforce”.<sup>57</sup> However, the public announcements by the Prime Minister and Skills Minister will probably mean it occurs. And reducing expenditure certainly frees up funds for other uses, and so might in principle allow for more SME apprenticeships.

However, without further changes, SMEs will continue to depend on the levy-payers’ leavings. And while cutting back on level 7 expenditures may free up funds for SMEs, they are just as likely to be used by levy-payers themselves, including for the required, and desirable, increase in apprenticeships for the young. There are – obviously enough – no proposals at this point for systemic reform. This remains vital.

Moreover there is a great deal that is unclear, including how ‘foundation’ apprenticeships will be funded. It remains the case that no clear distinction is drawn

between apprenticeships and workplace training. And there are serious risks that, even with the best of motives, ministers will revive and repeat their predecessors' mistakes.

## What is an apprenticeship?

One striking aspect of the recent announcements is that 'apprenticeship' is – yet again – being applied to a whole range of different initiatives and activities. As we have seen, the public loves apprenticeships, and they therefore appeal enormously to politicians. This tempts governments to believe that calling something an apprenticeship will make it attractive, and also worthwhile. But it will not.

For many years, as discussed above, the government funded huge numbers of short, low-quality 'apprenticeships'. It did so with the best of motives, as well as trying to draw on apprenticeships' enduring credibility. But when people say that they value apprenticeships, they do not, in fact, mean that they value anything that bears the label. What they value is in-depth, high quality training for a skilled occupation. And they are right.

We have known for a long time that short training courses for employees run with government funds – as were many of the short 'apprenticeships' abolished after the Richard Review – do not usually raise people's earnings or productivity.<sup>58</sup> But longer, demanding training, and notably apprenticeships which lead to a skilled occupation, are good for both employment and earnings. Most European apprenticeships run for at least two years, and also have much more demanding requirements for formal off-the-job training than ours.

One of the Coalition government changes which was widely welcomed by training and labour market experts was the decision to introduce a one-year minimum for apprenticeships. Abandoning it feels like a clear backwards step. If the idea is to give levy-payers more flexibility to spend on workplace training, this is not a good way to do it. Under current requirements, an 'apprenticeship' needs national standards (which are very different from company-specific concerns) and formal end-point assessments, plus off-the-job training that is liable to Ofsted inspection – so not very flexible at all. And if, as part of introducing 'flexible' short apprenticeships, we get rid of all such requirements, then we are effectively abandoning any national skills system. That clearly is not desirable or desired.

'Foundation' apprenticeships also risk becoming a re-run of past frustrations. Are they proper apprenticeships, with an employment contract, or aren't they? The mood-music suggests a directly funded, centrally run programme for young people who are NEET (not in employment, education or training) and cannot get an apprenticeship, or find a college or university-based course they like, or find a job. These sorts of programmes have, unfortunately, a track record of failure whenever and in whichever country they are tried.<sup>59</sup>

The most recent similar programme in England was traineeships. Traineeships were abandoned as a separate programme by the last government, and the funding folded into the adult education budget, for the simple reason that no-one could fill the

funded places. Most colleges wouldn't touch the programme, because it was almost impossible to deliver successfully. And the private providers who took on contracts found themselves failing to get anywhere near their target numbers. Rather than revisiting an oft-failed model, it would surely make more sense to focus on incentivising employers – especially SMEs and especially SMEs in deprived areas – to take young people onto full level 2 apprenticeships, where numbers have been falling so catastrophically.

## An interim stocktake

In the previous section, I identified four overarching and urgent changes that we need to make to our apprenticeship system:

- Incentivise and enable **all** employers to take on apprentices
- Incentivise all employers to take on **young** apprentices
- Improve the fit between apprenticeship starts and **national skill requirements and shortages**
- Improve the **institutional** framework through which we deliver apprenticeship

The policies announced to date deliver some movement on the second of these, by prioritising young people. But there is little, so far, to indicate that the other changes are under way. Below, I suggest a number of specific policies that would promote them and deliver a much more effective apprenticeship system. A precondition for long-term success, however, is the fifth of the changes outlined above:

- develop a policy for **non-apprenticeship workplace training, and the upskilling of existing staff** which is clearly distinguished from apprenticeship policy

The government's decision to relabel the Apprenticeship Levy as a 'Growth and Skills' levy recognises that we need employers to do more than deliver apprenticeships. High volumes of non-apprenticeship training are highly desirable, and they could usefully be incentivised. However, if we continue to work with a single catch-all levy, we will probably also continue to treat both types of training as overlapping and essentially similar, to the detriment of both. There is a real danger that we will simply continue the policy confusion, though with a different set of bureaucratic rules.

Early trailing of 'six month apprenticeships' as the key flexibility on offer to employers underlines this danger. These short programmes could easily reinforce the temptation for employers to distort effective workplace training by squeezing it into an apprenticeship straitjacket. It is also very unclear how the government's other 'flexibility' will actually work in practice. The announcement was that

*The training eligible for funding under the new levy will develop over time, informed by Skills England's assessment of priority skills needs.*

But if you are a bank, then being told that you can use some of your levy for non-apprenticeship training in construction or social care is really irrelevant. If, alternatively, the 'priority skills' are identified as something as generic as IT or green skills, then levy-payers will have no trouble using up every pound they are entitled to.

And there will be no substantial increase in the number of young people starting on two or three year Advanced or Higher apprenticeships which meet labour market demand.

To reiterate: we need to recognise that we have two very different types of activity here. One involves initial and extensive training, and needs to have a clear national context and national standards. The other type is undertaken to increase productivity in an individual organisation, and may be highly locality or employer-specific. One of the best and simplest rules for policymaking states that if you have two different objectives, separate levers or instruments should be used for each: trying to do two things with the same policy rarely ends well.

### Improving apprenticeship in the short term

Rather than just renaming the overall levy and periodically changing how bits of the money can be used, the government should go further and *explicitly* distinguish its two objectives. It should divide the levy into an apprenticeship levy (lower than the current total) and a workforce training one. These should be calculated as separate sums, and tracked separately. Such a division greatly simplifies future policymaking and the introduction of improvements specific to one or the other. How to create a training incentive which works well is itself highly challenging, but a first step is to separate it out clearly from mainstream apprenticeship.

Second, there need to be **additional and clear limitations on how the remaining apprenticeship levy is spent**. It would be disastrous to create a workplace training carve-out and still leave the remaining apprenticeship levy open to use for upskilling and development. The outline changes announced by the Prime Minister and Secretary of State are promising, but much more needs to be done to deliver necessary change.

Third, it is vitally important that **more SMEs employ more young apprentices**. That means, first of all, making more money available, and targeting it at the young. We cannot incentivise all employers if the entire levy is being spent by large companies. To that end, restrictions need to go well beyond the current announced policy of limiting level 7 apprenticeships by:

- Imposing a (possibly temporary) moratorium on all level 7 apprenticeships.
- Ring-fencing a portion of the levy for 16-21 year olds
- Reducing the proportion of training costs which the government covers for apprentices aged 25+. If employers had to cover 50% of the cost for all apprentice starts by older individuals, this would greatly reduce the attraction of using apprenticeships to deliver mid-career training. It would therefore almost certainly increase the portion of the levy remaining unused by levy-paying employers. Exceptions could be made for specific high-shortage areas
- Reducing very heavily government payments for apprentices who are already graduates, in line with the recommendations of the 2019 Augar Review.<sup>60</sup> There could again be a number of explicit exceptions for high-shortage areas
- All 16-18 year old apprentices should automatically be entitled to training paid for in the same demand-driven way as the rest of the 16-18 education budget.

This money should not be set against the levy by Treasury. (It is also not a change which will have major fiscal implications, given the current low and falling numbers of apprenticeships for this age group. Large numbers of already-funded young people in fulltime education would prefer an apprenticeship.)<sup>61</sup>

Taken together, these changes would almost certainly reduce the amounts spent by levy-payers quite substantially, thus freeing up funds for SMEs. It would also shift expenditure generally away from older employees.

Would they be enough to create incentives for all employers, and major increases in the number of participating SMEs? Almost certainly not. In the longer term, we need to move to a single system: one that involves all employers in contributing, and benefitting, as in other countries with widespread and successful apprenticeship systems. More immediately, it makes sense to focus on incentivising employers – especially SMEs and especially SMEs in deprived areas – to take young people onto full ‘Intermediate’ apprenticeships, where numbers have been falling so catastrophically.

Direct incentives to take on young apprentices make much more sense than trying to re-invent the failed traineeship programme, or other past, unsuccessful government-directed training programmes. Direct payments to cover some apprenticeship costs were used successfully during COVID-19 by both us and the German government. The successful re-introduction of apprenticeship into East Germany involved an extensive system of (modest) subsidies. In all these cases, some government expenditure elicited substantial employer expenditure – which traineeships certainly never did. France has followed a similar pattern, offering employers a direct cash incentive to take on young apprentices. Such payments generally elicit both major expenditure by the employer themselves, and large returns over time, since total returns to apprenticeship training are much higher for young than for older apprentices.<sup>62</sup> Moreover, such an approach can also be used quite easily to target specific skill-shortage areas.

## Improving apprenticeships in the medium term

Funding changes are always easy to announce and quick to implement. In the medium term, however, we need policies which, as argued above, align apprenticeship starts much more closely with the economy’s **overall requirements**, including **skill shortages**: and improve the current dysfunctional **institutional framework** for delivering apprenticeship recruitment and training.

Here, the most important condition for successful reform is devolution. There are important jobs to be done by central government, but apprenticeship should be, essentially, a locally administered and supported activity, able to respond to local skill needs (including those identified in Local Skills Improvement Plans), and enlist and draw on local employer and educational networks. We need to learn from every one of the planet’s successful apprenticeship systems, and from our own past, that apprenticeships need to be rooted in local economies, and employers need local

support (and local pressure). The sooner we move away from the current love affair with a website, the better.

Such a move would require the following major changes:

- Funds for apprenticeship training should be distributed to Combined Mayoral Authorities in the same way as happens with the adult skills budget. (In advance of levy reform, this can be done with the SME budget alone.) Demand-driven funding may be possible in the future, as it is in most high-performance apprenticeship systems, but reform should not wait for that. Allocations can, in the first instance, follow current expenditure. Areas with buoyant demand will then, under this system, be eligible for additional funding in future years: those which fail to spend their allocation will receive reduced amounts.<sup>63</sup> In areas without a CMA, alternative local authority groupings should take this role.
- Apprenticeship training providers should be organised at devolved local level, so that there is a clearly identified list of providers in each area, and employers can access this locally. CMAs/local authorities should also be formally responsible for ensuring that training is available for all local skill needs. However, in the case of occupations where numbers are so small in all or many areas that training programmes are non-viable, there should be a nationally planned programme, organised with the relevant employer groups.
- Apprenticeship standards should continue to be developed and approved at national level, and national statistics on starts and completions should remain a key resource for Skills England in identifying supply and shortages. However, when an employer signs an apprenticeship agreement or contract, this should be done at and through the local authority with apprenticeship responsibilities. This ensures that local employers have a recognised, concrete organisation to which they can turn for information.

These changes would transform the nature of our apprenticeship programme, by giving local authorities responsibility and agency. It would be especially important for more deprived communities, from which apprenticeships have been leached by the growth of openings in large, national levy-paying companies at the expense of SMEs. However, central government would retain some key tasks. It should

- Earmark funds to promote, apprenticeships in some key and emerging areas, notably those where demand for technical skills is expected to grow faster than existing employers can possibly develop (e.g., and notably, nuclear power and frontier technologies). Expenditure here should include direct incentives/subsidies to employers, since they will be asked to engage and pay wages to more apprentices than their current business indicates.
- Organise training for numerically small or geographically scattered occupations, many of which have major economic importance. At present there is no provision for these occupations, and employers find it difficult to impossible to find a provider. The French Centres d'Apprentissage offer a good model
- Continue the current model of provider inspection through Ofsted

Finally, all of this both leads towards and needs to lead into

- A single, integrated system, which brings all employers into the same payment system, rather than running two completely separate ones. A levy should be retained. But the levy rate should, over time, be cut for big companies. All employers should pay, bringing in many thousands of additional contributors, but on a sliding scale. At the same time, the whole complex business of offsetting individual levy dues via apprentice training costs should be abolished. The levy should be just that – a general levy which underpins and pays for general access to free training for all apprentices.

Each one of these changes is perfectly feasible: corresponding changes have been carried out in the past. Each is fully in line with the government's focus on growth, and on skills, devolution and youth opportunity. The public, rightly, loves apprenticeship. Reforming it for the long term, should be a priority today.



## ENDNOTES

- <sup>1</sup> HM Government Get Britain Working CP1191  
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- <sup>2</sup> <https://www.publicfirst.co.uk/what-are-the-publics-priorities-on-education-spending.html>  
 : see also Alison Wolf (2024) Fixing apprenticeships would be a vote winner  
<https://www.ft.com/content/4e2025a1-0a72-4bdc-b56a-13c89faf08da>
- <sup>3</sup> The Policy Institute, King's College London (2024) Still worth it? Attitudes to university education among graduates, parents and the public Available at:  
<https://www.kcl.ac.uk/news/graduates-overwhelmingly-positive-about-universities-but-public-favour-more-vocational-options-study-finds>
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- <sup>6</sup> R Euwals and R Winkelmann (2001) *Why do Firms Train?* CEPR Discussion Paper 2880 Centre for Economic Policy Research
- <sup>7</sup> James Harrigan, Ariell Reshef and Farid Toubal (2023) Techies and Firm-level productivity DP118183 Centre for Economic Policy Research; Uschi Backes-Gellner and Patrick Lehnert (2021) The Contribution of Vocational Education and Training to Innovation and Growth. Oxford Research Encyclopaedia <https://doi.org/10.1093/acrefore/9780190625979.013.653> ; Andreas Kuhn, Jürg Schweri and Stefan Wolter (2019) Local Norms Describing the Role of the State and the Private Provision of Training. IZA Discussion Paper 12159 [www.iza.org](http://www.iza.org)
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- <sup>9</sup> Steven McIntosh and Damon Morris (2018) Labour Market Outcomes of older versus younger apprentices: A Comparison of Earnings Differentials Centre for Vocational Education Research, LSE. Discussion Paper 16  
<https://cver.lse.ac.uk/textonly/cver/pubs/cverdp016.pdf>
- <sup>10</sup> See, for example, Holly Papworth and Sorah Gluck (2024) Flex without Compromise. Edge Foundation <https://policyexchange.org.uk/publication/reforming-the-apprenticeship-levy/> ; Jess Lister and Adam Hawksbee (2024) Off Course: the risks of the Growth and Skills Levy Onward <https://www.ukonward.com/reports/off-course/> ; Tom Richmond and Andrew Bailey (2023) Broken Ladders: why the 'ladder of opportunity' is broke for so many young people and how to fix it EDSK <https://www.edsk.org/publications/broken-ladders/> ; Iain Mansfield and Toby Hirst (2023). Fixing the apprenticeship levy. Policy Exchange <https://policyexchange.org.uk/publication/reforming-the-apprenticeship-levy/> ; House of Lords Industry and Regulators Committee Inquiry into skills for the future: apprenticeships and training. <https://committees.parliament.uk/publications/45405/documents/225136/default/>
- <sup>11</sup> The NAS was established in 2009, following the government's 2008 strategy document: Department for Innovation, Universities and Skills and Department for Children, Schools and Families, *World-class Apprenticeships: Unlocking Talent, Building Skills for All. The Government's strategy for the future of Apprenticeships in England*, January 2008. During the 19<sup>th</sup> and most of the 20<sup>th</sup> century, apprenticeships were organised by employers, not by the government.
- <sup>12</sup> Alison Wolf (2012) op cit; Alison Wolf (1999) Outcomes, competencies and trainee-centred learning: the gap between rhetoric and reality: in Murphy, P. (Ed.) *Learners, Learning and*

Assessment. Sage Press; Andrew Jenkins, Charley Greenwood and Anna Vignoles (2007) *The Returns to Qualifications in England*

[https://eprints.lse.ac.uk/19378/1/The\\_Returns\\_to\\_Qualifications\\_in\\_England\\_Updating\\_the\\_Evidence\\_Base\\_on\\_Level\\_2\\_and\\_Level\\_3\\_Vocational\\_Qualifications.pdf](https://eprints.lse.ac.uk/19378/1/The_Returns_to_Qualifications_in_England_Updating_the_Evidence_Base_on_Level_2_and_Level_3_Vocational_Qualifications.pdf); Alison Fuller and

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<sup>13</sup> <https://www.thesun.co.uk/news/30018492/bridget-phillipson-trades-university-kids/>

<sup>14</sup> Richard Aldrich ed (2002) *A Century of Education* Routledge

<sup>15</sup> Peter Robinson (1996) *Rhetoric and Reality: Britain’s New Vocational Qualifications Centre for Economic Performance* LSE; Peter Dolton, Gerald Makepeace and John Treble (1994) *The Youth Training Scheme and the School-to-Work Transition. Oxford Economic Papers* 46 629-657; Alison Wolf (2011) *Review of Vocational Education*

<https://www.gov.uk/government/publications/review-of-vocational-education-the-wolf-report>

<sup>16</sup> Full disclosure: in 2011, when I wrote the ‘Wolf Report’ – a review of vocational education for young people – for the Department for Education, I was heavily circumscribed in what I could say about apprenticeship, because any apprentice over 18 fell outside DfE’s remit, and the Business Department (BIS) and its ministers were not inclined to engage.

<sup>17</sup> Doug Richard (2012) *The Richard Review of Apprenticeships* p. 28

<https://www.gov.uk/government/publications/the-richard-review-of-apprenticeships>

<sup>18</sup> Ofsted (2015) *Apprenticeships: Developing skills for future prosperity, and also 2012/13 and 2013/14 Ofsted Annual Report: further education and skills,*

<sup>19</sup> <https://www.bbc.co.uk/news/uk-17564255>

<sup>20</sup> Richard Review op cit

<sup>21</sup> The Institute for Apprenticeships and Technical Education is a Crown non-departmental public body (NDPB) established in April 2017 and sponsored by the Department for Education. Its powers and duties stem from the Apprenticeships, Skills, Children and Learning Act 2009, as amended by the Enterprise Act 2016 and by the Technical and Further Education Act 2017 and the 2021 Skills and Post-16 Education Act. The Institute for Apprenticeships and Technical Education (Transfer of Functions etc) Bill, currently before Parliament, essentially transfers all IfATE powers directly to the Secretary of State.

<sup>22</sup> The devolved nations organise apprenticeship differently and are not discussed in this paper.

<sup>23</sup> Alison Wolf (2015) *Fixing a Broken Training System: The Case for an Apprenticeship Levy* Social Market Foundation <https://www.smf.co.uk/wp-content/uploads/2015/07/Social-Market-Foundation-Publication-Alison-Wolf-Fixing-A-Broken-Training-System-The-Case-For-An-Apprenticeship-Levy.pdf>

<sup>24</sup> <https://questions-statements.parliament.uk/written-questions/detail/2024-10-17/h11750>

<sup>25</sup> Technically, the levy-payer pays the (whole) tax but then get the apprentices’ training for free, provided the funds are spent within 24 months of the money entering their account. But the individual running balances make it feel very different.

<sup>26</sup> “Notionally” hypothecated is the term used by the Treasury.

<sup>27</sup> FE Week estimated that 21% of the levy was unspent in FY17-18, and 22% in both FY18-19 and FY 19-20. FE Week 26 September 2023: figures reproduced in Papworth and Gluck op cit.

<sup>28</sup> SMEs may also be asked to pay a small percentage of the training costs for some apprentices. The details of these demands change regularly.

<sup>29</sup> See footnote 8 above

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<sup>30</sup> <https://questions-statements.parliament.uk/written-questions/detail/2023-11-28/hl687> ;  
<https://questions-statements.parliament.uk/written-questions/detail/2023-11-21/hl497>

<sup>31</sup> For example, the Economics Master's Apprenticeship, offered by Queen Mary University of London as part of its degree apprenticeships offer, was designed, according to its website, in collaborations with Department for Energy, Security and Net Zero, HM Treasury, The Foreign, Commonwealth & Development Office, and the Department for Business and Trade.

<sup>32</sup> <https://questions-statements.parliament.uk/written-questions/detail/2024-09-09/hl922>

<sup>33</sup> Statistical First Release DS/SFR4 22.10.2009 Apprenticeship Programme Starts by Level and Age. Education statistics: Apprenticeships Data 2024: <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships#explore-data-and-files>

<sup>34</sup> Higher Education Student Statistics 2022/23 (HESA statistical bulletin):  
<https://www.hesa.ac.uk/news/08-08-2024/sb269-higher-education-student-statistics/numbers>

<sup>35</sup> Winch op cit; Young Lives Young Futures policy brief 3 (2024)  
[https://www.ylyf.co.uk/\\_files/ugd/92717c\\_7c4a7ab21e0b4c2eae9930c0ec483351.pdf](https://www.ylyf.co.uk/_files/ugd/92717c_7c4a7ab21e0b4c2eae9930c0ec483351.pdf) ;  
<https://www.ucas.com/corporate/news-and-key-documents/news/three-five-do-not-pursue-apprenticeships-because-they-cannot-find-one-say-ucas-and-sutton-trust> See also  
<https://www.ucas.com/corporate/news-and-key-documents/news/three-five-do-not-pursue-apprenticeships-because-they-cannot-find-one-say-ucas-and-sutton-trust>

<sup>36</sup> Chiara Cavaglia, Sandra McNally and Guglielmo Ventura (2022) The Recent Evolution of Apprenticeships : Participation and Pathways Research Discussion Paper 039, CVER LSE  
[https://cep.lse.ac.uk/\\_NEW/publications/abstract.asp?index=9753](https://cep.lse.ac.uk/_NEW/publications/abstract.asp?index=9753)

<sup>37</sup> Caviglia et al op cit; <https://questions-statements.parliament.uk/written-questions/detail/2023-12-04/hl851>

<sup>38</sup> Between 2019 and 2023 the number of employers paying the apprenticeship levy increased from 30,600 to 34,200. <https://questions-statements.parliament.uk/written-questions/detail/2023-09-05/hl9919> ; <https://questions-statements.parliament.uk/written-questions/detail/2024-10-17/hl1750>

<sup>39</sup> This includes the spend on COVID-19 incentive payments made to employers recruiting new apprentices between August 2020 and January 2022. The remaining 2% was spent on the costs of running the apprenticeships programme.

<sup>40</sup> Cavaglia et al (2022) op cit; Mansfield and Hirst (2023) op cit; Policy Connect & Higher Education Commission (nd) Degree Apprenticeships: Up to Standard?

<sup>41</sup> The Guardian University Guide 2025

<sup>42</sup> McIntosh and Morris (2018) op cit; Stefan Speckesser and Lei Xu (2022) Returns to apprenticeships: a comparison between existing apprentices and newly recruited apprentices Oxford Economic Papers 74.1 14-39

<sup>43</sup> <https://questions-statements.parliament.uk/written-questions/detail/2023-07-13/hl9360>

<sup>44</sup> The levy-payer does not actually keep the money that is spent on their apprentices' training: - it goes to the training provider, via the government, so technically they still pay. But as long as they are getting some benefit from training funded by their individual levy payment, that is a clear offsetting gain equivalent to a rebate.

<sup>45</sup> Lucas Cumiskey' New apprenticeship to equip teaching assistants on SEND' Schools Week September 20 2024 [https://schoolsweek.co.uk/new-apprenticeship-to-equip-teaching-assistants-on-send/?mc\\_cid=cc36a85751&mc\\_eid=72690c87cf](https://schoolsweek.co.uk/new-apprenticeship-to-equip-teaching-assistants-on-send/?mc_cid=cc36a85751&mc_eid=72690c87cf).

<sup>46</sup> The company in question is Penguin Random House, cited as a case study by training provider Multiverse in a recent publication . Multiverse 'Skills Mission: putting the 'growth' in

the Growth and Skills Levy ' (Multiverse 2024) [https://5980691.fs1.hubspotusercontent-na1.net/hubfs/5980691/SKILLS%20MISSION\\_2024.pdf](https://5980691.fs1.hubspotusercontent-na1.net/hubfs/5980691/SKILLS%20MISSION_2024.pdf)

<sup>47</sup> Business Population Estimates for the UK 2023 <https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release>

<sup>48</sup> In Germany, for example, apprenticeship has traditionally been concentrated in SMEs, with 85% of apprentices found in companies with less than 500 employees. See eg Christine Schmidt and Eric Malchow (2018) Barriers to SME Apprenticeship Engagement in Germany (Institut für Betriebliche Bildungsforschung) <https://www.ibbf.berlin/assets/images/Dokumente/Germanies%20SME%60s%20Apprenticeship%20Engagement%20-%20First%20report.pdf>

<sup>49</sup> In 2022/3 32% of all starts, and 54% of under-19 starts were with non-levy-paying employers. <https://explore-education-statistics.service.gov.uk/data-tables/apprenticeships>.

<sup>50</sup> See Backes-Gellner and Lehnert op cit. Andy Haldane (2018) provides an excellent overview of the 'long tail' arguments in 'The UK's Productivity Problem: Hub, No Spokes.' <https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/the-uks-productivity-problem-hub-no-spokes-speech-by-andy-haldane> .

<sup>51</sup> Construction is an exception, and has a distinctive training structure, with a separate additional levy organised through the Construction Industry Training Board, which predates the levy or the National Apprenticeship Service.

<sup>52</sup> <https://questions-statements.parliament.uk/written-questions/detail/2024-10-07/hl1352>

<sup>53</sup> Personal communication

<sup>54</sup> <https://www.legislation.gov.uk/ukpga/2022/21/contents>

<sup>55</sup> Sir Keir Starmer speech at Labour Party Conference 2024 <https://labour.org.uk/updates/press-releases/keir-starmer-speech-at-labour-party-conference-2024/>

<sup>56</sup> DfE Press release <https://www.gov.uk/government/news/prime-minister-overhauls-apprenticeships-to-support-opportunity>

<sup>57</sup> Billy Camden. 'Master's-level apprenticeship ban risks throwing baby out with the bathwater'. FE Week September 27 2024 [https://feweek.co.uk/masters-level-apprenticeships-ban-risks-throwing-baby-out-with-bath-water/?mc\\_cid=014742851a&mc\\_eid=72690c87cf](https://feweek.co.uk/masters-level-apprenticeships-ban-risks-throwing-baby-out-with-bath-water/?mc_cid=014742851a&mc_eid=72690c87cf).

<sup>58</sup> At their worst, they result in more or less 100% deadweight, with government funds simply replacing employer expenditure. See L Abramovsky (2005) The impact of the employer training pilots on the take-up of training among employers and employees Research Report 694 Institute for Fiscal Studies

<sup>59</sup> See eg Richard Johanson (2009) A Review of National Training Funds SP Discussion Paper 0922 The World Bank; Peter Senker (1994) Training Levies in Four Countries Science Policy Research Unit, University of Sussex. During the pandemic, the government offered subsidies for apprenticeships, following Germany's example, and these were evaluated as successful. It also experimented with more straightforward job subsidies with the Kickstart Scheme: but this scheme was panned by the Public Accounts Committee for a chaotic start, and failing to reach anything like the intended numbers <https://committees.parliament.uk/committee/127/public-accounts-committee/news/161259/chaotic-19bn-kickstart-scheme-for-youth-employment-fails-to-deliver-for-young-people-or-taxpayer/>

<sup>60</sup> <https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report> See also EDSK op cit

<sup>61</sup> Winch op cit

<sup>62</sup> McIntosh and Morris (2018) op cit; Speckesser and Xu (2022) op cit

<sup>63</sup> It would be preferable to have demand-driven guarantees of training for all young apprentices, as occurs in most high-performance apprenticeship systems: but this may not be feasible in the current fiscal climate.