LEARNING AND WORK INSTITUTE

Flex and match: a new Skills Levy for growth and opportunity

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Contents

Executive summary

The apprenticeship system isn't working as it should, with too few opportunities for young people, drops in numbers since reforms in 2017, and employers spending less on training. Broadening the apprenticeship levy into a new Skills Levy would give employers greater flexibility to spend their levy on training in priority areas, but only if they also invest in apprenticeships for young people. Growth in the levy over time would allow the apprenticeship budget to be protected. The Government should also increase support for functional skills, explore expanding the levy to more employers, and introduce a Skills Tax Credit.

Apprenticeship numbers are down 34% since 2015-16, before the apprenticeship levy and other reforms were introduced, and down 40% for under 19s. Only one in two apprentices completes their apprenticeship, although total training hours per apprenticeship are up. Falls in apprenticeships in deprived areas mean apprentices are now just as likely to be from the least deprived areas, having been half as likely before.

Too often large employers paying the apprenticeship levy are choosing apprenticeships to draw down their levy to fund higher-level training for older, existing employees, rather than because it is the best option for them. Meanwhile overall employer investment in training down 26% since 2005.

The current system isn't working. We need a system that raises overall employer investment in training, improves opportunities for young people and training particularly up to level 3, and better meets the need of employers and our economy.

The apprenticeship levy should be broadened to a Skills Levy, with greater **flex** for employers to use their funds for training outside of apprenticeships **matched** to a maximum of the amount they spend on apprenticeships for young people and **capped** at up to 50% of the levy.

This training outside of apprenticeships should include functional literacy, numeracy and digital skills and other training from an approved list up to level 5, helping to support national priorities like net zero, housing and productivity. Up to £200 million per year should be available for SMEs for the same qualifications where small firms agree a plan with a business support advisor.

Functional English and math qualifications should remain a core part of completing an apprenticeship. But the curriculum should be reviewed and employers given up to £2,000 to compensate for the additional training time needed for apprentices who need functional skills training. There should also be testing of ways to building functional skills into a new pre-apprenticeship approach.

These changes should be introduced over time, with up to 15% of levy funds able to be spent on approved qualifications in years 1-3, 30% in years 4-6, and 50% thereafter.

This flex could be funded by growth in the amount the apprenticeship levy raises over time as a result of rising employment and earnings, meaning apprenticeship funding in England could be maintained in real terms. Removing the 10% top up to large employers levy funds would also free up £200 million for SME training and apprenticeships.

This flex and match approach should help employers better find options that meet their needs, while increasing the focus of funding on apprenticeships for young people.

Alongside this, the Government and social partners should consider whether to expand the levy so that smaller firms also pay and whether larger firms should pay a higher rate, and how to further improve quality and completion rates.

The Government should also introduce a Skills Tax Credit and ensure skills better align with growth and economic plans to further increase employer investment in training and ensure we can meet our future economic priorities such as net zero.

The context

The apprenticeship levy, a 0.5% payroll tax with annualised wage bills of £3 million or more, raised £3.9 billion in 2023-24. In England, levy-paying employers spend an average of 50% of their levy payments on apprenticeships. The remainder is kept by the Treasury and helps to fund apprenticeships for smaller firms. In 2023-24 the levy raised £734 million more than the Government spent on apprenticeships.

For centuries, apprenticeships have been a way for employers to develop their workforce and for people to combine learning and earning – they are defined as a job with substantial training. Numbers declined during the second half of the 20th century as the industries they were most popular in, like manufacturing, declined.

From the 1990s on, successive governments have tried to change this, creating apprenticeship routes in the sectors now dominating the economy, investing public money, and involving employers in the design and use of the system. Many apprenticeships are high quality and benefit people and employers. But at various points there have been concerns that quality was being sacrificed for quantity and that the system was led by the Government rather than by employers.

The most recent changes involved the creation of the Apprenticeship Levy in 2017, a 0.5% payroll tax on employers on their annualised wage bills above £3 million. In part, the introduction of the levy reflects the view that the UK was underinvesting in skills, partly due to market failures, including the risk that other employers 'poach' staff after they have invested in training. These market failures have generally previously been seen as impacting at all skill levels, and can be allied to coordination failures – the risk that the sum of individual employer decisions doesn't achieve overall economic need or policy aims like net zero.

The apprenticeship levy is paid by employers across the UK and is expected to raise about £3.9 billion in 2023-24.[1] The amount the levy raises has been increasing as employment levels and nominal pay have risen.

Scotland, Wales and Northern Ireland receive funding based on the Barnett formula to spend as they wish. In England, levy payer's funds sit in digital accounts (with a 10% top up provided) and must be used for apprenticeship training within two years (either by the levy paying employer, or transferred by them to another employer) or it is taken by the Treasury. Non-levy paying employers in England have 95% of training costs funded by the Government for apprentices aged 22+ and 100% of training costs funded for apprentices below that age. All employers still have to pay the wages of apprentices (with a lower minimum wage rate applying), as well as support costs (such as the time managers and other staff spend on on-the-job training).

[1] Economic and fiscal outlook, OBR, 2024.

Other changes were introduced in England alongside the apprenticeship levy, aimed at improving quality. These include a minimum apprenticeship duration of 12 months, standards setting out what an apprentice should be able to do by the end of their apprenticeship designed by groups of employers, and a minimum 20% off the job training time during an apprenticeship. An end point assessment, undertaken by a different organisation to the one providing the training, judges whether an apprentice has met the required standard at the end of their apprenticeship. We collectively term these the 2017 reforms, although the timelines for each differed to an extent.

The principle was that the levy would stimulate investment in apprenticeships by large firms, raise money for apprenticeships in small firms, and employers could choose any apprenticeships at any level that had been approved by employers in that sector. In that way, employer decisions would guide the system, with the thinking that this would lead to a greater impact on productivity.

These changes also altered funding incentives for providers and employers. Previously, apprenticeships for people aged 25 and over were funded at around one half the rate of apprenticeships for 16–19-year-olds.[2] This aimed to reflect that older people are more likely to have some degree of prior work experience which reduces the amount of training they need. Instead, providers are meant to assess apprentice's prior learning and adjust the content (and funding claimed) for an apprenticeship. In practice, these assessments are not leading to substantial changes in the amount or type of training offered (or funding claimed).[3]

The result is that the new system has increased the relative subsidy for apprenticeships for over 25s compared to younger people. Before the mid-2000s, apprenticeships weren't funded for over 25s at all.

When the apprenticeship reforms were introduced, the Government said they would help deliver their manifesto commitment of three million apprenticeships by 2020. However, they fell one million short. Ministers have also said that their aim is for high quality apprenticeships across sectors, occupations and levels of learning and that, within this, it should be for employers to decide what type and level of apprenticeship they want.

Of course, apprenticeships are one way that employers can meet their training needs and for employees to build their careers. But not the only or always the best way. The apprenticeship system in England sits alongside other public investment (the largest being the adult education budget at £1.5 billion per year), plus employers' other investment in on- and off-the-job training (£54 billion in 2022) and individuals' investment in learning (estimated £55 billion per year in 2023).[4]

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[2] IFS Green Budget 2023, IFS, 2023.

[3] Levy paying employer decisions and accounting for prior learning, L&W, 2020.

[4] Raising the bar: increasing employer investment in skills, Evans, L&W, 2022; Time to learn: increasing participation in learning, Evans, L&W, 2023.

Understanding apprenticeship funding in England

The apprenticeship levy is paid by all UK employers with an annualised pay bill of £3 million or more. This means that around 2% of employers covering 60% of employees pay it.[5]

The Government allocates funding to the Department for Education based on expectations of apprenticeship take-up by levy and non-levy paying employers (who only have to pay 5% of training costs for apprentices aged 22+ and 0% for apprentices below that age) and also how much it is prepared to spend. Allocations are made to Northern Ireland, Scotland and Wales based on the Barnett formula,[6] and they can spend these as they wish.

The system in England assumed that levy-paying employers would spend about 50% of their levy funds.[7] Although the public finances are not set up in this way, the expired funds of levy payers are effectively funding apprenticeships in SMEs. If levy payers spend more of their funds than expected, the Government either needs to provide further funding or find a way to constrain SME demand for apprenticeships (for example by capping the number of SME apprentices each training provider can support, limiting promotion of apprenticeships etc).

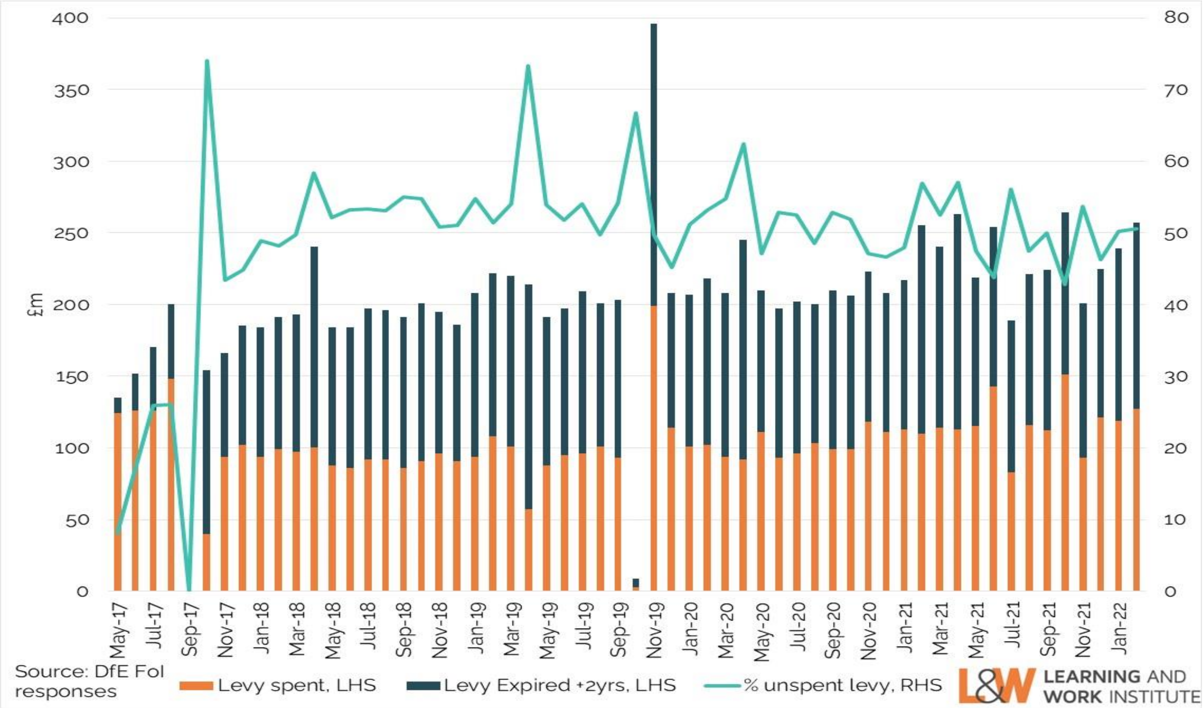
There were concerns pre-pandemic that employers were spending above the predicted proportion of their funds, and therefore that a higher budget or rationing would be needed. But, following a dip in the pandemic, spending now looks to have settled at around 50%. In the chart below the dates on the x axis are the months in which employers paid the levy (orange bar), with the blue bar representing how much of that levy payment expired two years later.

[5] Green Budget 2017, IFS, 2017.

[6] The Barnett formula was used from 2020-21 on. Before that allocations were based on population shares.

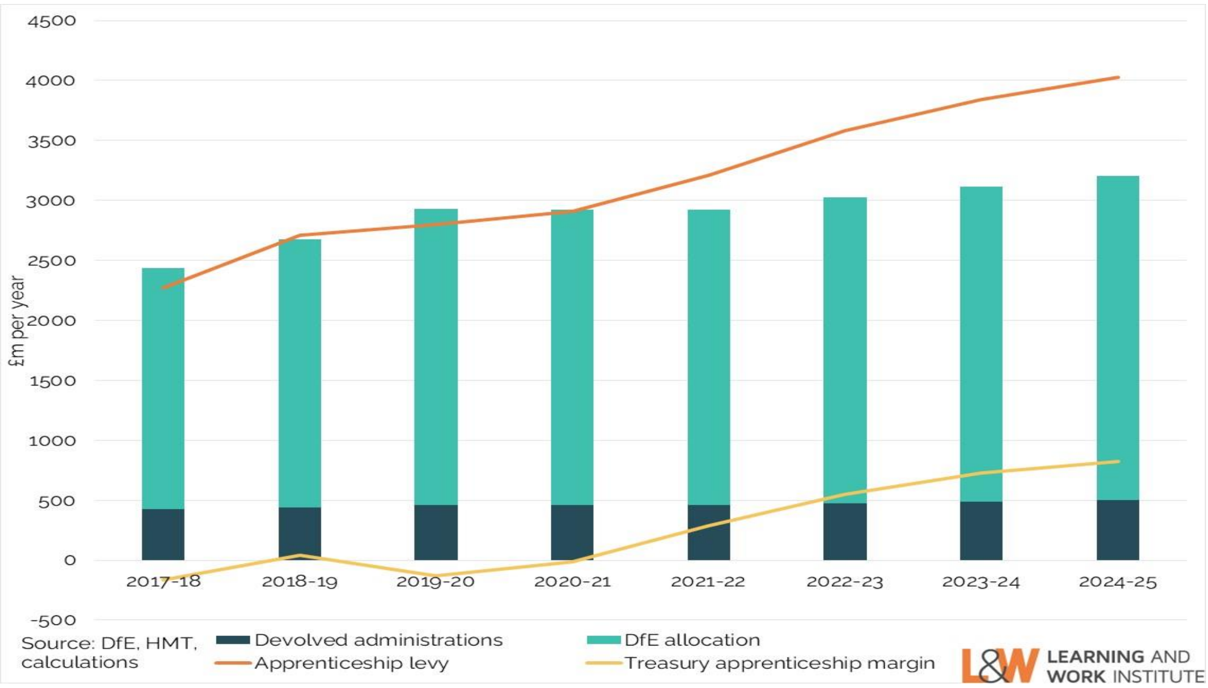
[7] The apprenticeships programme, NAO, 2019.

Figure 1: Levy contributions and spending by employers in England[8]



In recent years, the amount raised by the apprenticeship levy has exceeded the amount allocated to the Department for Education and to the other UK nations. This 'Treasury apprenticeship margin' is likely to exceed £700 million in 2023-24.

Figure 2: The apprenticeship levy and its allocation between UK nations



[8] There was a one-month delay transferring levy funds to account in October 2019.

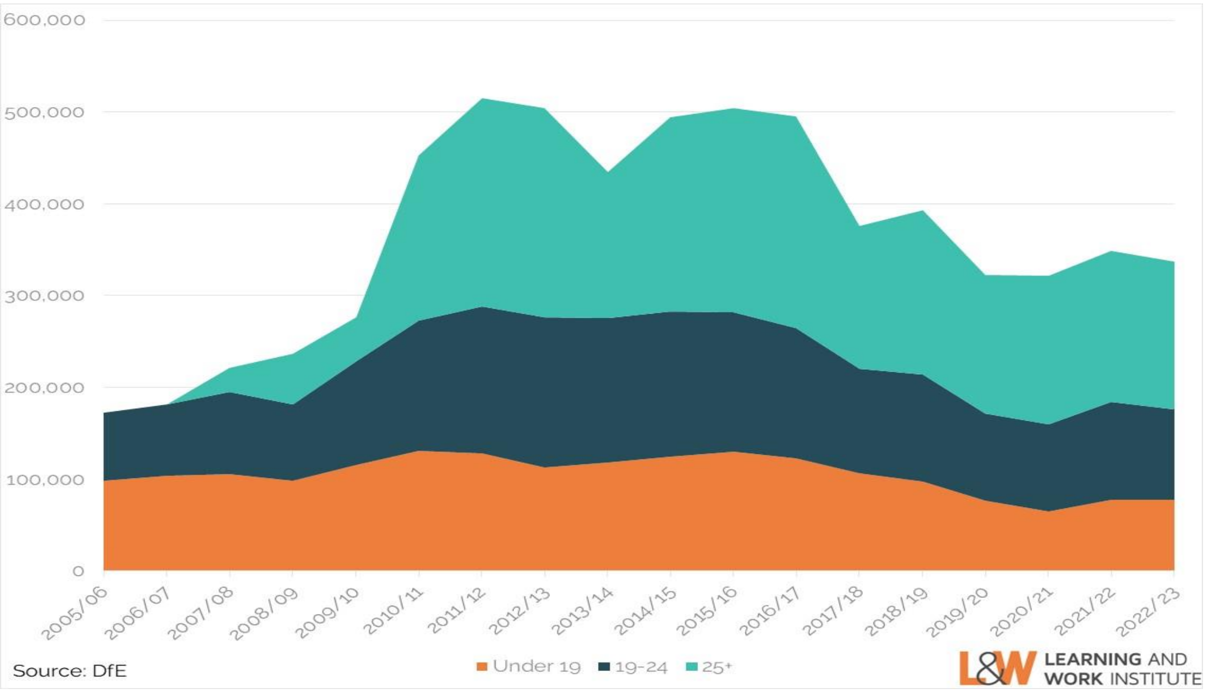
Assessing where we are

Apprenticeship numbers are down almost one third since the introduction of the levy and other reforms, with the sharpest falls for young people, in deprived areas and in the north of England. For many large firms, the apprenticeship levy has become their training budget and they are focusing on older, existing employees training at higher levels rather than young people starting out. More than one half of apprentices at levy paying employers is aged 25+, almost double the proportion at small firms. Employer investment in training more broadly has fallen by £3.5 billion (7%) in the same period.

Apprenticeship numbers grew gradually up to 2009/10. The sharp rise in the following two years is partly related to the ending of Train to Gain (which supported level 2 qualifications in the workplace) – there was some substitution from that to apprenticeships.[9]

However, since the introduction of the 2017 reforms, the number of apprenticeships has fallen 31%, with the largest falls for young people (-37% for under 19s, -32% for 19–24-year-olds).[10]

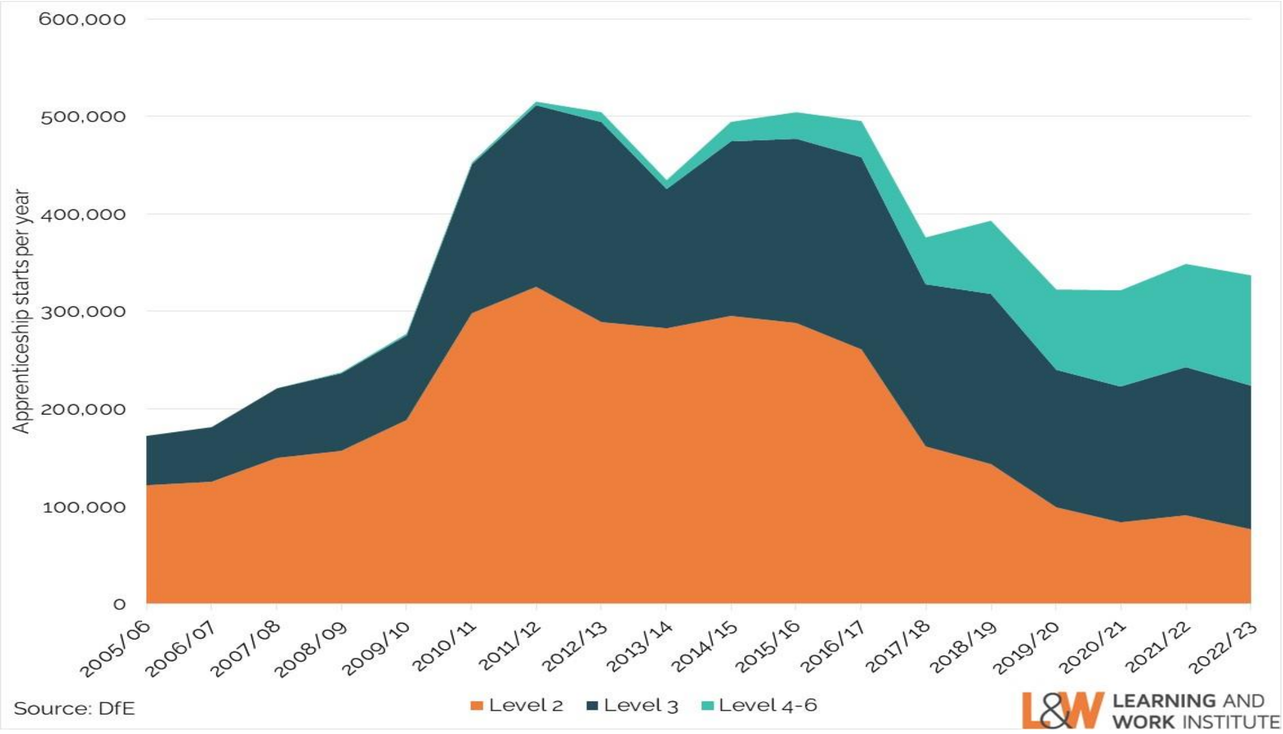
Figure 3: Apprenticeship starts by age



[9] This could mean an increase in the quality of training if apprenticeships were higher quality than the qualifications attained through Train to Gain, or a reduction if firms were now choosing apprenticeships not because they were the best option, but because they were the only funded option. But it is certainly not the increase in total training at work that they apprenticeship figures on their own would suggest.
[10] Department for Education apprenticeship statistics, 2024.

There has been a large shift toward level 4+ apprenticeships (+320%) and away from levels 2 (-74%) and level 3 (-22%). This reflects a combination of growth in the number of apprenticeship standards available at higher levels, the increase in relative subsidy for adult apprenticeships from 2017, and the decision to allow employers to choose the apprenticeships they wanted rather than seeking to influence their choices. The result is that employers have followed their longstanding patterns of focusing investment on higher skills and older, existing employees in more senior roles.

Figure 4: Apprenticeship starts by level



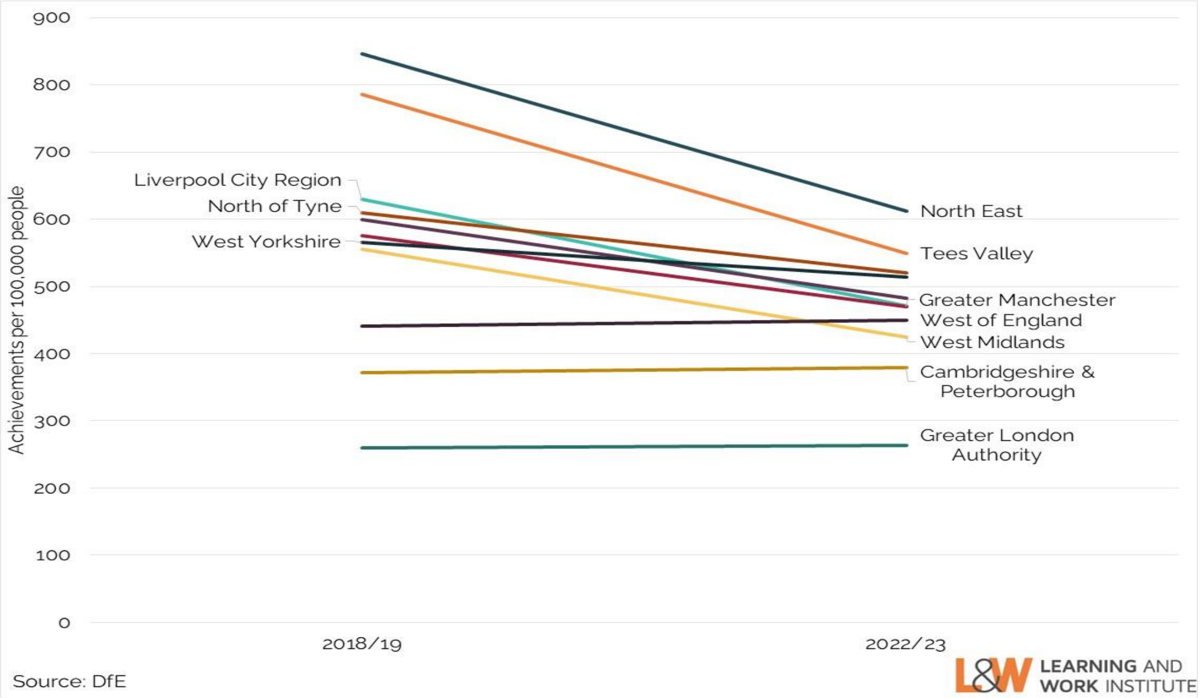
This has been reflected in how the apprenticeship budget is spent, even more so given that higher apprenticeships cost more than level 2 and 3 apprenticeships. Between 2016/17 and 2021/22, spending on higher apprenticeships rose from £167 million to £888 million (+431%).[11] It fell from £622 million to £421 million (-32%) for level 2 apprenticeships, and rose from £746 million to £953 million (+28%) for level 3. This means that combined spending on level 2 and 3 apprenticeships was unchanged in cash terms, a 10% real terms cut.

Geography

The north of England in particular has seen the sharpest falls. The number of apprenticeships per 100,000 population have fallen by more than one quarter in Tees Valley, North East, Liverpool City Region and also the West Midlands. They have risen in London, Cambridgeshire and Peterborough and the West of England.

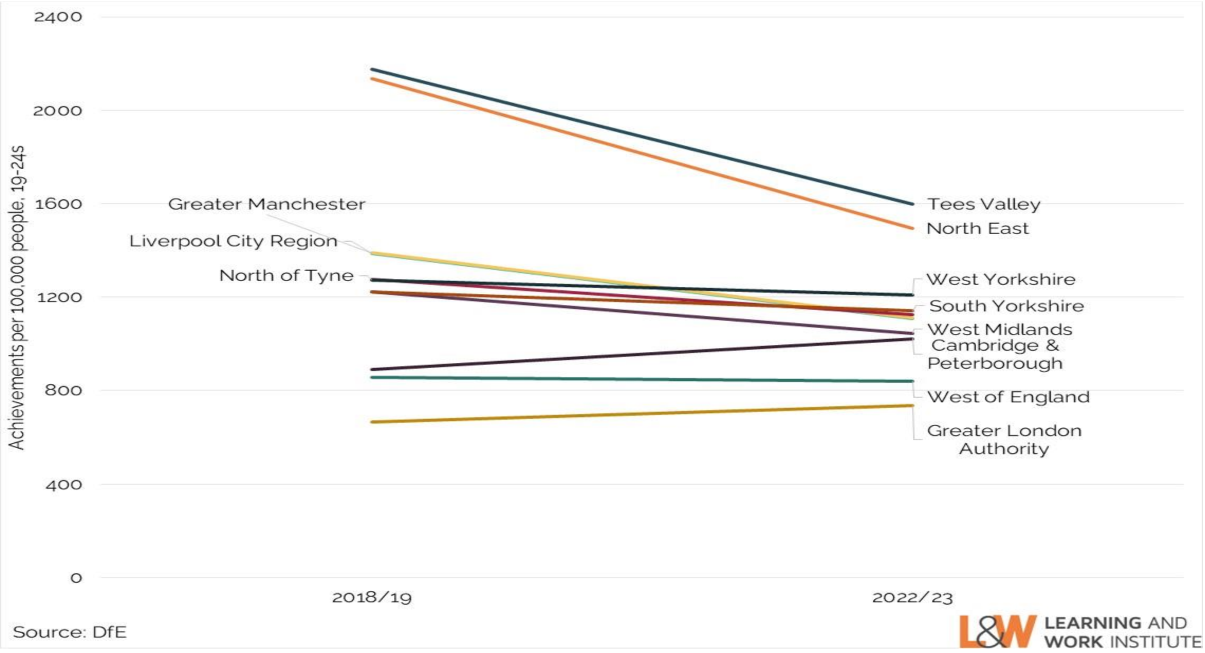
[11] Level 2 apprenticeship spending down by £200m since the levy (feweek.co.uk)

Figure 5: Apprenticeship starts per 100,000 population



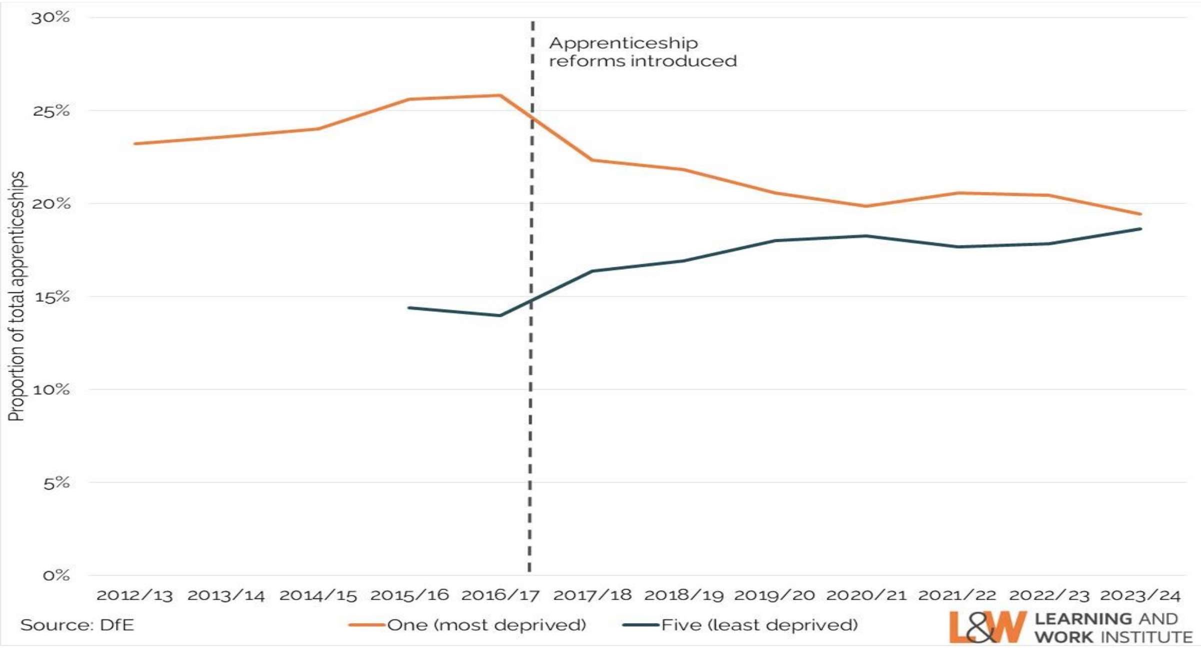
The same pattern emerges looking at apprenticeships for 19–24-year-olds. Per 100,000 population they are down most in the North East (-30%), Tees Valley (-27%), Greater Manchester (-20%) and Liverpool City Region (-20%). But up in London (+11%) and Cambridgeshire and Peterborough (+15%).

Figure 6: Apprenticeship achievements per 100,000 population, 19-24s



Looking at a smaller geographic level, the share of apprenticeships taken by those living in the most deprived areas has fallen, while the proportion taken by those living in the least deprived areas has risen. This is linked to the changes by level: those in more deprived areas were more likely to be doing level 2 and 3 apprenticeships; those in less deprived areas are more likely to be doing level 4+ apprenticeships, illustrating that these new higher apprenticeships have not yet been engines of social mobility, rather replicating the same inequalities in participation as other forms of higher education.[12] Apprentices are now just as likely to come from the least deprived areas as the most deprived areas, having been half as likely before the 2017 reforms.

Figure 7: Proportion of apprenticeships from most and least deprived areas



The difference between levy and non-levy payers

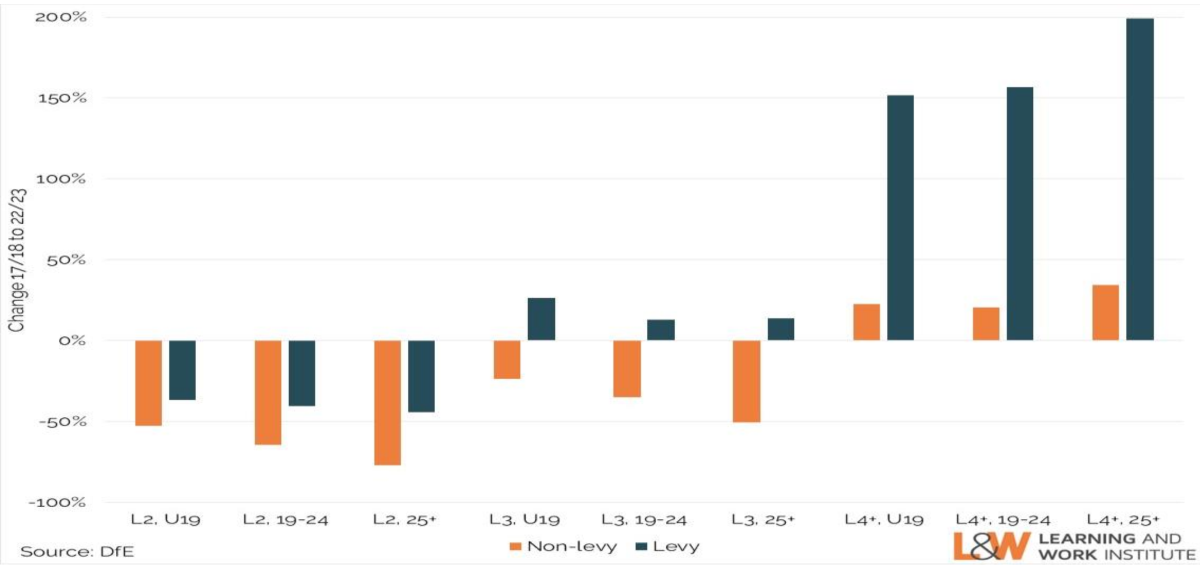
Apprentices at levy paying employers are much more likely to be studying at higher level and be aged 25+. In 2022/23, apprentices at levy payers were twice as likely to be studying at level 4+ than those at non-levy payers. Indeed 40% of apprenticeships in levy payers were level 4+ and three quarters of these were aged 25+. And 40% of apprentices at non-levy payers are aged under 19, compared to 15% at levy paying employers (55% are 25+).

[12] Degree apprenticeships: levelling up? Sutton Trust, 2020.

Figure 8: Apprenticeships by level and age for levy and non-levy payers, 22/23

The chart below looks at changes by age and level for levy and non-levy payers since the first year of the levy.[13] There were stark falls of around 50% for level 2 apprenticeship in both levy and non-levy payers. Level 3 apprenticeships also fell significantly, particularly for those aged 25+, in non-levy payers. By contrast, the number of level 4+ apprentices aged 25+ in levy payers has tripled.

Figure 9: Change in apprenticeship numbers 2017/18 to 2022/23



[13] The falls for each age group at level 3 and below are smaller here than quoted above – because here we're comparing the first year of the levy to 22/23, rather than to the pre-levy system.

The changing number and pattern of apprenticeships since the 2017 reforms is explained by a combination of sharp declines in level 2 and 3 apprenticeships in non-levy payers, and a large-scale switch in levy payers to level 4+ apprenticeships particularly for those aged 25+.

Some argue this shift is a good thing, that employers are best placed to choose what improves their productivity. But the immediate need of employers doesn't always match the long-term needs of the economy, so there will always be a case for intervention to match that. And part of the reason the levy was introduced is because there are market failures in employer investment in skills leading to an underinvestment overall, and in particular in low to intermediate skills. After all, if there were no failures or shortfalls, we wouldn't need a levy.

In most areas of public policy, the principle is that government intervenes to tackle market failures or promote long-term needs. That argues for a system where a framework is set to tackle these failures and meet long-term needs, and employers make decisions within that. In addition, it is a mistake to argue the only economic returns come from higher skills, the evidence shows there are economic returns at all levels, and a distribution at each level.

Has quality improved?

The quality of apprenticeships has improved on some measures but not others. The average training hours and duration on an apprenticeship have risen, linked to the introduction of standards and minimum requirements for apprenticeship length and time spent on off-the-job training.

However, only just over one in two apprentices completes their apprenticeship.[14] Completion rates will never be as high as for qualifications like A levels; an apprenticeship is a job with training and people leave jobs for a variety of reasons. But they are lower than they were and the Government has said it wants to increase them to 67% by 2025. While people may gain from whatever learning they have done, non-completion limits the benefits to people and employers.

Apprenticeship completion rates vary by level, sector and provider. Our research highlighted the importance of the role of the employer, with apprentices more likely to report challenges getting the time for off-the-job training where they were already employed before their apprenticeship.[15] This suggests that in some (but not all) cases, apprenticeships are being used by employers to, as they see it, get their money back from the levy, rather than as an important investment to boost their productivity and business success.

In addition, while many apprenticeships offer high quality training that benefits employers and individuals, others fall short. Ofsted ratings are only one measure of quality and must

[14] Apprenticeship statistics, Department for Education, 2024.
[15] Enabling better outcomes: a wider view of apprenticeship success, L&W, 2024.

not be over-interpreted. However, one third of apprenticeship training providers having their first full inspection were rated as requiring improvement or inadequate.[16]

Overall, quality appears mixed. There are many amazing apprenticeships that change lives and help employers, but others that do not. Some things, like average training hours and apprenticeship duration, have improved. But elsewhere the 2017 reforms may have underpinned or worsened quality issues, with lower completion rates where existing employees are becoming apprentices, where buy-in from the employer and employee is limited[17] and where an apprenticeship is chosen to draw down levy funds rather than because it is the best training option.[18] Such apprenticeships are highly unlikely to be good value for money and reflect employer responses to financial incentives more than a business strategy to invest in skills.

The broader picture

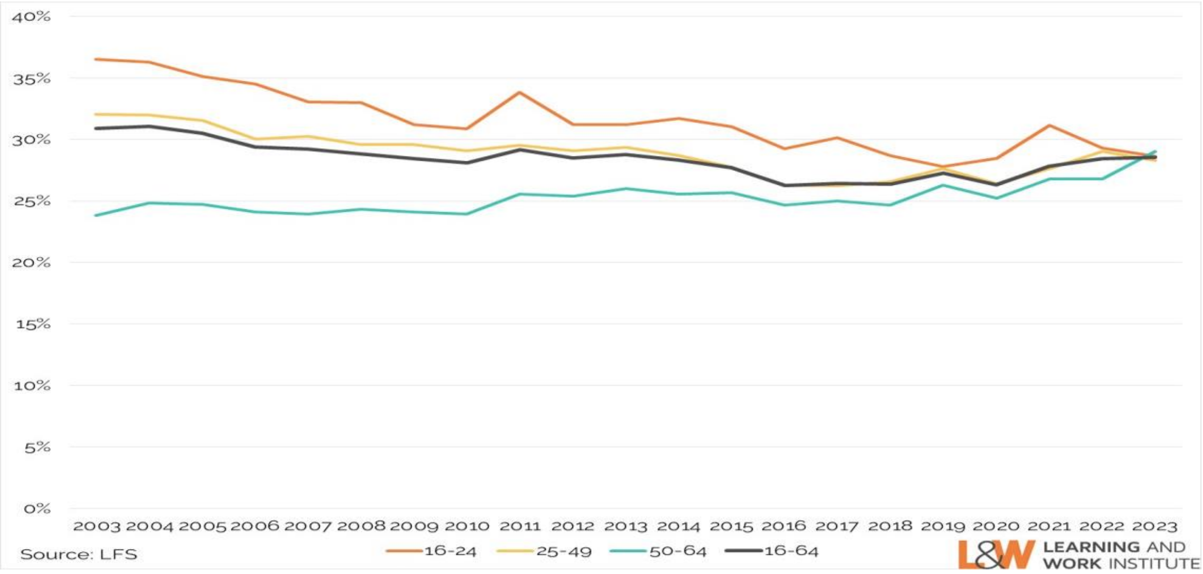
Apprenticeships are one way in which employers invest in training. More broadly, policy including apprenticeships should aim to tackle the UK's longstanding challenges: i. increasing employer investment in training and ensuring this helps lead to improved productivity; and ii. widening access to training.

Taking the first challenge, the Employer Skills Survey estimates employers in England invested £45.8 billion in 2022, a fall of 7.1% (£3.5 billion) from 2017. Employer investment per employee is now 26% lower than in 2005, and half the EU average.[19] This suggests that training is spread relatively thinly.

The proportion of employees trained at work in the last 13 weeks rose from 26% in 2016 to 29% in 2023, though is unchanged for under 50s. But it is 2015-17 that look like the outliers: 28-31% was the range in the preceding two decades. So there is little evidence of training rising at work linked to apprenticeship reforms, and there has been a 20-year decline in training for young people. Post-pandemic, an increase in the number of people changing jobs may have led to more induction and health and safety training. Given induction and health and safety training tends to be lower cost, this is consistent with falls in the amount employers are spending on training: there is less money spread across more employees.

[16] The annual report of His Majesty's Chief Inspector of education, children's services and skills 2022/23, Ofsted, 2023.
[17] Ibid
[18] Levy paying employer decisions and accounting for prior learning, L&W, 2020.
[19] Raising the bar: increasing employer investment in skills, Evans, L&W, 2022.

Figure 10: Proportion of employed people receiving training at work in the last 13 weeks



Taking the second challenge, the analysis earlier in this chapter showed that apprenticeships have fallen particularly starkly for young people, for those living in deprived areas, and for people learning up to level 3. More broadly, inequalities in training at work by age group have remained fairly stable since the 2017 reforms, though there has been a trend rise in training for 50–64-year-olds since 1995, reflecting the increasing share of the workforce in this age group plus longer working lives.

Other inequalities remain stark. Graduates and people working in professional and managerial occupations are almost three times more likely to get training at work than non-graduates and people working in other occupations respectively.[20] Neither disparity has narrowed over time.

So on both measures, it is difficult to argue that things have improved since 2017. That is not just because of the apprenticeship system or public policy more generally. But that helps make the argument for looking at employer investment in and utilisation of skills more broadly.

The need for change is clear.

[20] Annual Population Survey, ONS, 2024.

A flex, match and cap Skills Levy

The apprenticeship levy should be broadened into a Skills Levy. Levy paying employers could spend a proportion of their funds (up to 15% in years 1-3, 30% for years 4-6, 50% thereafter) on training in priority areas. Their flex would be limited to match the amount they spent on apprenticeships for young people. Small firms should have similar flexibility. Phasing this in would allow spending on apprenticeships to be maintained in real terms.

This chapter makes recommendations for the apprenticeship system, aimed at increasing employer investment in training, narrowing gaps between groups, and better meeting the needs of employers, individuals and the economy.

A more flexible and focused Skills Levy

The apprenticeship levy should be widened into a Skills Levy. Levy paying employers would have greater **flex** to spend some of their levy on non-apprenticeship training but with the amount of flex for each employer, **matched** to the level of their investment in apprenticeships for young people, and up to a **cap** of a certain proportion of their levy funds.

The Government would need to decide, with social partners and local leaders, what proportion of the levy could be used flexibly and what this flexibility should include. We would suggest it should be up to 50% of levy pots and for training and qualifications up to and including level 5.

The list of qualifications and training allowed could begin with a subset of those approved for the Government's Lifetime Skills Guarantee (which local areas have an input to tailor to local economies), focused on sectors with particular skills shortages or growth priorities (such as net zero), as well as functional literacy, numeracy and digital qualifications. But it could also include modules of learning and other training where this is shown to improve productivity and labour market outcomes. It should be agreed with social partners and local leaders. That could include a new pre-apprenticeship approach incorporating functional English, maths and digital learning.

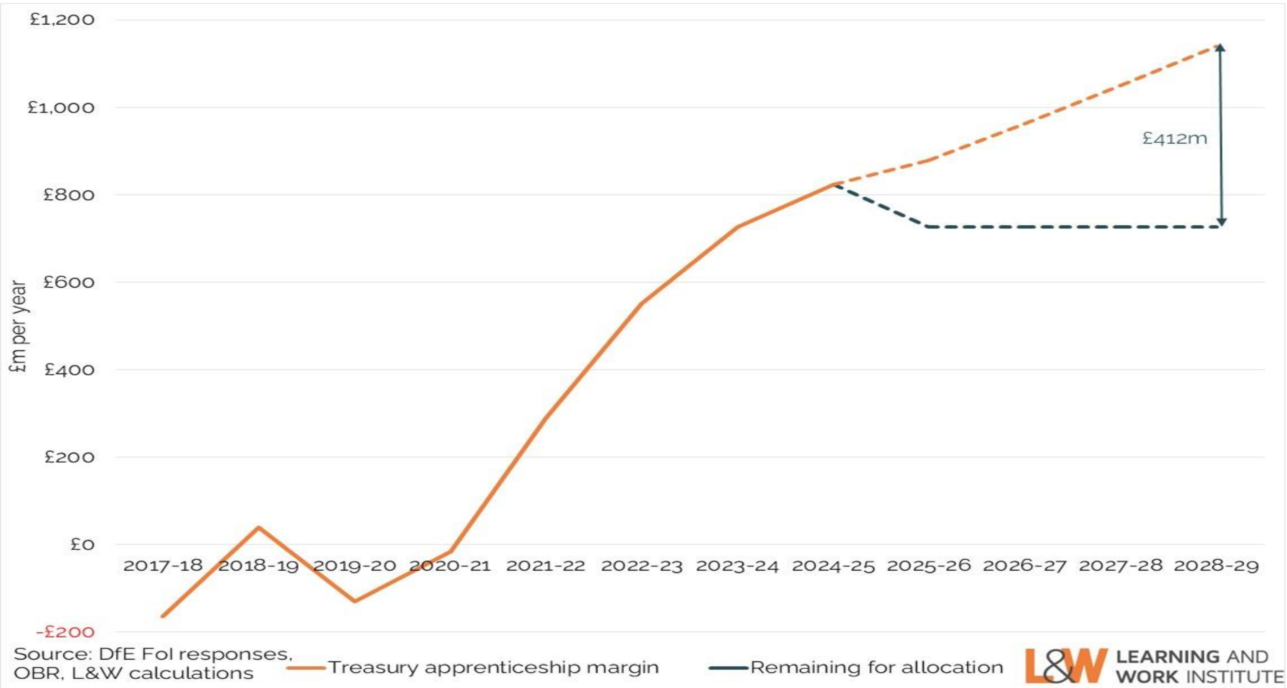
This list should be reassessed each year based on national and local economic need and other Government plans, such as the drive to net zero. The Government would need to decide with social partners and local leaders whether to restrict flexibility to full qualifications, or allow modules and other forms of training. It should progress cautiously and openly evaluate over time, with a focus on training that clearly benefits the employer and individual. Of course, the levy is the minimum employers should spend on training, not the maximum – they can and should do more beyond it.

Phasing in flexibility

This would be a significant change and should be phased in over time, with ongoing open assessment of any unintended consequences. For example, this could mean up to 15% of the levy being spent in this way for the first three years, then (subject to review) 30% for three years, then up to 50%.

Natural growth in the amount raised by the apprenticeship levy is likely to mean headroom grows to allow this to happen. Based on the OBR's forecasts, and assuming the amount allocated to the Department for Education for apprenticeships rises in line with inflation from 2024-25 onwards, the Government will be raising £1.1 billion more from the levy than it spends on apprenticeships and gives to devolved administrations (the 'Treasury apprenticeship margin' – the orange line in the chart) by 2028-29. Simply maintaining this margin at the estimated 2023-24 level (£727 million) would mean a 'spare' £412 million (the gap between the blue and orange dotted lines) by 2028-29, an estimated 28% of levy payers spend on apprenticeships each year.

Figure 11: Estimated Treasury apprenticeship margin over time



If levy payers can spend some of their levy on qualifications and learning, not just apprenticeships, then shouldn't SMEs be able to do this as well? After all, this may be the best solution for their business needs in some circumstances just as it will be for levy paying employers.

There are two ways to fund this within the existing budget. The first is to restrict levy payers to using a maximum of 15% of their levy funds on non-apprenticeships in the first three years: by 2028-29 this would leave £200 million of the additional Treasury apprentice margin above the 23-24 level (the £412 million referred to above) free for this fund. The second would be to remove the 10% top up that levy payers get to their funds (they would still have access to the full amount they've actually paid in), using this for accredited training in SMEs with the same rules and constraints (must be from the approved list) as levy payers.

The current system effectively subsidises 110% of levy paying employers apprenticeship training costs, compared to 95% for SMEs (100% if the apprentice is 21 or under). So this change would rebalance support. In recent years, this top up has amounted to around £200 million. Again, there is a case to phase this in – for example, reducing the top up to 5% for three years and limiting SME funding for qualifications to £100 million and then assessing progress.

To ensure this helps increase productivity (limiting the deadweight and low employment and earnings impacts of previous schemes like Train to Gain), take up of the SME fund should be tied to agreeing a business plan. This would show how the training fitted into that plan and would help the business meet its needs.

In this way, the Government could maintain apprenticeship expenditure in real terms, maintain the apprenticeship levy's net contribution to the public finances, and allow levy payers to spend 15% of their levy payments on qualifications outside of apprenticeships in the three years to 2028-29, raising this thereafter.

Increasing focus

We need to increase apprenticeship opportunities for young people, particularly up to level 3. The Government should cap levy payers spend on accredited qualifications to **match** the amount they spend on apprenticeships for 16–24-year-olds, perhaps up to level 3, subject to the total **cap** on such spend.

For example, if an employer pays £2 million of apprenticeship levy in a year, they would (once implementation had been fully phased in) be able to spend up to £1 million of that on accredited qualifications up to level 3. But they could only do that if they spent £1 million on apprenticeships for 16–24-year-olds.

The risk is that this system of matched requirements introduces greater complexity into an already complex system. But this is the simplest way we can identify to introduce flexibility while also increasing focus on young people. We believe the matching element (you can only spend on accredited qualifications what you spend on apprenticeships for young people, up to a cap) would be easily understood.

What would the impact of these changes be?

It is likely that the changes would lead to levy paying employers reducing some of their higher apprenticeships for existing employees and instead funding qualifications for them. This would be a good thing if that training, which would likely be lower cost, better suited their needs.

It is uncertain whether levy payers would use a higher proportion of their levy funding than now. They would be unlikely to be able to do so during the implementation phase (when the amount that could be spent on training outside apprenticeships was more limited), and could only do so after that if matched by an equal investment in apprenticeships for young people. On this basis, it seems unlikely that levy payers would spend more of their levy at least in the medium term, and this would be tested through phased implementation.

This means the amount of funding for non-levy payers should be protected, and they would benefit from an additional fund to pay for accredited training outside of apprenticeships (again, only to the level that matched their investment in apprenticeships for young people) linked to developing business plans that would make use of those newly acquired skills.

The changes to the levy would sit alongside the other reforms to increase quality (see next chapter). In the round, we believe it is likely that an increased number of people would get training at work and investment in apprenticeships would be maintained in real terms. A phased implementation and open partnership approach to the changes should also help to highlight potential unintended consequences earlier and increase buy-in from employers and trades unions.

Expanding high-quality apprenticeships

Our aim should be to expand access to high-quality training including apprenticeships, meaning that further changes, beyond broadening the apprenticeship levy into a flex and match Skills levy, would be required. The implementation and evolution of changes should also be done in a partnership way, allowing the system to adapt and learn from experience.

Reviewing the system with social partners

The Government should formally review how best to implement the new Skills Levy with social partners, including employers and trades unions. This would partially mirror the partnership approach of the Low Pay Commission, which has helped make the minimum wage an established part of the landscape while its value has significantly increased over time.

The review should be time limited and focus on how to best implement the proposed changes detailed above (rather than whether to do anything at all), as well as any further changes needed. It should also consider more broadly how best to increase employer investment in and use of skills.

High-quality apprenticeships

Preparing people for a career as well as their current job. The Government argues the current system, of employer groups designing apprenticeships governed by the Institute for Apprenticeships and Technical Education, is employer led and underpins quality. But there is always going to be a tension between what a group of employers (particularly a self-selecting group) in a particular sector want, what the Government wants, and what the economy needs long-term.

England now has over 600 apprenticeship standards, with the Government saying this covers 70% of occupations.[21] It's good for every occupation that could benefit from an apprenticeship to be covered by one. But it's not good if some standards are too narrow, preparing someone for a specific job rather than a broader occupation and future career.

At present, apprenticeship standards are developed by groups of employers and approved by the Institute for Apprenticeships and Technical Education (IfATE). There should in future be a dual tick system for standards, so they are agreed by employer groups but also assessed by a national body as matching the world's best in terms of breadth and quality.

Ensuring training is high quality. We also need to ensure training is of high quality. Increasing completion rates by 13 percentage points (to meet the Government's target of 67%) would mean roughly an extra 20,000 apprenticeship completions per year from the

[21] Apprenticeship achievements: an update for the sector, DfE, 2024.

same number of starts. Some of this is likely to happen naturally (as the effects of the pandemic and high job turnover following this recede) and as a result of recent changes (such as aligning the end point assessment and qualification attainment where an apprenticeship contains one).

But further action to drive up quality and completions – focusing on what both providers and employers themselves can do – is likely to be necessary. The Government will need to think about how to intervene when provision isn't reaching the required standard or completion rates. It has recently introduced rules that mean it may do so when a provider has 20% of apprentices withdraw or 10% having a break in learning for over a year, tightening previous rules.[22] The impact of these should be assessed after a year to see if further changes are needed.

The Government should also look at whether Ofsted requires extra resource to ensure a sufficient number and range of inspections, and also about how it ensures only high-quality providers are able to deliver apprenticeship training, intervening more quickly if there are signs of poor quality.

Employers, who choose a provider (from an approved list), need good information to inform this choice. That includes the views of employers who have worked with that provider before (with a Tripadvisor-style rating system already in place). They also need good guidance on how best to support apprentices. That could include advice from other employers, best practice guides, and building in support and guidance to business support initiatives and schemes like Investors in People.

How success is measured is important too. The Government should focus more on the number of apprenticeship completions (not the number of starts), aiming for this to rise over time particularly for young people. It should also build in measures of the impact of apprenticeships on people and employers. Publishing all of this data and building it into careers advice would also help employers and people to focus their efforts on the apprenticeships that will make the most difference to them.

Lastly, the apprenticeship system is highly complex, with too many overlapping regulators. While beyond the scope of this paper, this needs simplifying and the system of an independent End Point Assessment judging whether an apprentice has met the required standard should also be reviewed to see if there are ways to simplify the system.

Functional skills

Currently, level 2 apprentices must study toward level 2 functional English and maths and achieve at least level 1 if they did not hold a qualification at this level before or at level 2 if they did. Level 3 apprentices must achieve level 2 functional English and maths to be able to complete their apprenticeship.[23] Exceptions can be made for apprentices with special

[22] 'Stronger' apprenticeship accountability measures revealed (feweek.co.uk)
[23] Apprenticeship funding rules 2023-24, ESFA, 2023.

educational needs, learning difficulties or disabilities. Additional funding, increased by 54% in early 2024 after no change since 2014, is provided to cover the costs of learning functional skills, but no additional time is allowed within an apprenticeship for them.[24]

Some have argued these requirements should be removed, that they act as a barrier to people taking up apprenticeships (particularly where they have not had a good experience in initial education or can't see why they need them), and to employers offering them (in some cases prior achievement of the required functional skills levels can be an entry criteria for people wanting an apprenticeship rather than something you learn while doing an apprenticeship).

In our view, it would be wrong to water down the drive to improve functional skills like literacy and numeracy. These are a key shortfall in the UK's skills base, with one in four adults (9 million people in England) lacking them. This holds back opportunity and productivity. And people often learn these skills best when they are contextualised, such as through an apprenticeship. An important part of completing an apprenticeship is having the functional skills that you are likely to need in your current job but also future career and life.

We should of course look to stem the tide at source by improving attainment in initial education. But there will always be some people who don't gain these skills in initial education, and we currently have 9 million adults in England with low literacy or numeracy, risking decades of lost growth and opportunity if we don't do something to help.[25] Plus of course an apprenticeship is meant to help you in your chosen occupation and career, the number of roles that do not need at least functional literacy and numeracy is small and shrinking.

But it is not enough to will the ends of apprentices gaining functional skills without willing the means. The current system doesn't do this well enough; not allowing extra time for apprentices to learn these skills, or compensating employers for this, and with some concerned that the current curriculum is too academic and not sufficiently tailored to work needs.

The answer is to fix these issues rather than just watering down requirements. Where apprentices have functional skills needs, extra time should be allowed for this (increased off the job training time, in a way agreed with the employer, e.g. longer duration apprenticeship); employers should be compensated for the extra time apprentices will spend away from the workplace; and the functional skills curriculum should be reviewed to ensure it is relevant and learning is contextualised. To illustrate, employers could be

[24] Functional skills funding uplift brought forward to January 2024 (feweek.co.uk)

[25] Getting the basics right, L&W, 2021.

offered £1,000 per apprentice that needs either functional English or maths or £2,000 if they need both.[26]

Another approach could be to build functional skills learning and other support, such as employability skills, into a pre-apprenticeship programme (either funded separately or by building together funding for functional skills and other qualifications). Different approaches should be tested and support tailored to what works best for the employer and individual.

[26] Based on 55 guided learning hours per functional skills qualification at National Minimum Wage adding on costs like pensions and employer's National Insurance, with an extra allowance for management time.

The bigger picture

The changes outlined in the previous chapters would be substantial, but they are only part of the picture for increasing employer investment in and utilisation of skills. And that is only part of the wider picture of learning and skills opportunity for people and work. Here we highlight five further areas of consideration.

1. Widening or increasing the Skills Levy

The apprenticeship levy is only paid by 2% of employers, though these cover 60% of employees. One option is to widen the levy so more employers pay it. For example, London Economics estimate that requiring all employers to pay it would raise an additional £1.6 billion per year.[27]

The benefit of this is that it would draw more firms into the system, potentially increasing the number engaging in training. However, it would be a tax increase on SMEs and weigh down on wages (payroll taxes reduce pay growth) during a prolonged period of low economic growth.

There are similar arguments around raising the proportion of payroll that large employers have to pay in the levy. For example, doubling the current contribution rate to 1% of payroll above £3 million per year would raise an additional £3.6 billion per year. This would either increase training in large firms or leave extra funding for training in small firms. But it would be a tax rise on large firms.

Perhaps the better thing to do would be to freeze the £3 million threshold for paying the levy (which has been frozen since its introduction) for the next Parliament. Growth over time in employment and wages means this would increase the number of employers paying the levy. If higher sustained economic growth is achieved, consideration could be given to broadening the levy to smaller firms and/or increasing the rate larger firms pay. But the immediate priority should be to increase the effectiveness of the existing levy system through the switch to a flex and match Skills Levy.

2. Introduce a Skills Tax Credit

Several countries and US states have tax credits for investment in skills and human capital. The economic argument is that there is likely to be underinvestment by employers without this incentive, as improvements in skills have knock on benefits (or externalities) for the wider economy.

We have argued for a Skills Tax Credit, modelled along the lines of the existing R&D tax credit.[28] This would allow SMEs to deduct 230% of the costs of accredited training and apprenticeships from their tax bills, and 300% where those investments are in priority areas such as literacy, numeracy or digital skills. We estimated the new tax credit could

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[27] Investigating the impact of the apprenticeship levy on training outcomes, London Economics, 2024.
[28] Raising the bar: increasing employer investment in skills, Evans, L&W, 2022.

cost £500 million per year, but increase employer investment in training by £1 billion, helping an extra 250,000 people improve their skills.

3. Better link skills and apprenticeships to local and national growth plans

Large investments by the Government or employers, such as building a new railway or gigafactory, generate significant and relatively predictable skills needs. Governments should ensure that a workforce and skills plan are part of planning for these investments.

Workforce and skills plans should also be at the heart of industrial and sector strategy. We will not be able to build the number of new homes the Government aims for or fit enough heat pumps as part of the move to net zero without enough trained workers to do it. However, people will only invest the time to train in these new skills if they can see that a job will be available, and businesses will only invest in training or take people on if they can see the demand will be there.

National and local governments should assess the skills and employment needs that will result from planned investments such as large housebuilding schemes, retrofitting or heat pump installation and build these into delivery plans. For example, if the Government were to increase subsidy for heat pump installation, this will be underspent if demand for heat pumps isn't there. But even if people want a heat pump installed, they will find another heating option if they can't easily find a high quality fitter. So efforts to raise demand for heat pumps should be tied to local plans to raise supply, particularly where sufficient scale can be generated. For example, if local social housing providers were to plan to fit heat pumps in their homes, this would give sufficient scale for colleges and training providers to put on courses and for people to want to take them.

Local government can have a key role in raising demand for apprenticeships: using their influence and engagement with employers; building requirements to take on apprentices into public procurement; and leading the way themselves. In areas where the adult education budget is devolved, the Government should consider a greater role for local government in non-levy apprenticeships in particular. This could include formal devolution of the non-levy budget in an area, a co-commissioning role, or the ability to incentivise apprenticeships in particular sectors (such as supporting net zero or housebuilding) or groups (such as care leavers)

4. Introduce a Youth Guarantee

The proportion of young people not in education, employment or training (NEET) has remained fairly stable at about 13% in England in recent years, whereas in leading countries it is below 10%.[29] Part of the issue is that support is too disjointed and doesn't reach every young person that needs help. We have argued for a Youth Guarantee, ensuring every 16–24-year-old is offered a job, training place or apprenticeship.

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[29] Unleashing talent: levelling up opportunity for young people, L&W, 2020.

Apprenticeships should be an important part of this, but the proportion of 16–18-year-olds in an apprenticeship is lower in England than in some other European countries.

The reforms detailed in the previous chapter should help to change this. But the Government may also want to consider funding apprenticeships for 16–17-year-olds from the education budget (rather than the levy). This would cost an additional £450 million per year, but it would put apprenticeships on the same funding basis as other education routes for that age group and may encourage more large firms to offer them (given it would be in addition to their levy funding).

5. Increase support for lifelong learning and retraining

Learning is, of course, but about more than work. And even work-related training isn't just about your current job: it can be about looking to progress in your current field or changing career. Apprenticeships can be one way of doing this, but not the only way. Yet our research has shown the financial risks to people of changing career – an average £3,731 per year pay penalty – and that policy can be disjointed and not help people manage these risks.[30] That's why we've proposed a widened Lifetime Learning Entitlement, increasing entitlements to funded learning up to level 3 and providing more support with living costs.

[30] All change: understanding and supporting retraining and career change, Evans, L&W, 2023.

Conclusions

The current apprenticeship system and wider policy on training at work aren't working as they should. Apprenticeship numbers are down, sharply for young people and up to level 3, employer investment in training is down, and there are stark inequalities, with graduates three times more likely to get training at work. All of this holds back individuals, employers and the economy.

The case for change is clear. But this is an area that's been subject to almost permanent change in recent decades. So building on what we already have, considering what works, learning the lessons of history, and having a clear mind on the end goals are key.

We think fixing the system requires both more flex and greater focus. More flex, because learning other than apprenticeships has value too and can sometimes be the right answer for people and employers. More focus, because we need to increase opportunities for those who often miss out today, particularly young people and learners up to and including level 3.

This can be done while keeping the apprenticeship budget in England unchanged in real terms, and potentially increasing the number of people achieving an apprenticeships by raising completion rates from their current low levels and focusing more investment on younger people and up to and including level 3.

The same principles apply to the wider context. Employers don't make decisions on training and apprenticeships in isolation – they are affected by prospects for growth, alternative ways to meet their needs, and the environment they operate in. Increasing employer investment in training can help boost economic growth, but increasing growth would also raise employer investment in training.

Going for growth and linking skills policy to growth plans, for example the different skills needed to deliver the drive to net zero or linking employment and skills policy to the NHS workforce plan, would make a difference. Beyond this, other measures like a Skills Tax Credit could help too.

We need to create the conditions for economic growth, and provide the right incentives for employers to invest in their current and future workforce.