

Off Course >

The risks of the Growth & Skills Levy

RESEARCH NOTE

By Jess Lister

Executive Summary

Since 2015, the stated aim of the UK's apprenticeship policy has been straightforward: to increase the number of apprenticeships while also increasing the quality of the apprenticeship training offer. Following the introduction of the apprenticeship levy in 2017, the Government's apprenticeship policy has focused on: building and maintaining a sustainable funding settlement via the levy, and protecting the quality and brand of apprenticeships. It has done so at the expense of flexibility, with stronger controls on what an apprenticeship is.

But quality has improved, new apprenticeship starts are down 10% since the levy was introduced in 2017. The drop has been particularly acute for young people, and in areas outside London and the South East. There has, correspondingly, been a growth in the number of apprenticeships taken up by older workers, often by existing employees rather than as a training route for new members of staff. The average apprentice is now over 25, likely already employed, and has an existing higher-level qualification; and is subsequently on a high or advanced level apprenticeship. Businesses large and small are frustrated at the rigidity of the existing system, and are regularly calling for reforms to improve flexibility.

Making apprenticeships work better has a political and policy imperative. Voters have an overwhelmingly positive view of apprenticeships. Some 32% of those polled said they'd like to see funding for more apprenticeships for skilled and technical work, ahead of more funding for schools (22%), lower fees for people going to university (20%) and more free childcare for under 5s (14%).¹ Out of all the students applying to university, 40% - nearly 430,000 - were also interested in apprenticeships. Yet only 77,700 learners under 19 took up an apprenticeship across all levels in 2022/23.² 61% of students interested in apprenticeships who did not apply said that a lack of vacancies in their local area was the main barrier.

The next government must deliver these three priorities: more apprenticeship starts, higher quality courses, and greater flexibility for business. It is difficult to balance all three. Businesses might not capture the benefits of an apprenticeship in the same way they do for other forms of training and development - they risk hiring an apprentice for multiple years only for them to move to another company after they qualify. Left to their own devices, even in a system with less friction and bureaucracy, firms will underinvest in apprenticeships compared to their full societal value.

The Labour Party is proposing shaking up the system through the Growth and Skills levy, prioritising more flexibility in workplace training and skills offered beyond the fixed apprenticeship model. They have suggested that the levy can be improved by allowing firms to spend up to half of their budget on non-apprenticeship training. Many of these training courses, the details of which are not yet confirmed, are likely to be shorter in duration, and focused on retraining and upskilling for existing employers, rather than providing alternative routes into the workforce, particularly for young people.

Labour's proposed levy might make sense if a significant portion of the levy remains unspent and can be used on non-apprenticeship training. But this is no longer the case. As the profile of apprenticeships has shifted, with more apprenticeships at higher (and therefore more expensive) levels, the amount of unspent levy funding has shrunk significantly - with just 4% of the budget "returned" in 2022/23 compared to 24% in 2020/21. A 50% reduction in ringfenced levy is therefore a significant decrease in the total amount available to fund apprenticeships both for levy payers and non-levy paying SMEs.

A 50% decrease in apprenticeship starts would see them drop from around 340,000 a year to just 170,000. Assuming that businesses take advantage of the full flexibility of Labour's Growth and Skills levy and spend only 50% of their levy pot on apprenticeships, and the profile and costs of apprenticeship standards remains unchanged, there will be a significant reduction in apprenticeship starts. The most recent estimate from the DfE predicts an even harsher decline in apprenticeship starts to 140,000 per annum; a 58% decrease compared to 2022/23.³

If Labour wanted to maintain or increase apprenticeship starts, the DfE estimates they would need to invest an additional £1.5bn.⁴ As firms take advantage of the flexibility of the proposed Growth and Skills Levy, the amount the government needs to invest on top of levy funds will need to increase to meet the shortfall. Without further investment, apprenticeship starts will fall.

Such a decrease in the number of apprenticeship opportunities will not be felt equally across England. Assuming a 50% decrease in starts compared to 2022/23 across region, age and level, the number of apprenticeships available under 19s, for example, would fall below 40,000 (down from 106,570 in 2017). In the North East, a 50% reduction would mean fewer than 10,000 apprenticeships in total across all ages and levels, down from around 20,000.

Even if these predictions are an overestimate of the net impact of the Growth and Skills Levy, the Government's current plan won't reverse the trending decline in apprenticeship starts. Boosting apprenticeship numbers, particularly for young people and in deprived regions without compromising on quality of provision, should instead be the key priority for the next government. It is clear the current levy system is not working as it should, and that improvements should be made. But just increasing flexibility of provision without putting in stronger measures to reverse the decline in apprenticeship starts would be a backwards step.

There are some straightforward reforms the Government could make - especially for under-25s, and in the areas which would benefit most from skilled, technical employment routes. More detailed recommendations will be the focus of an upcoming Onward paper later this year. But in brief, we recommend:

1. Reconsidering the incentives model created by the levy which encourages businesses to hire apprentices - for example, by increasing the number of businesses which are required to pay the levy, potentially at a lower percentage than the current 0.5% wage bill rate.
2. The Government should consider fully funding 16-18 apprenticeships and removing them from the levy spending altogether, which could be paid for by removing the top-up given to large firms hiring apprentices outside their levy budget.
3. Build on the flexi-job apprenticeship scheme (where people are allowed to complete short placement across multiple businesses during their apprenticeship) and consider what flexibility can be introduced within the current apprenticeship standards, including more modular learning and training provision.
4. Allow leading firms to bid for licences to rapidly develop new apprenticeship standards in areas on the technology frontier and/or with the most acute skills gaps.

How did we get here: The state of apprenticeships since the introduction of the levy

The stated aim of apprenticeship policy since 2015 has been to increase the number of apprenticeships while also increasing the quality of the apprenticeship training offer.

The 2015 Conservative Manifesto contained an ambitious pledge to deliver three million new apprenticeships by 2020. It aimed to do so while keeping standards high - avoiding a “race to the bottom” where the number of apprenticeships starts were prioritised over the quality of the training.⁵

To fund this expansion, the apprenticeship levy came into effect in 2017 as a way to encourage employers to invest a greater overall amount on training and skills. Employers with an annual wage bill over £3 million would contribute 0.5% of their overall pay bill to the levy in order to create a ring-fenced fund for apprenticeships,⁶ which could be used either by levy-paying employers, or by non-levy paying small and medium businesses (for these the Government would, via the levy pot, fund 95% of apprenticeships).

There were considerable concerns that apprenticeship provision before the levy was introduced was low quality. A 2015 report by Ofsted found that the quality of provision was too variable and often poor. Their evidence found that a significant proportion of training courses failed to develop substantial new skills, at some providers, they found that learners were unaware they were even on an apprenticeship.⁷

The quality and standards regime for apprenticeships was therefore strengthened significantly alongside the introduction of the levy. These changes, while technical in nature, mean that an apprenticeship post-2017 looks very different to its pre-levy equivalent. New minimum times for training were introduced, with apprentices needing to spend at least 20% of their time attending off job training, and apprenticeships lasting a minimum of 12 months. Legal protection of the term apprenticeships was granted, with the term “apprenticeship” given the same legal status as a “degree” in 2016 to prevent it being mis-used by training providers.⁸

A new Register of Apprenticeship Training Providers was introduced to provide quality assurance to training provision, with all providers now inspected by Ofsted. And the Institute for Apprenticeship and Technical Education was introduced to help create over 600 occupational standards, which were seen as offering a higher quality training provision than the previous apprenticeship framework system. Since 2020, all apprenticeship starts have been on the new standards measure.

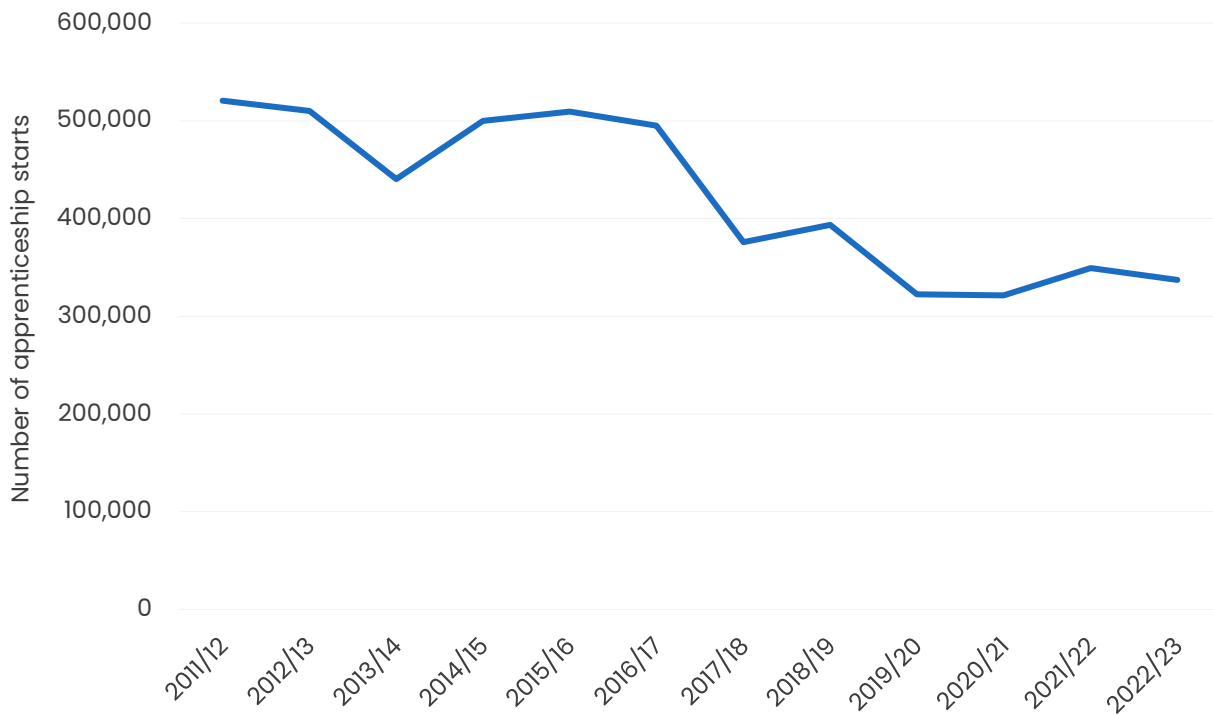
The regulatory and assessment framework has therefore changed significantly, reducing the flexibility of what an “apprenticeship” means to try to preserve the quality of apprenticeship routes.

Apprenticeship starts have declined 10% since the levy was introduced in 2017.

While the post-2017 apprenticeship landscape has changed significantly, it is clear that ambitions to grow the number of apprenticeships have stalled. Since the introduction of the apprenticeship levy the number of starts has declined 10.3%, despite an initial rise of 17,600 starts between 2017/18 and 2018/19.

Figure 1: Total apprenticeship starts since 2011

Source: GOV.UK.⁹



Apprenticeship starts have fallen since 2017 in nearly three quarters of parliamentary constituencies, and while numbers have fallen in every region, this has been sharper in the North East (-23%), North West (-19%), and Yorkshire and Humber (-16%), particularly when compared to London and the South East, where numbers have remained relatively stable (-2%).

Figure 2: Percentage decrease in apprenticeship starts 2017/2018 – 2022/2023

Source: GOV.UK.¹⁰

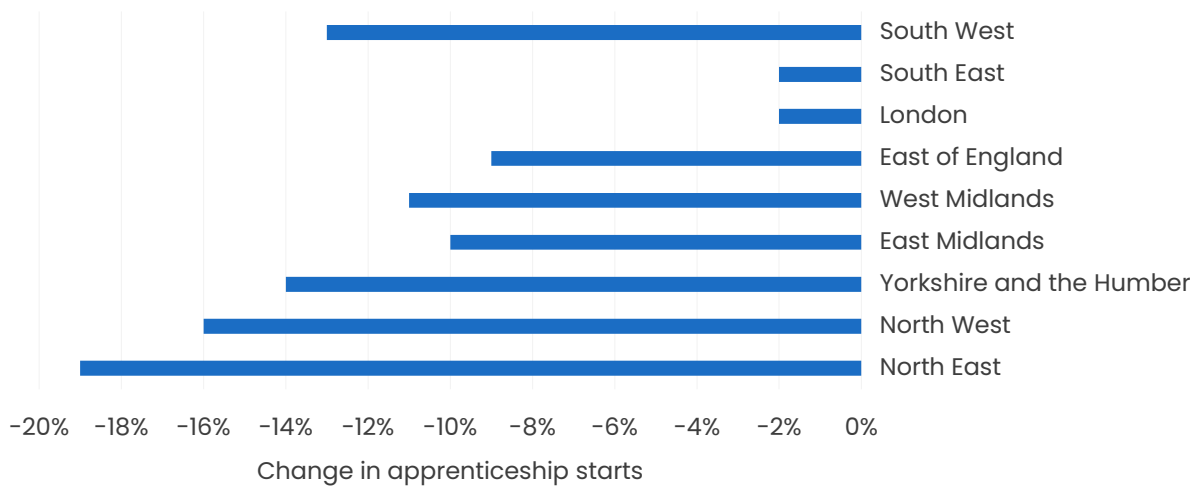
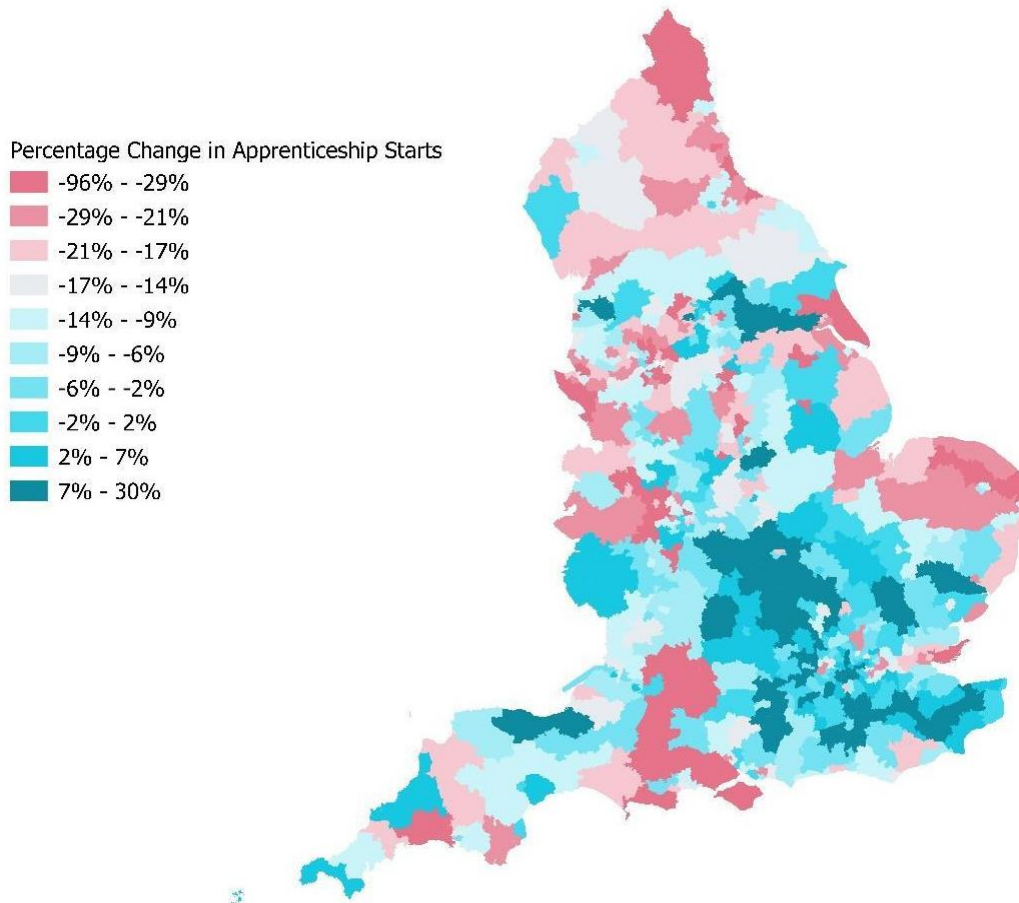


Figure 3: Change in apprenticeship starts by constituency 2022–23 compared to 2017–18

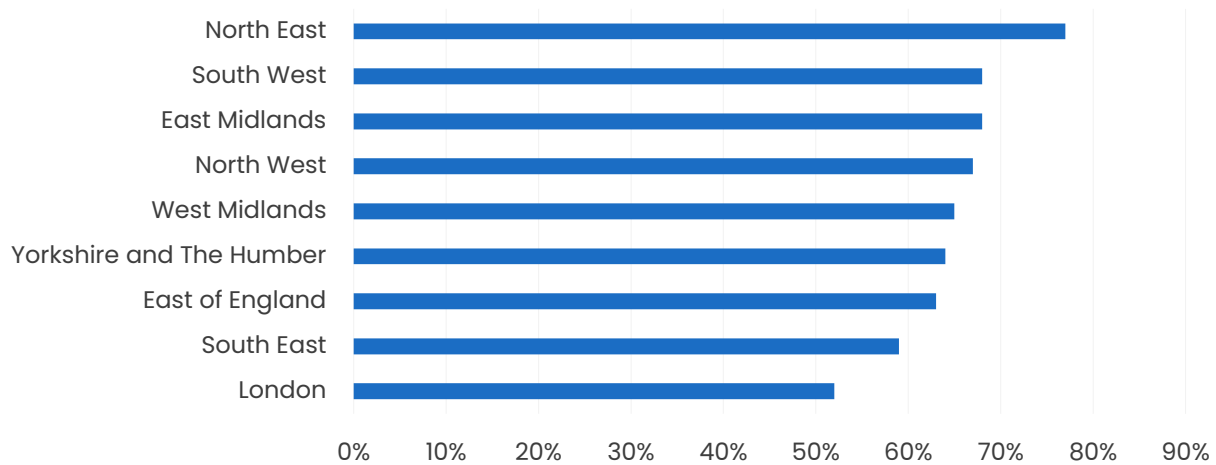
Source: House of Commons.¹¹



Research by UCAS found that that geography played a significant role in limiting the number of apprenticeship starts. When asked to rank the reasons why they did not proceed with an application for an apprenticeship, 61% of former applicants said they could not find one in their preferred location (the top ranked response). This rose to 77% for applicants in the in the North East,¹² and was lowest in London and the South East.

Figure 4: Percentage response to “there aren’t any apprenticeships near me” by English Region

Source: UCAS and Sutton Trust.¹³



There are some indications that the trend of declining starts has started to reverse: starts were up 7% in Aug-Jan 2023/24 compared to the same period in the previous year. However, employers are not planning to *significantly* increase the number of apprenticeships they offer. The 2022 CBI Education and Skills Survey found that there was a significant drop in the number of businesses looking to expand their plans for apprenticeship delivery in the next 12 months - down nine percentage points from 43% in 2021 to 34% in 2022.¹⁴

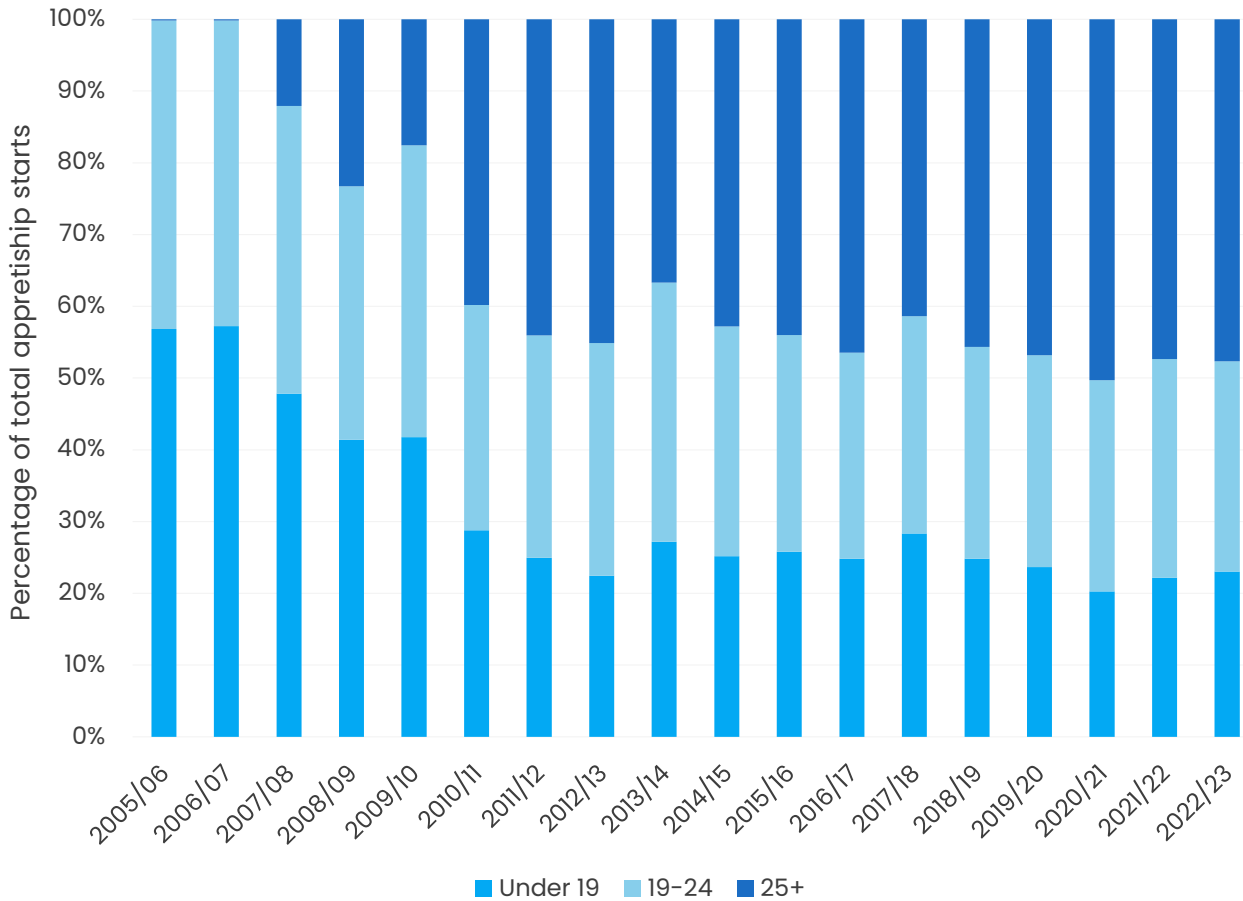
The average apprentice is now over 25 and studying for a higher or advanced level apprenticeship.

Apprenticeship starts have declined for every age group since 2017, but much more dramatically for those under 25. Apprenticeship starts for under-19s declined 27% between 2017/18 and 2022/23; those for 19-24 declined 13%; and those for 25+ increased slightly (3%). Nearly half (48%) of the apprenticeships started in 2022/23 were by people aged 25 and over (23% were aged under 19; 29% were aged between 19 and 24). In 2009/10 83% of apprenticeship starts were under the age of 25 - it is now just over half (52%).

Recent changes have tried to reverse the decline. In March 2023, the Government announced it would fully fund (as opposed to 95% funding) the cost of apprentices ages 16-21 for small businesses - with an additional £60 million in funding made available to pay for it.¹⁵

Figure 5: Apprenticeship starts by age

Source: House of Commons.¹⁶

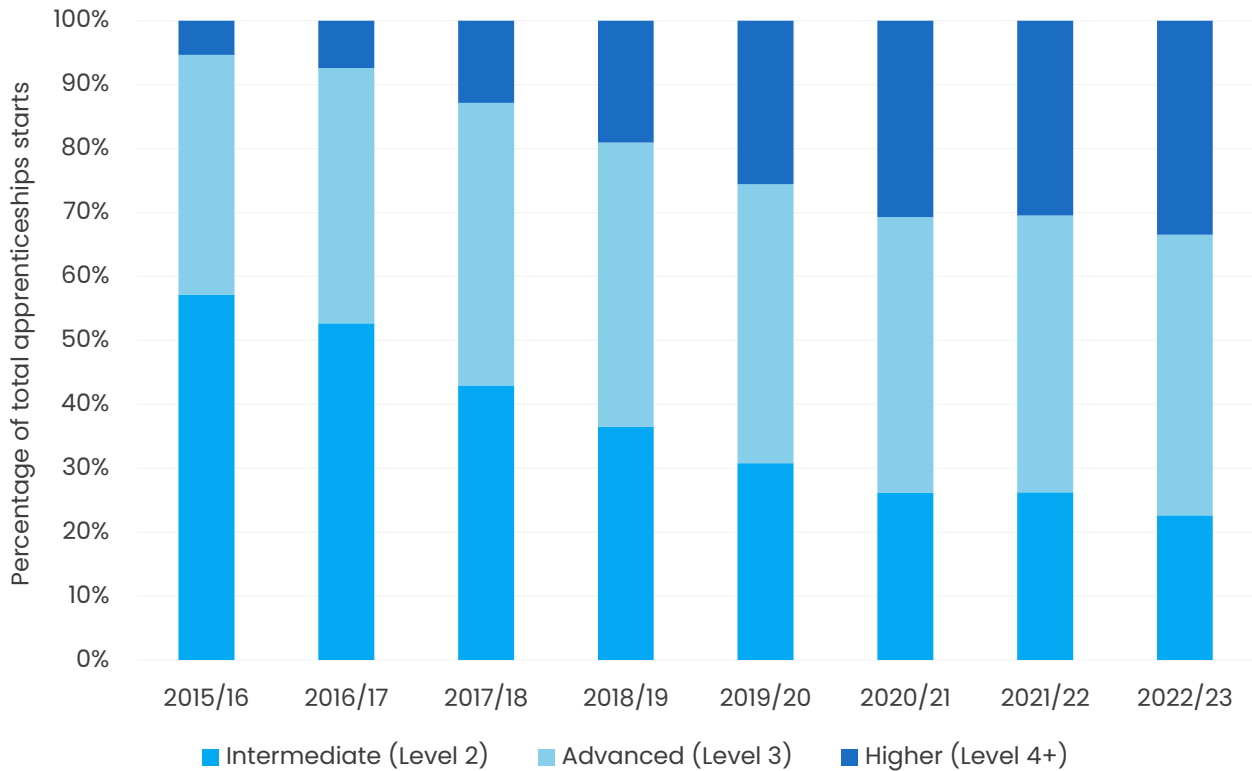


Apprenticeships can be offered at a range of levels from GCSE equivalent (level 2) and up, including, since 2015, at undergraduate and postgraduate level. Level 2 apprenticeships (known as “intermediate”) have declined 74% since 2015/16, and now make up less than a quarter of all apprenticeship starts.

As of 2022/23, 77% of all apprenticeship starts are now at an advanced (level 3) or higher level (level 4+). Higher level apprenticeships starts are the only measure where apprenticeships starts on the whole have increased significantly - from 48,200 in 2017/18 to 112,930. Degree apprenticeship starts have been gradually increasing since their introduction in 2015, with 46,800 starts in 2022/33 - around 13.9% of total starts.¹⁷

Figure 6: Apprenticeship starts by level

Source: House of Commons.¹⁸



96% of the apprenticeship budget is now being spent - up from 79% in 2017.

Employers choose how many apprenticeships they offer, and at what level. Regardless of how many apprenticeships they offer, all businesses with an annual wage bill over £3 million pay the levy - and the £3 million figure has been fixed since its introduction in 2017. From this total, a set amount is allocated for use in England, and in the devolved nations, The funding paid into the levy is ring fenced - meaning that it can only be spent on apprenticeships, either by the levy-paying company; or by government, which funds 95% of apprenticeship training for SMEs that do not pay the levy via unspent levy funds.

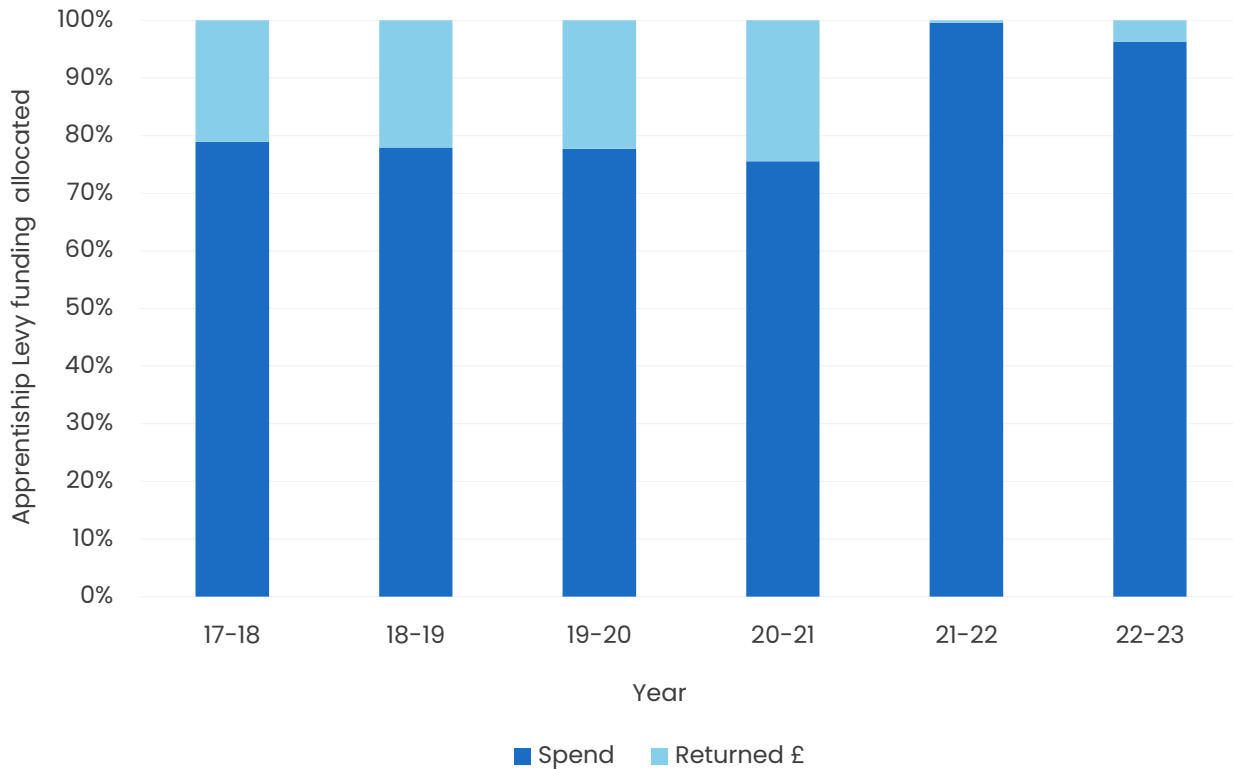
The total amount paid into the levy has increased year on year: from £2.3 billion in 2017/18 to £3.6 billion in 2022/23 - and is expected to reach £4 billion total by 2024/25.¹⁹ The number of employers paying the levy has also increased, from 30,000 in 2020/21 to 34,200 in 2022/23,²⁰ in part as a result of the fiscal drag created by the £3 million wage limit being fixed since 2017.

The annual amount of the apprenticeship budget “spent” therefore depends on the size and shape of the apprenticeships being offered by employers. Levy funding left unspent - due to a lack of demand - is returned to the Treasury. In the first few years of operation, a significant amount of the levy was left unspent; £2.07 billion was returned between 2017/18 and 2020/21.

Since 2021 however, the amount being returned unspent has decreased, even as the number of apprenticeship starts has failed to increase. This is largely explained by the increase in higher-level apprenticeship starts which are more expensive, and which draw on more of the levy funding.

Figure 7: Spend and return of the England Allocation of the Apprenticeship Levy

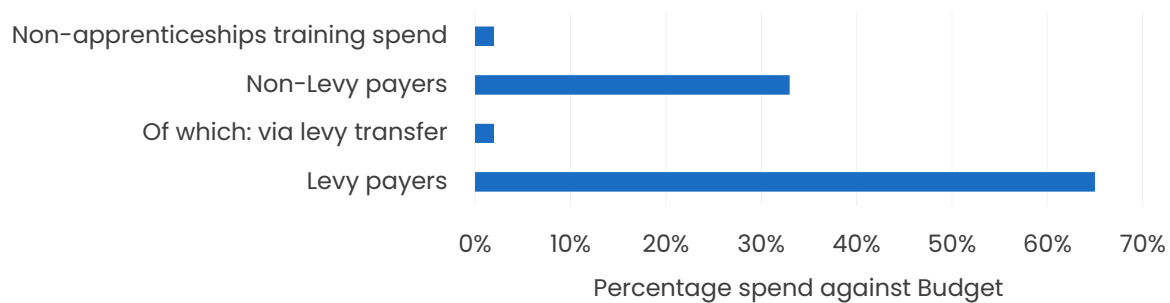
Source: FE Week.²¹



In 2021/22 - the first year in which the levy budget was fully “spent”, 65% of the spend was by businesses which paid the levy (totalling £1.6 billion), and 33% by non-levy payers (totalling £817 million).²²

Figure 8: Apprenticeship spending by organisation type 2021/22 (levy payers vs. non levy payers)

Source: House of Lords.²³



Apprenticeships are effective and popular as a route to training and employment.

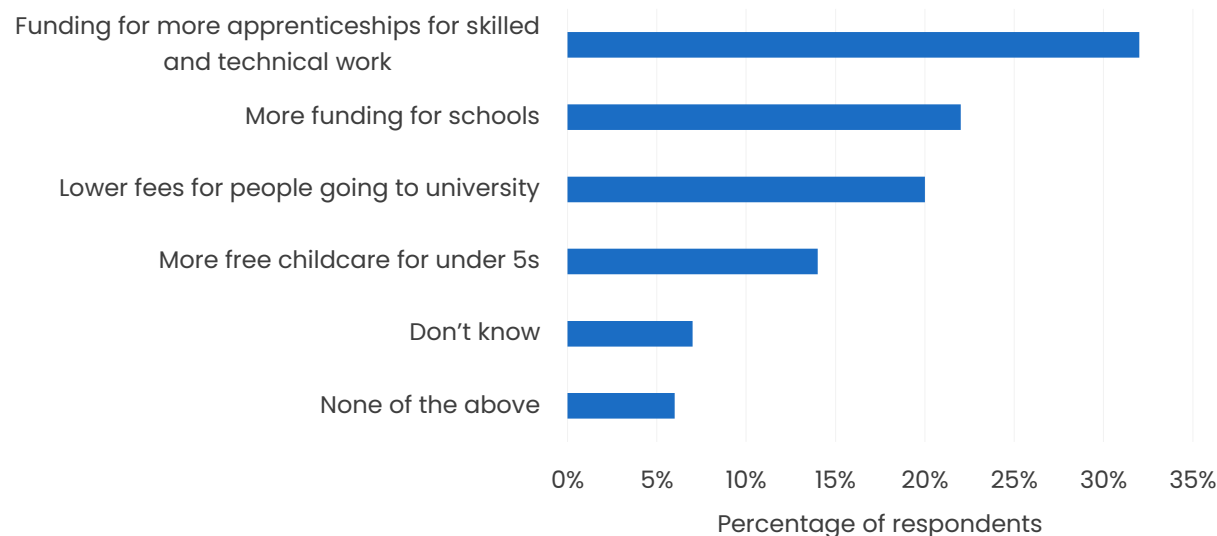
Apprenticeships matter not just because they are an important pathway to skills, training, and opportunity. They have a demonstrable impact on economic growth and productivity: analysis by the CMI found that the 2019 cohort of apprentices, who qualified under the new apprenticeship regime, are projected to add £7bn to the economy by the end of 2029, based on an initial training investment of £2bn (a return on investment of over 300%).²⁴ A government assessment on the economic value add of apprenticeship training found that they delivered a significant return on investment; with apprenticeships at Level 2, Level 3 and Levels 4/5 leading to £17, £14 and £25 of economic benefits respectively for each pound of government spending.²⁵

The latest data for which a comparison is available (2019/20) shows that the median first degree graduate (level 6) earnings five years after graduation were £27,400, compared to £29,180 for level 4 apprentices, and £29,030 for level 5 apprenticeships.²⁶

Apprenticeships as an education and skills offer are also incredibly popular with voters - particularly those who did not attend university. A recent Public First poll found that, when asked to prioritise between different possible education policies, apprenticeships (specifically for skilled and technical work) are ahead of other options by a clear margin. Funding for more apprenticeships is twice as popular as more free childcare; and ten percentage points ahead more funding for schools.²⁷

Figure 9: Education spending priorities

Source: Public First.²⁸

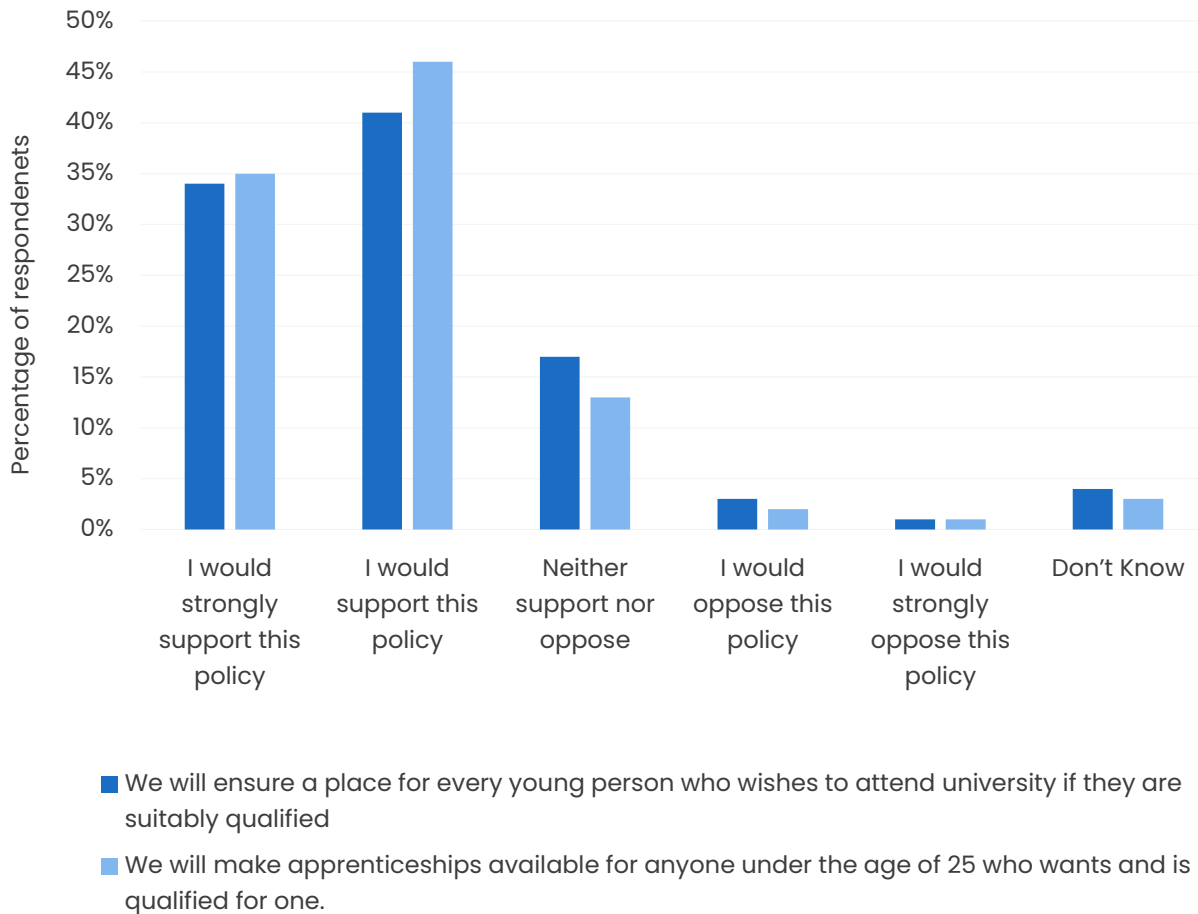


There is high demand for more apprenticeships, particularly for young people. Polling by UCAS and the Sutton Trust found that 40% of students - nearly 430,000 - interested in undergraduate options were also interested in apprenticeships, yet only 77,700 learners under 19 took up an apprenticeship across all levels in 2022/23.²⁹

And apprenticeships are particularly popular amongst parents from across social grades: 81% of parents when polled supported a hypothetical policy to “make apprenticeships available for anyone under the age of 25”, ahead of 75% who supported a policy to “ensure there is a place for every young person who wishes to attend university if they are suitably qualified”.³⁰

Figure 10: Support for under-25 apprenticeships

Source: Public First polling.³¹



What happens next: Labour's plans for a Growth and Skills Levy

Labour plans for a Growth and Skills levy may give businesses greater flexibility on how they spend their levy funding.

Apprenticeships are clearly popular with the public and with prospective students. But the apprenticeship levy has never been a popular policy with the businesses required to pay it. The lack of flexibility, particularly the requirement for apprenticeship training to last a minimum of 12

months, is cited as a particular problem. In the CBI annual survey, 42% of businesses who did not offer apprenticeships cite a lack of compatibility between current standards and wider skills needs.³² The CBI estimated that allowing firms to spend levy funds on any regulated qualification or accredited training course – as well as apprenticeships – could boost employer spending on training up to 30%.³³

The type of training available via the apprenticeship levy is also not always appropriate for business needs. A 2022 poll for AQA found that 47% of businesses agreed there were not enough people pursuing apprenticeships, but only 24% agreed that apprenticeships would be a useful type of training for their employees. Most businesses polled preferred shorter, 1-2 day courses, or online training and certification (49% and 44% respectively), prioritising training options which were shorter in duration, and had a subsequently lower impact on day to day operations of the business, rather than those which delivered an in-depth, long term education and skills offer.³⁴

Labour have taken up calls to transform the levy into a more flexible skills and training fund. Under the proposed Growth and Skills levy, companies would have the ability to use up to 50% of their total levy contributions on non-apprenticeship training, with the remaining half reserved for apprenticeships. Small and medium sized employers – who do not currently pay the apprenticeship levy – will continue to receive 95% co-payments, including for non-apprenticeship provision.

The party's Opportunity Mission, published in October 2023, outlines further detail with a proposed new arm's length body – Skills England – to hold a list of approved qualifications on which businesses can spend the levy. That will include more modular short courses in priority areas – digital skills, green skills, and social care – and functional skills and pre-apprenticeship level training (particularly around basic skills).³⁵

This form of flexibility risks causing a further sharp decline in the number of apprenticeship starts.

It is reasonable to assume that businesses will use the flexibility they are offered under the planned Growth and Skills levy to switch funding they currently spend on apprenticeships to non-apprenticeship training. There has been significant business opposition to the levy in its current form, and a strong identified preference for government funding for flexible provision and short courses. Non-apprenticeship courses will have less impact on day-to-day business operations and will likely be more specific and bespoke, making them more applicable to business need; and ultimately, they will alleviate some of the high administrative costs and burdens associated with hiring new apprentices or upskilling a current employee into an apprenticeship.

But this switch will close a significant route to opportunity that apprenticeships offer and will further accelerate the trend of declining apprenticeship starts. In some cases, the number of starts will drop as businesses which previously offered an apprenticeship route switch to a new non apprenticeship course.

There is also a risk that as more large businesses use all their levy allocation (given the additional flexibility on the type and duration of course) that there is insufficient funding in the levy “pot” for small businesses. The principal aim of the levy in its current form is that some of the funding is redistributed. For this to work, there needs to be an underspend each year – that not all businesses who pay into the levy recoup 100% of their costs. In the 2022-23 tax year for example, only 34,200 employers paid into the apprenticeship levy, compared to 118,516 who accessed funds for apprenticeship training and assessment.

If the system is changed so that it is easier for businesses to spend larger portions of their levy funding on non-apprenticeship training, this leaves a shortfall which, if current apprenticeship numbers are to be maintained (or ideally, to grow), will need to be matched by increasing public spending.

This is particularly an issue now that a larger portion of the overall levy fund is being spent each year. As the profile of apprenticeships has shifted, with more starts at higher (and therefore more expensive) levels, the amount of unspent levy funding has shrunk significantly - with just 4% of the budget “returned” in 2022/23 compared to 24% in 2020/21.

The Growth and Skills levy therefore has the potential to dramatically decrease the number of apprenticeships available across the UK.

The Department for Education currently estimates that allowing employers to use 25% of their levy funding on non-apprenticeship training would lead to a cost of £700 million a year to maintain apprenticeship starts at their current level. Allowing up to 50% - as suggested by the Growth and Skills levy - would cost an estimated £1.5 billion.

Without this additional top up, the DfE currently predicts that apprenticeship starts would drop to 140,000 (a 58% total reduction compared to 2022/23 numbers), primarily hitting apprenticeships offered by non-levy paying businesses.³⁶ This scenario assumes that all levy-paying businesses spend 50% of their allocation on apprenticeships and spend all the remaining 50% on non-apprenticeship training.

Continued decline in apprenticeship starts at an accelerated rate could have a serious impact on the opportunities available across the UK. A 50% decrease in overall starts would see the number of apprenticeship opportunities available in the North East drop to below 10,000; a 59.2% decrease compared to 2017.

Apprenticeships available for under-19s, across all levels and all regions drops to around 39,000, a 63% decrease compared to 2017. To put this figure in context: 240,000 under 19s in England were accepted onto a course at a UK university in 2022/23,³⁷ leaving a significant and growing opportunity gap for those who are unable to, or do not wish to, pursue an alternative training route.

Table 1: Apprenticeship starts by level based on 50% reduction compared to 2022/2023*Source: House of Commons Library.³⁸ Onward analysis.*

	Starts in each region	Of which intermediate	Of which advanced	Of which higher
North East	9,224	2,220	4,375	2,630
North West	24,343	5,565	10,914	7,864
Yorkshire and The Humber	19,168	5,709	8,059	5,400
East Midlands	15,234	3,490	6,964	4,780
West Midlands	18,983	4,010	8,509	6,464
East of England	16,794	3,320	7,234	6,244
London	18,058	2,980	7,179	7,899
South East	25,813	5,255	11,674	8,884
South West	18,983	5,250	8,174	5,560

Table 2: Apprenticeship starts by age based on 50% reduction compared to 2022/2023*Source: House of Commons Library.³⁹ Onward analysis.*

	Starts in each region	Under 19	19-24	25+
North East	9,224	2,450	2,470	4,305
North West	24,343	6,259	6,714	11,374
Yorkshire and The Humber	19,168	4,985	5,734	8,449
East Midlands	15,234	3,960	4,000	7,279
West Midlands	18,983	4,440	5,490	9,054
East of England	16,794	3,865	4,970	7,959
London	18,058	2,505	5,679	9,874
South East	25,813	5,375	7,989	12,454
South West	18,983	4,720	5,789	8,474

This analysis anticipates the gap left if all large employers use their levy to the full extent, which may not be the case in the short term while Skills England and the new range of levy-approved training courses and qualifications is still being established. It doesn't take into account the projected increase in levy receipts (the amount paid by businesses), which according to OBR forecasts is predicted to reach £4.6 billion by 2028/29.⁴⁰ Nor does it take into account that the "flat" wage bill threshold of £3 million has remained unchanged, and that particularly during the current period of high inflation and subsequent wage increases means more businesses will start paying the levy over the next few years.

But what is clear is that this would be a significant change to apprenticeship policy - and that it would see a further decline in the number of apprenticeship starts.

A move to a more flexible workplace training regime would require a stringent quality regime - and risks decreasing funding for more established apprenticeship routes in favour of lower quality alternatives.

One of the key justifications for the planned change to the levy is that the training needs of businesses are changing more quickly than the occupation standards underpinning the apprenticeship system can develop. New digital technologies such as AI, it can be argued, mean that individuals and employers need a more regular, flexible approach to workplace training provision.

But versions of this argument have been made repeatedly as justifications for new methods of skills policy; Gordon Brown's speech introducing the independent learner accounts in 2000 did so on the basis that people would need to be able to re-skill for a new transformational internet age, so that "everyone will have the chance to succeed in the new economy."⁴¹ Crucially however any stated need for businesses to upskill or retrain workers does not negate the need to also offer entry routes into professions, or build new occupational competences - both of which are delivered under the apprenticeship system.

The role of Skills England will be vital to the success or failure of the Growth and Skills levy as currently envisaged. It will be the core gatekeeper ensuring that levy funding is spent on quality assured options from recognised training providers. Lessons will need to be learnt from previous workplace training initiatives. Labour's 2006 "Train to Gain" programme, for example, aimed to support employers to improve skills via flexible training. It focused on offering the training employers wanted, maximising flexibility and in-work training. A new non-departmental public body - the Learning and Skills Council - was established to oversee delivery.

Over three years, 1.25 million people started training, and 554,100 completed a qualification. But the programme was complex to administer; the service offered by training providers was inconsistent, and the provider landscape became increasingly complex and quality hard to maintain, particularly as provision was increasingly subcontracted out. £1.47 billion was spent by March 2009 - with the National Audit Office unable to conclude that the programme provided good overall value for money.⁴²

There are, of course, a number of high quality, non-apprenticeship skills and training courses, and a much more sophisticated regulatory and quality assurance framework in place compared to in 2009. And it is clear that the specific mention of Skills England as the overall quality assurer for levy spending means the errors made in previous training schemes will be firmly in mind in the design of the new levy.

It is, however, difficult to see from the current proposals however how Skills England will be able to effectively and efficiently develop a list of approved qualification which match the quality of newly developed apprenticeship standards; nor how it will assess the quality of provision for apprenticeships against the plans for more modular courses, functional skills training, and pre-apprenticeships training.

Recommendations: Three routes for future apprenticeships policy.

At their best, apprenticeships offer a pathway into a skilled trade and a quality assured route for people to grow and develop their skills. They create new opportunities pathways, particularly for young people to learn technical and vocational skills in a range of occupations at different education levels. They help tackle skills gaps and shortages, meet labour market demand, and increase productivity. They are popular with voters across every social class, particularly when specifically aimed at skilled and technical work and increasingly popular as an alternative route to university.

The upcoming general election provides an opportunity to reset the direction of apprenticeship policy – focusing on increasing the supply and number of opportunities available, within a system that maintains the necessary high quality training offer to deliver economic growth.

But it is clear that the current system and the apprenticeship levy is not working as it should be and is not incentivising opportunity in the places that need it most. The average apprentice is now over 25; likely already employed; and studying at a high or advanced level. Only one in five apprenticeships is in a shortage occupation.⁴³ Apprenticeships under the levy were designed to be dual purpose: both as a high-quality option for in-work training, and as an alternative pathway to high skilled employment alongside a high-quality training offer.

The options for reform include a number of trade-offs between different, and sometimes competing, policy aims:

1. **More flexibility:** The next government could, as Labour currently plans, increase flexibility of how apprenticeship funding can be spent by businesses; but accept that this will cause a likely further decline in the number of apprenticeship starts. It would also exacerbate the fact that, particularly for young people, demand for high quality apprenticeship routes currently greatly outstrips supply.

2. **More mandates:** Or a new government could further decrease flexibility, mandating greater focus from businesses on focusing on opportunity routes, particularly for younger workers, outside London and the South East and particularly at the intermediate or advanced level.
3. **More reform:** A middle ground approach would build flexibility within the current apprenticeship system, accelerating the standards process so that they can be updated quickly and efficiently as occupation needs develop, expanding the levy to include some pre-apprenticeship training and building on initiatives such as the flexi-apprenticeship scheme to boost the supply of apprenticeships.

More detailed recommendations will be the focus of an Onward report later this year. But there are some initial areas which could be further explored ahead of the election. The below suggestions could begin to reverse the decline in apprenticeship numbers - particularly for under-25s, and in the areas which would benefit most from skilled, technical employment routes:

1. **Reconsider the incentives model created by the levy which encourages businesses to hire apprenticeships:** for example, by increasing the number of businesses which are eligible to pay the levy (potentially at a lower percentage rate than the current 0.5% wage bill limit).
2. **Increase funding for 16-18 apprenticeships:** as recommended by Onward's previous paper *Course Correction*, the Government should consider fully funding 16-18 apprenticeships and removing them from the levy spending altogether, which could be paid for by removing the top-up given to large firms hiring apprentices outside their levy budget.
3. **Build on the flexi-job apprenticeship scheme:** where people are allowed to complete short placement across multiple businesses during their apprenticeship and consider what flexibility can be introduced within the current apprenticeship standards, including more modular learning and training provision.
4. **Allow leading firms to bid for licences to rapidly develop new apprenticeship standards:** especially in areas on the technology frontier and/or with the most acute skills gaps.

Endnotes

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