

THREE MILLION APPRENTICESHIPS

Building ladders of opportunity

March 2017

*In January 2016, NIACE and the Centre for Economic and Social Inclusion
merged to form Learning and Work Institute*

Learning and Work Institute

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CONTENTS

EXECUTIVE SUMMARY	4
1. WHY APPRENTICESHIPS?	6
2. ACCESS: THE PARTICIPATION PENALTY	12
3. QUALITY: WORLD CLASS APPRENTICESHIPS	18
4. PAY OR PLAY: WILL THE LEVY RUN DRY?	23
5. CONCLUSION	28

EXECUTIVE SUMMARY

Apprenticeships are a great way to combine learning and earning and meet employers' skills needs. That is why they have a long history dating back several centuries, though today's apprenticeships have a wider focus including on all ages, a range of levels, and existing as well as new employees. Changes in our economy, and the importance of skills to prosperity in Brexit Britain, are likely to increase this importance.

On track for 3 million apprenticeships?

The Government has a target of 3 million apprenticeship starts by May 2020, continuing a cross-party consensus of recent decades to expand apprenticeships. This does not mean 3 million completed apprenticeships (roughly two in three apprenticeship starts result in a completion) or 3 million individuals (as people may do more than one apprenticeship).

Our analysis shows that, on current trends, there will be 2.5 million apprenticeship starts by May 2020. However, the likely impact of the Apprenticeship Levy (a payroll tax on large employers, ring-fenced for apprenticeships) means we judge the government to be largely on track.

However, there is a risk of hitting the target, but missing the point. To avoid this, we need to turbocharge our focus on access and quality. This can help us grasp a once in a generation chance to build world class vocational skills.

Access: Ending the current participation penalty

Some groups are less likely to undertake an apprenticeship. This reinforces inequality, limits opportunity, and limits employers' pool of talent.

In some regions young people eligible for free school meals (FSM) are half as likely as non-FSM eligible young people to undertake a level 3 apprenticeship. Nationally, people from black, Asian and minority ethnic backgrounds are under-represented. Women make up 52 per cent of all apprenticeships, but are much more likely to be in low paid sectors.

Action is needed to tackle these inequalities, including an Apprentice Premium, mirroring the Pupil Premium in schools to target resources at groups who miss out. Apprenticeships should be better promoted in schools and careers services, with a regular access audit.

Quality: A focus on world class apprenticeships

Concerns have been raised about whether the expansion in apprenticeships has come at the expense of quality. The government has required apprenticeships to last at least one year, Ofsted inspection of training, and employer leadership in apprenticeship design.

These are welcome. But we argue much more is needed for world class apprenticeships, with a key role for the new Institute for Apprenticeships and Technical Education (IfATE):

- **Outcomes & impact.** Regular data should be published on the long-term earnings and employment outcomes of apprenticeships - the ultimate measure of quality;
- **Skills content.** The breadth and depth of some apprenticeships is narrower than in countries like Germany. Our Apprenticeships should match the world's best;
- **Skills improvement.** Nine in ten young apprentices are learning at the level they are already qualified to. Apprenticeships should be more focused on improving skills and changes in roles and careers; and
- **Apprentice experience.** Wider experiences, such as learning about the wider business, are important. Apprentices should have a place on the Board of IfATE.

Levy: Making the Levy work

The Apprenticeship Levy will drive a greater focus on apprenticeships, but brings a risk employers rebadge existing training as apprenticeships. This would help the government hit its target, but not increase overall training, boost productivity, or tackle existing inequalities in access to training. To avoid this, the focus must be on quality and access.

The amount of funding may also vary over the economic cycle. The government should guarantee a minimum amount of apprenticeship funding so training does not fall if pay or employment falls. The government should develop non-apprenticeship options, such as tax incentives, new workforce training routes, or widening the focus of the Levy.

Conclusion

The expansion of apprenticeships over recent decades, and current focus on technical education, is welcome. It is important for our future prosperity and widening opportunity. To maximize the impact of apprenticeships on prosperity and social mobility, we need a much greater focus on quality and access.

It is time for the next stage in the apprenticeship revolution.

1. WHY APPRENTICESHIPS?

- Apprenticeships have a long history of combining a job with substantial training. Apprenticeship numbers fell in the decades to the 1990s, as sectors such as manufacturing declined as a share of the economy
- In the last 20 years, successive governments have prioritised increasing the number of apprenticeships. This is intended to drive economic growth by meeting employers' skills needs, and boost social mobility by extending opportunity
- The drive to increase apprenticeships and vocational skills is increasingly important given our changing economy and increased need for skills, and for Brexit Britain to succeed in the global economy
- The government appears broadly on target to deliver its ambition of 3 million apprenticeships by 2020
- However, we are concerned there is insufficient focus on ensuring everyone who can benefit from an apprenticeship can do so. People from lower income families, BAME backgrounds, and with disabilities are less likely to be in an apprenticeship, and there are significant variations by gender
- Quality also needs to be a more central focus, ensuring apprenticeships are truly world class and deliver economic and social benefits

Apprenticeships have a long history of combining a job with substantial education and training, both in the UK and other countries. In England, they have been around since the 12th century, often associated with craft guilds.¹

Historically associated with sectors such as manufacturing, the number of apprenticeships fell as those sectors shrank as a share of the UK economy. Apprenticeship numbers fell 80 per cent, from around 250,000 in the mid 1960s to around 50,000 by 1990.

The renaissance of apprenticeships began in the 1990s with the introduction of Modern Apprenticeships. The aim was to build a credible vocational training route, and tackle the UK's weak productivity performance by boosting workforce skills.

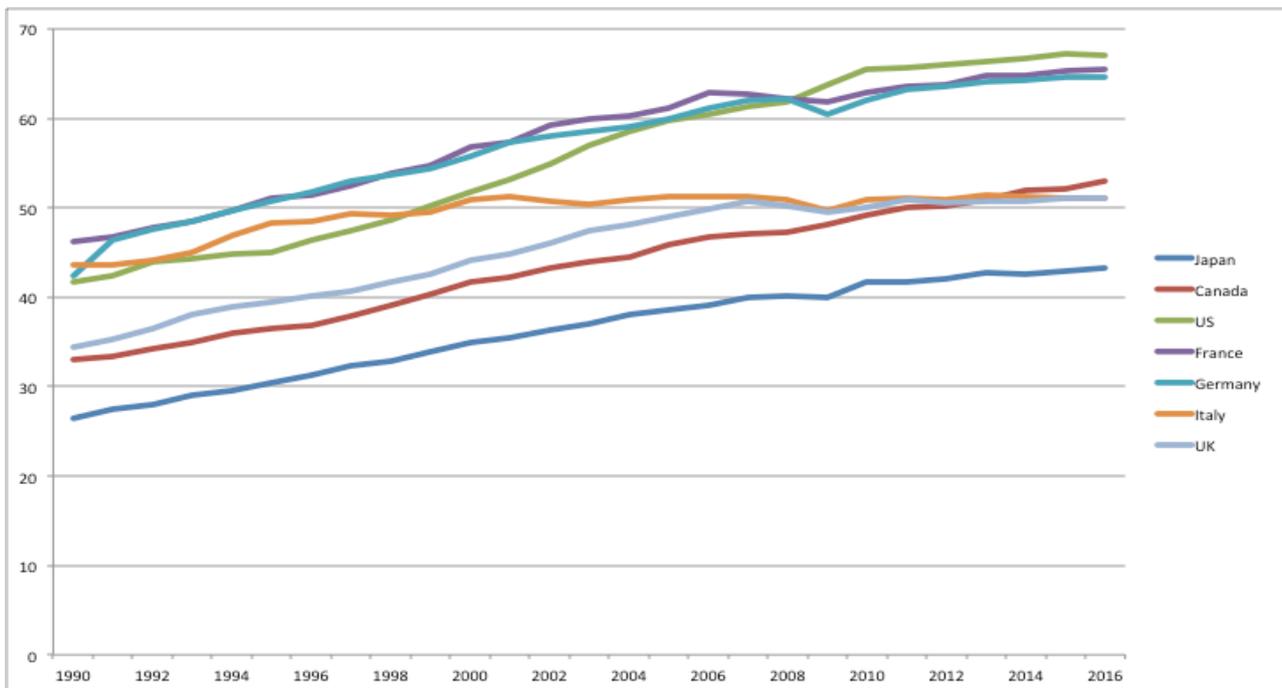
¹ Apprenticeship funding in England, IFS Green Budget, IFS, 2017.

Successive governments have worked to expand apprenticeships – this is an area of cross-party consensus. The 2015 Conservative Party manifesto committed to 3 million Apprenticeship starts by the end of the Parliament (planned to be May 2020).² This has driven much skills policy and funding. Apprenticeship starts are not the same as completions: 3 million starts are likely to equate to around 2 million completed apprenticeships (given the current completion rates of 67 per cent).

Why apprenticeships?

The UK’s productivity, the amount that each worker produces, is low by international standards. The average UK worker produces around one third less per hour than the average French, German and US worker. This is a longstanding weakness of at least 100 years: after a narrowing prior to 2008, the gap has widened again since the financial crisis.

Figure 1: Output per hour in G7 countries, US\$



Source: The Conference Board Total Economy Database, 2016.

² Conservative Party manifesto, Conservative Party, 2015.

Productivity is the determinant of prosperity, in the long-term living standards cannot rise without increasing productivity. Skills are one of the drivers of productivity and another area where the UK has longstanding weaknesses. One of these is the proportion of people qualified to intermediate level - technical and vocational skills equivalent to A Levels.

Apprenticeships are a proven way to acquire these skills. Estimates suggest that the additional lifetime earnings are: £48-74,000 for someone completing a level 2 apprenticeship; £77-117,000 for a level 3 apprenticeship; and £150,000 for a level 4 apprenticeship.³

Concerns have been raised, including by the Institute for Fiscal Studies, over the way these returns are calculated.⁴ However, the consensus of most studies is that work-based training, such as apprenticeships, has a wage, productivity and economic benefit: the debate is over the size of this benefit.

Apprenticeships help improve social mobility and life chances, another way that young people and adults can improve their skills and boost their career prospects. Ultimately, apprenticeships provide an additional route for people to build their skills, widening the talent pool available to employers and the opportunities available to individuals.

The rising need for skills

The importance of apprenticeships and other ways of acquiring vocational and technical skills is increasing as a result of changes in our economy and demographics, and the likely impact of Brexit.

There are long-term changes in our economy and society. We have an aging population with lengthening working lives. Many young people leaving full-time education today will have 50 year careers. And technological and other global changes are altering the types of jobs available and the skills needed in those jobs. Many of the jobs young people will do during their 50 year careers have not been invented yet, and there is an increased premium on skills – having good skills is not a guarantee of a good job, but not having good skills is a guarantee of limited opportunity.

³ Returns to intermediate and low level vocational qualifications, London Economics, BIS Research Paper 53, BIS, 2011.

⁴ Apprenticeship funding in England, IFS Green Budget, IFS, 2017.

This relates to the EU referendum in two ways. The first is that one driver of the vote to leave for some people was a feeling that though they worked hard they could not see a way to improve their prospects – there were no ladders of opportunity for them. The second is that it is likely the UK will have tighter migration controls once we leave the EU, and the Government has said it wants to boost our trade with our countries around the world. This increases the need for us to improve our skills base – a ‘grow your own’ strategy for future economic success.

The overall result is an increasing need for people to enter the labour force with a good grounding of skills, coupled with a need to update skills throughout our working lives. Apprenticeships can be a good way to do both – they need to prepare people for careers of change, as well as give them the skills for their current jobs.

Is the Government on track?

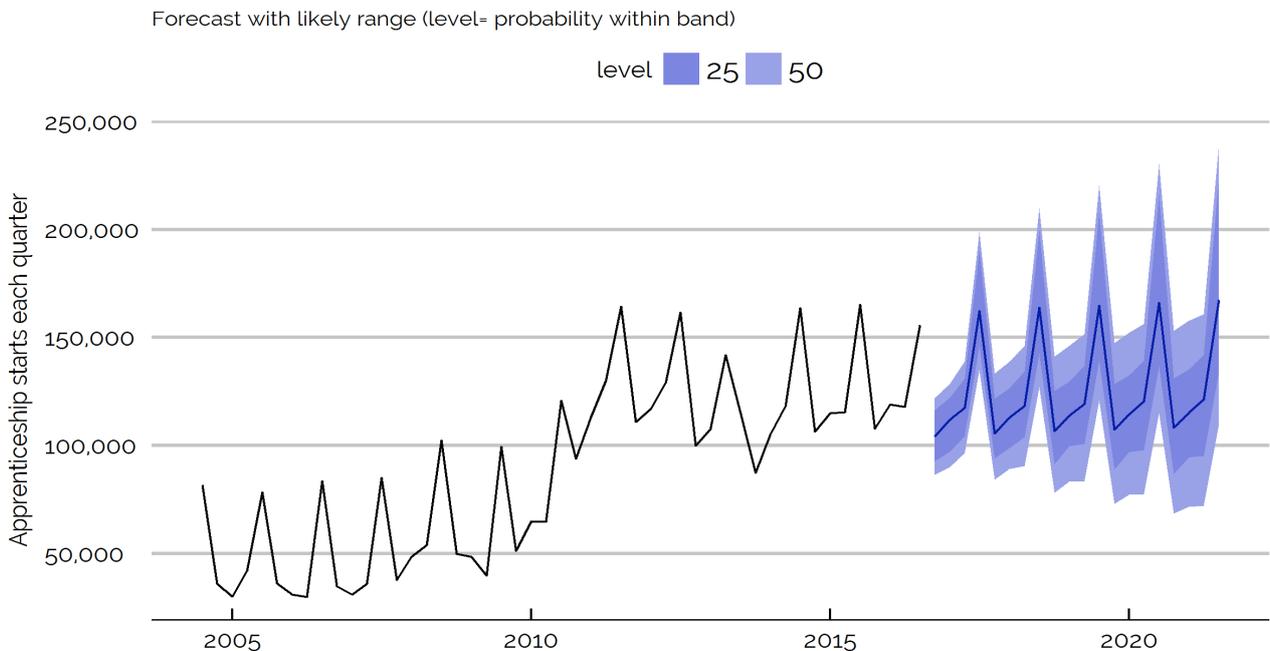
In the 2015/16 academic year there were over 500,000 apprenticeship starts in England. In the first three months of the 2016/17 academic year (which includes the peak month of August), there were 155,000.

Around four in five apprentices are aged over 19, with 40% aged 25 and over.⁵ Two thirds were already working for their employer when they started their apprenticeship. This varies with the common perception of apprenticeships helping young people start their careers. However, our changing labour market does mean people will need to update their skills and change careers more often. The key test is not the age of apprentices; it is whether they are genuinely improving their skills in a way that will be applied at work in a new or changing role.

We have used the data to forecast whether the Government is on track for its 3 million target. Our latest analysis shows that, on current trends, it will fall 500,000 short by May 2020.

⁵ Further education and skills, Skills Funding Agency First Release, ONS, 2017.

Figure 2: Quarterly apprenticeship starts in England



Source: SFA First Release (Jan 17), L&W calculations

However, this is before the introduction of the Apprenticeship Levy in April 2017. This is a payroll tax on large employers, with funds raised ring-fenced in a digital account and only available to be spent on apprenticeships (different arrangements apply in Scotland and Wales). Coupled with other reforms, the Levy is likely to lead to an increase in the number of apprenticeship starts, which could close this gap.

Set against this is the risk of some disruption from changes to funding structures (such as understanding of the Levy among large employers and requirement for SMEs to contribute to the costs of training) and the current tendering exercise for private training providers (which could lead to short-term reductions in apprenticeship numbers as contracts are awarded and providers implement changes). The Government will need to keep a careful watch to ensure it remains on track for its target.

Trouble ahead?

Our first concern is access. There are significant inequalities in apprenticeship participation. People from Black, Asian and Minority Ethnic (BAME) backgrounds, from low income families, and with health problems and disabilities are less likely to undertake an apprenticeship. There is also significant gender segregation by sector and occupation.

This locks off opportunity to people based on their background. It also means employers are missing out on potential talent. This will limit productivity and prevent Britain developing the skills it needs post-Brexit.

Our second concern is quality. Apprenticeships must be high quality to bring genuine skills improvements and productivity benefits. There is concern that a rapid increase in apprenticeships may have come at the expense of quality. For example, the spike in apprenticeships in 2010/11, coincides with a similar fall in Train to Gain starts as that programme was closed due to the Government's value for money concerns. There is a related risk that apprenticeships crowd out other Further Education and training.

The Government's response has been to introduce a minimum duration of one year for all apprenticeships, continued Ofsted inspection of training, and employer leadership through the forthcoming Levy and Institute for Apprenticeships and Technical Education.

We do not believe this is enough. There should be greater focus on the breadth and depth of apprenticeships, the broader apprentice experience, and the impact of apprenticeships. In addition, while apprenticeships are valuable, they are not the answer to all challenges of workforce development or lifelong learning. Finally, there is a risk the Levy and funding system may drive behaviours that do not meet the overall ambitions for apprenticeships.

Without further action on access and quality: the impact of apprenticeships will be limited, even if the 3 million target is hit.

Our conclusion is that the Government should not seek to further increase the number of apprenticeships beyond the current target. Instead it should set its sights on boosting quality and access, and focus on completions rather than starts.

The remaining chapters set out new analysis on access, quality and the Levy, and proposals to ensure apprenticeships increase productivity and social mobility.

2. ACCESS: THE PARTICIPATION PENALTY

- Everyone who can benefit from an apprenticeship should have a fair chance to access one. This will also ensure employers have access to the widest possible talent pool
- Too many groups are under-represented in apprenticeships:
 - Young people eligible for **free school meals** are half as likely to undertake a level 3 apprenticeship in some regions;
 - People from **black, Asian and minority ethnic** backgrounds make up 15.6 per cent of the working age population but just 10.5 per cent of apprenticeships;
 - There is significant **gender segregation**, with women making up the majority of apprenticeships in traditionally low paid sectors
- Far less focus is put on widening participation in apprenticeships, compared to higher education (where £750 million is invested annually)
- We recommend an Apprentice Premium, mirroring the Pupil Premium, along with a Quality & Access Fund in the Apprenticeship Levy and an annual audit of access by the Institute for Apprenticeships and Technical Education

Apprenticeships, like all forms of education, employment and training, should be open to all who can benefit from them. Otherwise they will not contribute to improving the UK's relatively poor record on social mobility. This is also central to increasing productivity by ensuring employers do not miss out on potentially valuable employees.

The participation penalty

There are currently significant inequalities in access to apprenticeships by household income, ethnicity, gender, disability, and caring responsibilities.

Household income: The gap in participation in higher education between young people from higher and lower household incomes is well known. Perhaps less well known is a similar gap in apprenticeships. Research has shown that young people eligible for free school meals (FSM, a proxy for low household income) are less likely to undertake

apprenticeships.⁶ For example, in the North East and South West, FSM-eligible young people were half as likely to start a level three apprenticeship.

This is an area worthy of further research. We have analysed (see below) where in the decision-making process these gaps are most pronounced for gender and ethnicity (i.e. is it that people from particular backgrounds are less likely to apply for an apprenticeship in the first place, or less likely to succeed in their application). Similar research has not to our knowledge been carried out looking at household income.

Understanding the barriers to participation is essential to taking effective action to tackle them. It is likely that barriers to undertaking apprenticeships in general (such as awareness, careers advice, the role of schools, parents and peer models, having sufficient prior qualifications, and financial support) will be important, but there may be others too.

Inequalities in access to apprenticeships by household income are just as important as other inequalities: white working class men and women are currently under-represented in apprenticeships, as well as other groups.

Ethnicity: People from black, Asian and minority ethnic (BAME) backgrounds make up 15.6 per cent of the working age population, but just 10.5 per cent of apprenticeship starts.

Our analysis shows that people from BAME backgrounds make up 19 per cent of all applications to the Skills Funding Agency's Find an Apprenticeship website.⁷ However, white applicants were twice as likely to succeed in their application than BAME applicants. In other words, people from BAME backgrounds are over-represented (compared to their share of the working age population) in applications, but have a much lower success rate.

Our research shows sector and geography play an important role. BAME applicants are more likely to apply to sectors with high competition for apprenticeships, and to live in areas (such as London) with relatively low apprenticeship vacancies. So increasing apprenticeship opportunities in areas with relatively high BAME populations would help.

⁶ State of the nation 2016: social mobility in Great Britain, Social Mobility Commission, 2016.

⁷ Using behavioural insights to increase the application success rate of apprenticeship applicants from BAME backgrounds, L&W, forthcoming.

This does not explain all the variation. Tackling direct and indirect discrimination, ensuring diversity of role models, support through the application process, and development of new forms of marketing and communication could all help tackle under-representation.

Gender: In 2015/16, women made up 52 per cent of apprenticeships. However, this hides significant segregation by sector and occupation. Men account for the majority of apprenticeships in: construction (98%), engineering (94%), information and communication technology (82%), and leisure (67%). Women make up the majority of apprenticeships in: health (81%), education (80%), business administration (63%), and retail (60%).

The sectors and occupations women are more likely to undertake apprenticeships in tend to be lower paid. This inequality in participation therefore contributes inequalities in pay. Taken together, apprenticeships are too often reinforcing gender pay inequalities.

We have researched the drivers of low participation in engineering apprenticeships by women.⁸ Women represent just 7 per cent of engineering and manufacturing technologies (EMT) applicants. In addition, 75 per cent of female EMT applicants submit just one application to the sector, whereas 43 per cent of men submitted two or more applications.

There is little difference in success rates for each application submitted: the difference is that more men apply and they each make more applications on average. So the challenge is increasing the number of women applying for apprenticeships in this sector and inspiring a concentrated focus on it to close the gap in applications submitted by men.

Disability and caring responsibilities: One in five people have a health problem or disability.⁹ But just one in ten apprentices has a disability or learning difficulty (although this relies on self-reporting, meaning this is likely to be an under-reported figure).¹⁰

This links to wider employment opportunity. Our analysis shows the employment rate of disabled people is around 30 percentage points below that of non-disabled people.¹¹ The Government has an ambition to halve this gap, but on current trends this will take 200 years. Increasing access to apprenticeships can contribute to reducing this gap.

⁸ Understanding and tackling gender stereotypes in STEM apprenticeships, L&W, forthcoming.

⁹ Disability in the UK, Papworth Trust, 2016.

¹⁰ Apprenticeship statistics: England, House of Commons Library, 2016.

¹¹ Halving the gap: making the Work & Health Programme work for disabled people, L&W, 2016.

Similarly, a range of people could potentially benefit from flexible apprenticeships, including people with disabilities and health problems, and with caring responsibilities (and as the population ages this number is likely to increase).

No data is collected on the number of flexible hours apprenticeships and the focus has been on apprenticeships being 35 hours per week except in undefined 'exceptional circumstances'. Nonetheless, there are a number of examples of organisations and providers delivering them and opening up apprenticeship opportunities to new groups.

Example: Camden flexible apprenticeship pilot

Camden Council introduced a pilot to ensure that parents were able to access apprenticeship opportunities – taking the same approach to flexible apprenticeships as has become increasingly common with flexible working.

The aim was to reduce in-work poverty, extend access to apprenticeships to groups that would otherwise miss out, and increase the workforce employers can access.

The two year pilot, launched in February 2015, involved the Council working with employers to encourage them to offer flexible apprenticeship opportunities, linking parents with these opportunities, and offering ongoing support to apprentices and employers as well as financial support to top pay up to the London Living Wage.

The interim evaluation showed support among parents and employers, good retention rates, and the importance of transition to work support.^a It also showed the benefits of this model to other groups who would benefit from flexible working opportunities.

^a Interim evaluation of an adult apprenticeship programme: Camden Council, NEF, 2015.

The argument for flexible apprenticeships is similar to that for flexible working and learning (such as part-time degrees): by allowing people to fit their job and training around their life, a wider range of people can participate. The aim is not to reduce the amount of learning, it is to find different ways to fit learning and work around people's lives.

Ending the participation penalty

The relative lack of focus on increasing access to apprenticeships contrasts with the roughly £750 million invested each year in widening participation to higher education.¹²

The analysis above showed barriers to participation vary by group - a tailored approach is needed. For example, in STEM low participation by women is driven both by the number of applications and their respective focus on the sector: men and women are as likely to succeed once they have applied. Increasing representation by people from BAME backgrounds requires increasing apprenticeship opportunities in places like London, and considering the application process itself. However, some common themes also emerge.

Fair funding. Funding rules both provide incentives for employers and providers to focus on different groups, and provide resources to support different groups and sectors. In 2016, the Government consulted on changes to funding by age, sector and geography. This included reductions in many rates and disadvantaged area funding. Following consultation, additional transitional funding was included for some groups and areas.

We have argued for an Apprentice Premium, mirroring the Pupil Premium in schools.¹³ This would allow additional funding for groups (such as young people), areas and sectors (such as those identified in the Industrial Strategy). It would do so in a transparent, flexible way that can be adjusted over time and flexed by devolved cities and regions, as well as the Northern Powerhouse and Midlands Engine.

Flexibility. A lack of flexibility in the apprenticeship offer, whether in terms of hours, length or type of delivery, will mean some people cannot undertake an apprenticeship. It will also mean some employers, who may not have a full-time vacancy but could have a part-time opening, are not able to offer an apprenticeship.

Previous guidance, focused on full-time apprenticeships except in 'exceptional circumstances', has not provided sufficient signals that the government values flexible apprenticeships. The latest guidance is clearer about the role of part-time apprenticeships. However, the government should be more explicit that flexible apprenticeships are valuable, and work with employers to offer them and increase their numbers.

¹² Evaluating access, Sutton Trust, 2015.

¹³ Three million careers: making the Apprenticeship Levy work, L&W, 2016.

Careers advice, role models and schools. Evidence suggests awareness of apprenticeships can be limited among schools, parents and other peers and influencers.¹⁴ Our research has shown lack of apprentice role models adds to this as does the way school performance is measured. This is likely to affect the advice that parents, peers and others give – a wide range of commonly used sources tend to point more strongly to the academic route (or certainly not toward apprenticeships).

Pathways. There should be multiple routes into apprenticeships, including from the benefit system and Traineeships. The Government needs to work with employers, individuals and community organisations to develop these routes and raise awareness of them – apprenticeships should be about increasing employment as well as improving skills.

Financial support. An apprenticeship is subject to a lower rate of the National Minimum Wage, to reflect the fact employers are investing in training. However, apprentices may not be eligible for other support, including with childcare, council tax, and (where young apprentices live with their parents) child benefit. This could act as a disincentive: while the median hourly pay for apprentices is £6.70, access to other support could be a visible demonstration of putting apprentices on an even playing field with education routes.

Recommendations

- 1. Access data.** The Institute for Apprenticeships and Technical Education (IfATE) should publish data on a regular basis on access for different groups
- 2. Apprentice Premium.** The Government should introduce an Apprentice Premium, mirroring the Pupil Premium, to provide effective support and targeting for apprentices from particular groups, sectors and areas
- 3. Careers advice.** There should be a national strategy for and investment in effective careers advice and education for young people and adults. This should include the use of role models and engagement with parents and others. Schools should be required to open their doors to advice on apprenticeships and other forms of technical and vocational education.
- 4. Flexible apprenticeships.** The Government should clearly state that flexible apprenticeships can be offered and develop a cross-sector campaign to promote them. It should publish regular data on the number of flexible apprenticeships.

¹⁴ Omnibus survey of pupils and their parents/carers, DfE, 2017.

3. QUALITY: WORLD CLASS APPRENTICESHIPS

- Apprenticeships will only benefit individuals and employers if they are of high quality
- To support quality, the Government has taken measures to put employers in the lead of apprenticeship design, and required inspection of provision by Ofsted and a minimum duration of one year
- We do not believe this is enough. A range of reports have raised concerns over the depth and breadth of apprenticeships, as well as whether all apprenticeships represent a genuine improvement in skills
- The Institute for Apprenticeships and Technical Education (IfATE) should ensure that the content and breadth of apprenticeships matches the best in the world, benchmarking against countries such as Germany
- The ultimate measure of success is whether apprentices are more likely to be in work and / or earning more after their apprenticeship. IfATE should publish regular, open information on these outcomes by provider, sector, occupation and region

Apprenticeships will only benefit employers and individuals if they are of high quality. They need to deliver the skills employers need, be ‘future proofed’ as far as possible to allow people to adapt, offer genuine improvements in skills, and provide wraparound support to grow into the role and workplace.

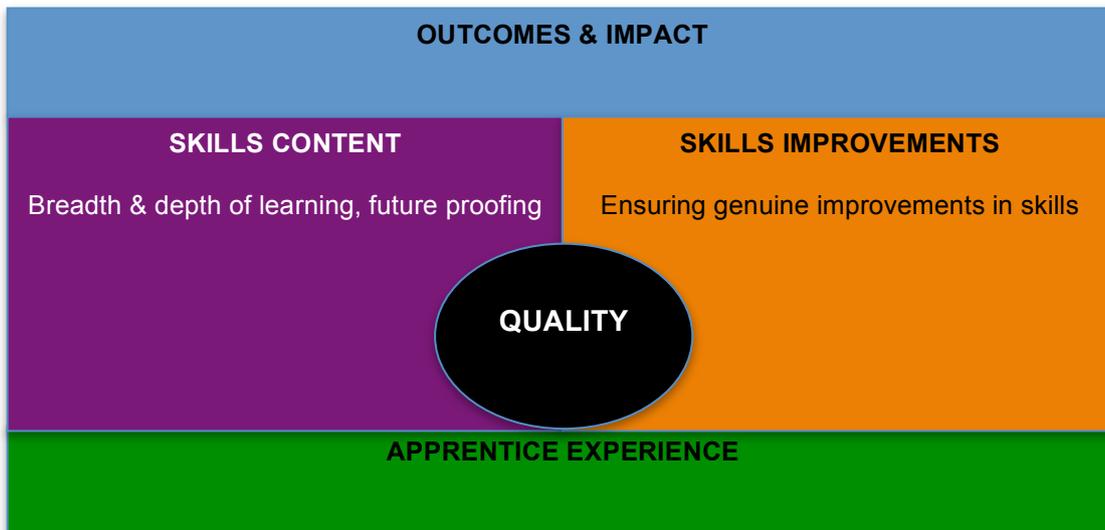
The government’s main measures to ensure high quality are:¹⁵

- minimum duration of one year for apprenticeships;
- employer leadership in the design of apprenticeship standards and end point assessment plans;
- inspection of provision by Ofsted; and
- introduction of a new Institute for apprenticeships and technical education to oversee the system as a whole.

These are welcome changes, but we do not believe they are sufficient to deliver high quality apprenticeships. The risk is the government hits its 3 million target, but this does not increase productivity, deliver the skills employers need, or improve social mobility.

¹⁵ English apprenticeships: our 2020 vision, BIS, 2015.

Figure 3: World class apprenticeships



Delivering skills for employers and future proofing

Concerns have been raised by a number of organisations as to whether apprenticeships are meeting the skills needs of employers. This is not a new concern: a range of reports over successive governments has raised the same issues, and a raft of reforms has often followed.¹⁶

One concern is the breadth and depth of apprenticeships. For example, Policy Exchange found that some apprenticeships, such as in retail and hospitality, cover a narrower range of skills than in Germany.¹⁷ The result could be people trained for their current role, but not to undertake a wider range of roles across the sector. They concluded that, without change, £500 million per year of public money could be spent each year from 2020 on apprenticeships that, they argue, do not meet the traditional definition of one.

A second concern, linked to the first, is the difference between sectors where apprenticeships are well established and those where they are not. More well established sectors, such as engineering, might find it easier to articulate their future skills needs and how apprenticeships can help deliver these.

¹⁶ Sense and instability, City & Guilds, 2016.

¹⁷ The skills we need and why we don't have them, Policy Exchange, 2016.

In other sectors, such as retail, this lack of history makes this articulation more challenging: the risk is of articulating the needs of current jobs, rather than future careers, and of apprenticeships not being linked to business need and strategy. In this case, apprenticeships could simply reinforce current low productivity structures and practices.

We endorse a number of Policy Exchange's recommendations about underpinning apprenticeship quality, including ensuring effective rigor in the end point assessment process (by which the proficiency of apprentices is assessed). We also recommend the Institute for Apprenticeships and Technical Education (IfATE) be required to benchmark the breadth and depth of standards against the best in the world.

Offering genuine improvements in skills

Those concerned about whether apprenticeships are offering genuine improvements in skills often point to the age profile of apprentices: 75 per cent are 24 or over.

However, perhaps better measures are whether the apprentice is new into their role (otherwise workplace training could be a better description) or have substantial changes in their current role, and whether the level of learning is higher than the apprentice's current level of qualification or involves valuable retraining.

Evidence shows 97 per cent of young people undertake apprenticeships at the same level as their previous qualification – this may give them work-relevant skills, but it does not represent an advancement in the level at which they are qualified.¹⁸

In addition, two thirds of Level 2 and Level 3 apprentices were already working for their employer when they started their apprenticeship.¹⁹ Some could be starting new roles or face significant changes in their current roles. Overall their apprenticeship may be leading to improvements in their skills. However, some might perhaps be better described as workplace training rather than an apprenticeship.

This points to a further challenge with the 3 million target: it is focused on apprenticeship starts rather than completions (or the earnings and employment impacts of apprenticeships). Nor is it 3 million individuals, as an individual could undertake more than one apprenticeship.

¹⁸ State of the nation 2016: social mobility in Great Britain, Social Mobility Commission, 2016.

¹⁹ Apprenticeship pay survey 2014, BIS, 2014.

A better measure for the next Parliament would be the number of individuals completing an apprenticeship, how quality compares to other countries, and whether this improves their career prospects and employers' productivity.

Wider apprentice experience

An apprenticeship is a job with substantial training. A lot of the focus when discussing quality is around the content of the training (such as its breadth and depth and ensuring it is meeting employers' needs).

This is important, but the quality of an apprenticeship is also about the quality of the job and the wider experience of the apprentice. This includes the role of line managers, gaining experience in other parts of the business, understanding the sector as a whole, peer support, and building a career plan of which the apprenticeship is a first step.

We have previously proposed an Apprentice Charter.²⁰ This would be a statement, in each sector, of what that broader apprentice experience looks like. It would be co-designed by apprentices and employers and be a mark of overall quality. It is also important that the feedback of apprentices on their experience is sought and used to improve apprenticeships as a whole.

Outcomes and impact

The ultimate measure of quality is whether apprentices are more likely to be in work and earning more after their apprenticeship. This would also be a better indicator of the added value of an apprenticeship than the age of the apprentice or the length of the apprenticeship.

This data is widely available for higher education, with information on the earnings and employment outcomes regularly published by course and by institution. While this needs to be appropriately contextualised, it provides a basis for this assessment. At present, this data is not widely available for apprenticeships. Headline information on destinations of apprentices are available, but not at a sufficiently granular level (e.g. by provider) and not contextualised to show added value.

²⁰ Apprentice Charter: higher quality, better outcomes, Learning & Work Institute, 2015.

It is now possible to undertake this analysis, using the link between Individual Learner Records (showing the learning people have undertaken) and HMRC records (showing peoples employment status and earnings). The IfATE has a key role in ensuring this information is publicly available. This mirrors the recommendation of the Social Mobility Commission, that this information be used to weed out low value apprenticeships just as the Wolf Review looked to reduce the number of low value vocational qualifications.²¹ The data should be set out by geography, group and sector.

Recommendations

1. **World class quality.** The Institute for Apprenticeships and Technical Education (IfATE) should benchmark the quality and breadth of apprenticeships against the best in the world. Only standards that meet this test should be approved
2. **Focusing apprenticeships.** The Government should consider how to encourage apprenticeships to focus on those starting new jobs or with a substantial change in their current responsibilities. This could include changes to apprenticeship guidance, or increased incentives for apprenticeships for new members of staff.
3. **Voice of apprentices.** Apprentices should be represented on the Board of IfATE and throughout their work. The views of apprentices should be a central feature of assessing the impact of apprenticeships. This should include a role in co-designing with employers an Apprentice Charter, setting out the wider aspects of the apprentice experience
4. **Outcomes & impact.** IfATE should publish regular data on the long-term employment, pay and career prospects of apprentices by sector, region and occupation. This data should inform commissioning and be open to individuals and employers so they can make informed choices

²¹ State of the nation 2016: social mobility in Great Britain, Social Mobility Commission, 2016.

4. PAY OR PLAY: WILL THE LEVY RUN DRY?

- The Apprenticeship Levy, a payroll tax on large employers, will raise £2.8 billion per year by 2019-20. It is likely to increase the number of apprenticeships and put employers in more direct control of funding
- However, it is likely to lead to rebadging of existing training as apprenticeships, particularly for higher skilled staff. Funds raised are likely to fall in an economic downturn
- In this way, underlying inequalities in access to apprenticeships may not be effectively tackled. And the apprenticeship brand may be affected if it becomes shorthand for all employer training
- To avoid this and make the most of the Levy, we recommend:
 - **Minimum investment commitment.** Commitment to a minimum level of funding across the economic cycle and for SMEs;
 - **Wider workforce development.** Development of non-apprenticeship approaches to workforce development; and
 - **Targeting apprenticeships.** Fair funding for apprentices, including an Apprentice Premium, and greater focus on apprenticeships for those starting new jobs or with changes in their current role.

The Apprenticeship Levy, introduced across the UK from April 2017, is a payroll tax on large employers with an annual wage bill of more than £3 million.²² Levy payments of 0.5 per cent of the monthly wage bill above an annualised £3 million will go into a digital account for each employer, which they can then spend on apprenticeships only. Arrangements in Scotland and Wales will differ.

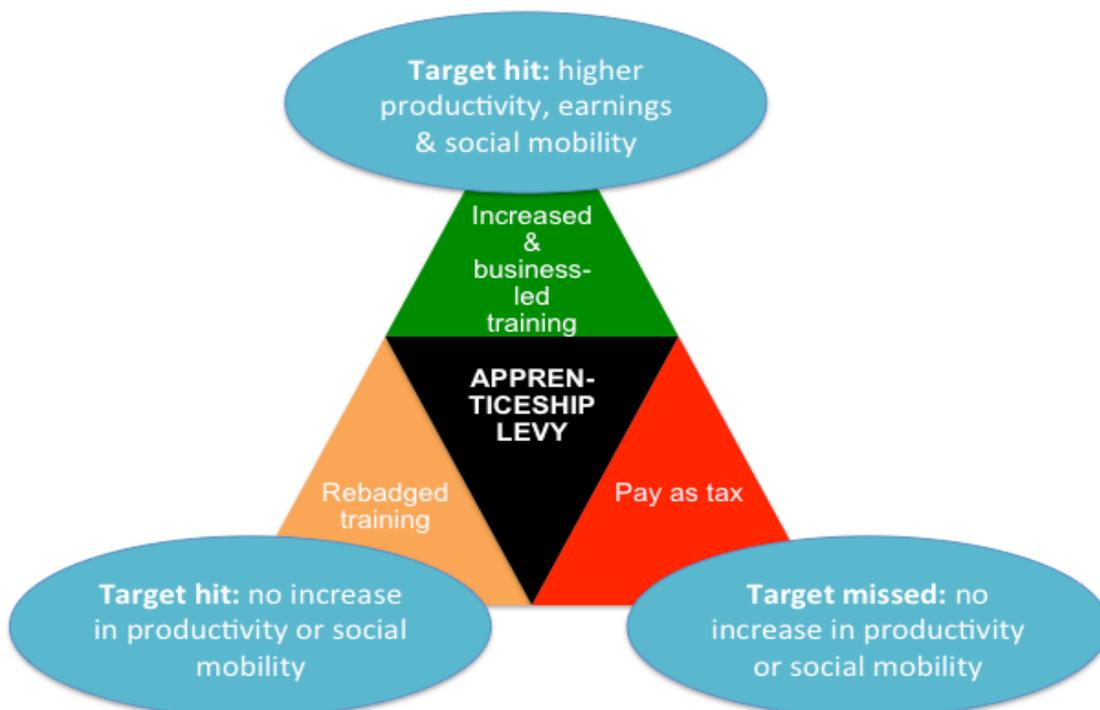
Its aim is to increase the number of apprenticeships, by providing each employer with a ring-fenced amount of money they can only spend on apprenticeships, and to help ensure apprenticeships deliver the skills employers need by putting them in control of the money.

²² Apprenticeship funding: how will it work, Department for Education, 2017.

Previous UK and global training levies have resulted in one of three scenarios:²³

- a. **Miss target: Firms pay Levy as a tax.** Training volumes do not increase either because firms do not see the value in training (or at least the training allowed under the levy) or because the system is too complicated;
- b. **Hit target, little impact: Training increases or is rebadged.** Firms may undertake additional training, or rebadge existing training, to make use of their levy funding. But if the main purpose is to 'get their money's worth' and training is not linked to business strategy or growth plans, it will not deliver improved productivity for business or employment and earnings benefits for individuals; or
- c. **Hit target, big impact: Training increases, productivity rises.** The 'nirvana' scenario, where firms use the introduction of a levy to think about how genuine improvements in skills and increases in training can boost business growth. As a result training also delivers improved pay and career prospects for individuals.

Figure 4: The impact of the Apprenticeship Levy



²³ Training levies: rationale and evidence from evaluations, World Bank, 2003.

We have three concerns that may result in scenario b, along with proposals (sitting alongside those of previous chapters) to avoid that and deliver the ‘nirvana’ scenario.

Issue 1: Avoiding rebadging of training

One likely response by employers to the Levy will be to redesign existing training so it meets apprenticeship frameworks and standards. This would allow employers to maintain their current level of investment in training, rather than increasing.

There are already some reports of this, particularly with regard to management training and higher level apprenticeships. A survey of 100 firms suggested one half were planning to convert graduate recruitment schemes to higher level apprenticeships, and 30 per cent said they would convert their management programmes to degree apprenticeships.²⁴

There could still be value in this. For example, if the apprenticeship adds portability to someone’s skills – in other words if the apprenticeship has currency in the labour market in a way that other employer training might not. Another example would be if this creates new routes into high skill jobs, for example for those who do not have a degree. This relies in part on these routes being targeted at new entrants, rather than training for existing staff.

Example: Leeds Teaching Hospitals NHS Trust

Leeds Teaching Hospitals NHS Trust won the Festival of Learning Employer of the Year in 2016, organised by Learning and Work Institute.^a Their apprenticeship programme has focused on clinical healthcare support, business administration, and integrated health and social care.

Most participants have gone on to substantive roles in the Trust and / or to higher level qualifications and training. In addition, the Trust has saved £100,000 in reduced spend on agency staff and casual contracts in the last year.

This is an excellent example of an apprenticeship scheme designed to attract new recruits, build progression routes, and meet the needs of employers.

^a <https://www.festivaloflearning.org.uk/award-winners/2016-national-award-winner-olt-leeds-teaching-hospitals-nhs-trust/>

²⁴ Employer guide: Apprenticeship Levy study, BPP, 2017.

However, even if both of these reasons hold, it still does not increase the volume of employer training that the UK needs to see. In addition, this rebranding would not tackle existing inequalities in access to skills: already skilled workers are four times more likely to receive training than low skilled workers. The risk, therefore, is of significant deadweight (the economic term for funding activity that would have taken place anyway) and of not tackling the bias in workforce training towards those who are already well qualified.

Issue 2: Avoiding ‘boom and bust’ in training

Funding raised by the Apprenticeship Levy will vary with the economic cycle. An economic slowdown and / or reductions in employment or pay growth would mean a reduced amount of Levy funding (since the Levy is a tax on payrolls). Employers often reduce their training investment in a downturn, so there is a risk that the Levy reinforces that. Yet a downturn is exactly when action to ensure training investment is needed – to help people and firms to adapt to change and seek out new opportunities.

Similarly, any reduction in total Levy funding makes it more likely that large firms will be able to spend their full allocations (particularly if a fall in demand for a particular firm means more staff time is free for training). This would leave less funding for SMEs, whether through the general government funding pot, or through large firms spending their Levy funds themselves rather than passing them on through their supply chains.

Issue 3: Supporting the Industrial Strategy

The Government has published a Green Paper setting out its planned approach to developing an Industrial Strategy.²⁵ Its stated objective is to “improve living standards and economic growth by increasing productivity and driving growth across the whole country”.

Improving skills is a central theme of the Green Paper and apprenticeships are cited as one way to tackle differing skill levels by sector and geography. At present there are a greater proportion of apprenticeship in areas such as the North East than in London and South East (in part due to differences in industrial structure and existing workforce skills, for example in London more than one in two workers is qualified to at least degree level).

²⁵ Building our Industrial Strategy: Green Paper, BEIS, 2017.

There is a risk the Levy contributes to this regional imbalance (40% of Levy payers are in London and the South East) rather than tackling it. Any rebranding of existing management training could exacerbate this.

Overall, the Levy is a significant step forward. It requires a given level of investment by large employers in workforce training. But it brings significant risks of perverse incentives and consequences. The Levy could contribute to the 3 million target, but without increasing total workforce training or tackling current inequalities. It could crowd out other forms of training, and have similar levels of deadweight as previous programmes.

Changes are needed to ensure the Levy is the success it can be. We set out proposals for ensuring the success of the Levy and funding reforms in late 2016.²⁶ This included targeting support, building a shared evidence base, and a level playing field for young people. The Government incorporated some, others we reiterate here along with additional recommendations. These include the importance of transparent information and analysis, including through the Institute for Apprenticeships and Technical Education.

Recommendations

1. **Develop alternative routes.** The Government should develop new approaches to workforce training that is not an apprenticeship. This could include tax incentives, other programmes of support or widening the focus of the Levy
2. **Focusing on quality not quantity.** The Government should not seek to further increase the number of apprenticeships. It should instead focus on world class quality and outcomes, as detailed in Chapter 3
3. **Avoid boom and bust.** The Government should guarantee a minimum total budget for apprenticeships, regardless of fluctuations in Levy funding raised. It should keep the funding available for SMEs under review to ensure they do not miss out
4. **Assess impact.** The Institute for Apprenticeships & Technical Education should publish an annual assessment of the geographic distribution of apprenticeships (total, level and subject area) and how this contributes to the Industrial Strategy

²⁶ Three million careers: making the Apprenticeship Levy work, L&W, 2016.

5. CONCLUSION

The Government is right to want to expand apprenticeships. At their best, apprenticeships are one of the best ways to combine earning and learning. They have a long history of being valued by employers and individuals.

However, rapid growth in numbers needed to hit the 3 million target risks coming at the expense of quality, with insufficient time for the underpinning reforms needed to ensure apprenticeships are world class. And some groups are still too likely to miss out on the opportunities apprenticeships can bring. The forthcoming Apprenticeship Levy is a great opportunity to engage employers, but risks exacerbating these concerns.

The result is that the Government is likely to hit its 3 million target, but without delivering the productivity and career prospects apprenticeships can bring. However, the foundation stones are in place. It is now time to switch focus from the total number of apprenticeships to ensuring a world class apprenticeship system.

This means a greater emphasis on quality, focusing the content of apprenticeships on a breadth and depth of learning that matches the best in the world, and ensuring that apprentices see a genuine improvement in their skills and career prospects. The Institute of Apprenticeships and Technical Education should drive this process. We also need a debate on what an apprenticeship is and to develop alternative routes for workforce development.

There must be a greater emphasis on access too, so that everyone who would benefit from an apprenticeship has a fair chance of getting one. This means creating a level playing field, placing a particular focus on cutting inequalities in participation. Widening participation in apprenticeships should be as high a priority as widening participation in higher education.

Ultimately, the growth in apprenticeships is welcome. The focus of the Government on apprenticeships and technical education provides a once in a generation opportunity. Setting quality and access as the heartbeats of the new system will help ensure a revolution in apprenticeships that benefits employers and individuals alike.