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Future Proofing Apprenticeship Funding in England for the 2020s

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Introduction

The Brexit impasse continues, the economy is slowing, and a general election is in the offing before the new year. As party conferences come to a close and manifestos are drafted, NCFE and the Campaign for Learning are delighted to publish Future Proofing Apprenticeship Funding in England for the 2020s.

Expanding high quality opportunities for young people and young adults, increasing upskilling and reskilling to meet the challenges of longer working lives and automation, and developing the resident workforce if and when immigration policies are tightened depending on the outcome of Brexit - these are the needs and concerns of our age

against which apprenticeships can deliver.

The UK Apprenticeship Levy

The Apprenticeship Levy was introduced in April 2017. The levy raised £2.6bn in 2017/18, £2.7bn in 2018/19 and is due to raise £2.9bn in 2019/20, a total of £8.2bn. Between 2020/21 and 2022/23, the levy is forecast to raise £9.3bn (See Table 1).

The Apprenticeship Levy is a business tax. In August 2016, the DfE and HMRC estimated that 19,150 employers would be liable to pay the levy totaling £2,675m. Importantly, around 55% of expected levy-payers (10,620) were assumed to pay 97% of the levy (£2,285m).

The Apprenticeship Levy in the Devolved Nations and Public Spending

As a UK-wide business tax, employers in Scotland, Wales and Northern Ireland are liable to pay the apprenticeship levy. In the devolved nations, levy paid by employers is used by the Treasury to increase the block grant to Scotland, Wales and Northern Ireland as part of the spending review process. In 2016, the Treasury guaranteed funding from the levy to the devolved nations of £425m in 2017/18, £442m in 2018/19 and £459m in 2019/20, a total of £1.3bn over three years and about 16% of total spending (See Table 2).

TABLE 1				
	2017/18	2018/19	2019/20	TOTAL
NOVEMBER 2015	FORECAST £2.7bn	FORECAST £2.8bn	FORECAST £3.0bn	£8.5bn
MARCH 2019	OUTTURN £2.6bn	OUTTURN £2.7bn	FORECAST £2.9bn	£8.2bn
DIFFERENCE	-£0.1bn	-£0.1bn	-£0.1bn	-£0.3bn
	2020/21	2021/22	2022/23	TOTAL
MARCH 2019	FORECAST £3.0bn	FORECAST £3.1bn	FORECAST £3.2bn	£9.3bn

Source: Office for Budget Responsibility

TABLE 2				
	2017/18	2018/19	2019/20	TOTAL
DEVOLVED NATIONS	£425m	£442m	£459m	£1,326m
ENGLISH APPRENTICESHIP PROGRAMME BUDGET	£1,977m	c£2,200m	c£2,600m	£6,777m
of which underspend	£387m	c£500m	£0m	£887m
TOTAL	£2,402m	£2,642m	£3,059m	c£8,103m

Sources: HM Treasury, National Audit Office, Public Accounts Committee

The Apprenticeship Levy in England

In England, monthly levy payments are credited into a digital account of each levy-paying employer which can only be used to fund apprenticeships. Levy-payers must spend their levy within 24 months or lose their levy. Funding from the levy collected in England is used to fund the Apprenticeship Programme Budget in the financial year the levy is paid. The programme budget covers spending on apprenticeships by levy-payers, non-levy payers and crucially apprenticeships started before the new funding system was introduced.

A Busted Programme Budget

In 2017/18, the £2.0bn Apprenticeship Programme Budget in England was underspent by £387m according to the National Audit Office (NAO). For 2018/19, the NAO stated that the £2.2bn programme budget could be underspent by £500m. And although there is expected to be no significant underspend in the £2.6bn budget for 2019/20, the Permanent Secretary at the DfE informed the Public Accounts Committee of the House of Commons in Spring 2019 that hard choices would have to be made to avoid overspends and

apprenticeship funding running out from 2020/21 onwards.

Spending Review 2019

The original expectation was for the 2019 Spending Review to cover the three years from 2020/21 to 2022/23, including the settlement for the DfE. The anticipated three-year spending review was where the debate between the Treasury and DfE would finalise the scale of the Apprenticeship Programme Budget in England and any funding changes to avoid overspends. In the event, we had a single-year Spending Review in September 2019, covering 2020/21 only because of the Brexit impasse in Parliament. Even so, apprenticeships were not mentioned in the spending review and no new money was allocated for 2020/21.

Wider Apprenticeship Reforms in England

Importantly, the introduction of the Apprenticeship Levy as it operates in England has also coincided with a series of regulatory reforms. These include the move from Frameworks to Standards, the introduction of a minimum 12 months training for apprenticeships and the development and expansion of higher and degree apprenticeships at Level 4-6.

The Treasury Review

The Treasury has been conducting a review of apprenticeship funding in England including the levy, digital accounts and the programme budget. Stakeholders have used the review to propose wider reforms to apprenticeship funding – such as turning the apprenticeship levy into a skills levy - as well as regulatory reforms - such as the end of the 12-month minimum training rule. Presumably the Treasury Review will inform the design of the levy and the scale of the programme budget from 2021/22 as part of the 2020 Spending Review (depending of course on the outcome of the next general election).

A Funding Policy Still in Transition

Standing back, however, apprenticeship funding in England is a policy in transition. Employers in England paying levy in May 2017 had until May 2019 to use it or lose it. The last payment in the financial year 2017/18 was March 2018 and employers have until March 2020 to use it or lose it. Not until, say, April 2020 will the operation of the levy and digital accounts start to enter a steady-state phase.

Focus

When commissioning a pamphlet on English post-16 education and training policy, the uppermost consideration is where a collection of articles would add most value. We had no hesitation in focusing the pamphlet on the *funding of apprenticeships* in England in the 2020s, as this is the most sensitive aspect of apprenticeship policy today. Even so, the focus on making existing funding go further, restricting access to funding or increasing the amount of funding does not preclude discussion about how apprenticeship funding is distributed – including devolving funding to elected mayors – or changes to the regulatory aspects of apprenticeships.

The Pamphlet

We asked contributors to write on a specific aspect of future proofing apprenticeship funding in England concluded by three recommendations.

Contributory pamphlets are dependent upon persuading the right range of authors to contribute and for each author to spare the time to write their submission. We are therefore delighted that representatives from the Association of Colleges, the Resolution Foundation, CBI, British Chambers of Commerce, the TUC, University Vocational Awards Council, the Association of Learning and Employment Providers, London First and University of Manchester have contributed.

Reflections from the wide-ranging and diverse contributions in the pamphlet are set out in the next section. As usual, however, NCFE and the Campaign for Learning invite consideration by our readers of each of the articles and associated recommendations in full.

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Reflections

Michael Lemin, NCFE

1 Greater Funding Transparency

Understanding how the operation of UK Apprenticeship Levy translates into public spending in the devolved nations and apprenticeships in England is extremely complicated. Greater transparency is required from the Treasury on how much levy is collected in England relative to Scotland, Wales and Northern Ireland, *and* how the levy collected in England is being used to fund the Apprenticeship Programme Budget.

2 A Clearer Objective of the Apprenticeship Levy in England

The Treasury and DfE should be much clearer about the central objective of the Apprenticeship Levy in England; Government policy is riding too many horses at once. A legitimate policy objective is to seek to boost the *productivity* of 10,000 organisations – which overwhelmingly have 250 or more employees and pay over 95% of the £2.7bn or so of the levy – *through* apprenticeships. Another is to improve sector level productivity but that objective assumes a return to sector based levies. Meeting the *skills needs* of small and medium sized enterprises is equally legitimate; as is guaranteeing *access* to upskilling and reskilling through apprenticeships to young people, young adults and older workers, disadvantaged or not. But no government can achieve all of these objectives through the Apprenticeship Levy and digital accounts where levy-payers determine the age of apprentices and the level of apprenticeships to be funded.

3 Funding Pressures Beyond the Apprenticeship Levy in England

As things stand, the Apprenticeship Levy in England is an organisation-based productivity measure. Short-term policy seems to be based on hoping levy-payers do not spend all of their levy within the 24-month expiry date so that resources are available to fund apprenticeships demanded by non-levy payers and/or ensure apprenticeships for key groups such as young people. This is unlikely to be sustainable.

Although early signs indicate that unused levy lost to employers could be running at 20% or more, the history of training levies suggests that levy and spending tend to equate more or less in the long-term. As a consequence, funding pressures to meet the apprenticeships needs of small and medium sized enterprises (SMEs), young people and young adults, and disadvantaged older workers could grow in the 2020s.

4 Rationing and Prioritisation

Suggestions relating to the rationing and prioritisation of the Apprenticeship Programme Budget to avoid anticipated overspends from 2020/21 reflect views regarding the purpose of the levy and apprenticeships. For some, the levy is an organisation-based productivity measure: if employers use their levy to fund high cost Level 4, 5 and 6 apprenticeships which in turn crowds out Level 2 and 3 apprenticeships for 16-18 year-olds, the Government will have to offer something else for them to do to ensure they do not become NEET (not in education,

employment and training). For others, apprenticeships are about social inclusion and progression in the workplace in SMEs as well as large enterprises: pressures on apprenticeship funding can be eased by transferring responsibility for, say, Level 6 degree apprenticeships to the higher education system. And if the purpose of apprenticeships are to be a pathway to a career for young people and young adults to age 30 for example, restrictions could be placed on the amount of levy employers could use for older workers.

5 Apprenticeship Programme Budget: Additional Funding

It is hard to square a policy designed to empower employers over the level of apprenticeships and the age of apprentices based on a business tax and rationing and prioritisation of the Apprenticeship Programme Budget. If the government places onerous restrictions on how levy-payers use their levy, employers will rightly view the Apprenticeship Levy as a form of general taxation akin to employers' National Insurance contributions. If, on the other hand, the government wishes to continue with the principle of employer control, an injection of additional public spending outside of the levy will be required.

6 16-18 Year Olds: The First Call for Extra Funding

The Treasury and DfE face hard choices over apprenticeship funding in England. Competition for additional public spending will be intense even with a renewed emphasis on fiscal

activism and irrespective of the next government whatever its make-up. But a consensus is starting to emerge with respect to the first call for extra funding for apprenticeships. 16-18-year-olds starting Level 2 and 3 apprenticeships should be fully funded *out of general taxation* and the demand-led 16-19 Education Budget rather than the apprenticeship levy. Levy-payers and non-levy payers alike should pay nothing towards the cost of training 16-18 year olds: levy funds would not be required and any co-investment requirements would cease. Every 16-18 year old would be entitled to fully funded apprenticeships. The apprenticeship levy would become an Adult Apprenticeship Levy and the Apprenticeship Programme Budget would become the Adult Apprenticeship Programme Budget. In 2017/18, the DfE allocated £745m to 16-18 apprenticeships. A similar allocation would relieve pressure on the levy and programme budget in England and go some way to avoid overspends and rationing.

7 A New Settlement for Small and Medium Sized Enterprises

There is little appetite for extending the UK Apprenticeship Levy to SMEs, which already face increasing costs from other areas of public policy employer contributions to workplace pensions and rises in the national minimum wage. As most SMEs are non-levy payers and some recruit 16-18 year old apprentices, they would benefit from fully funded apprenticeships for this age group. Nevertheless, the government does not have,

at present, a comprehensive strategy to boost the productivity of SMEs through apprenticeships.

8 Full Devolution of Apprenticeship Funding: The Start of a Great Debate

Until recently, public discussion with respect to the devolution of apprenticeship funding in England to regions and cities with elected mayors has centred on distributing levy underspends. Now, with an election in the offing, a great debate on devolving the full amount of levy in England - collected regionally or on a share of population basis - is about to start. Devolution of apprenticeship funding could feature in the White Paper on English devolution proposed by the Conservative Government as well as the Lifelong Learning Commission informing Labour education and skills policy. Considerable thought is required regarding the advantages and disadvantages of the full devolution of apprenticeship funding in England, especially from the perspective of employers. In the interim, however, elected mayors are adding value by developing matching services between levy and non-levy payers; extending free travel to 16-18 year olds including apprentices and joining-up regional industrial strategies with post-16 education and apprenticeship strategies.

9 Funding Pressures from a No-Deal, No-Transition Brexit

On the basis of a managed Brexit, the apprenticeship levy is forecast to raise £9.3bn between 2020/21 and 2022/23 driven by higher employment levels

and growth in nominal wages. This £1.1bn is higher than the revenue raised by the levy in 2017/18 and 2019/20. In the short-term at least, the economy will face a supply shock if the UK leaves the European Union with a no-deal, no-transition Brexit. Compared to a managed Brexit, both employment levels and growth in nominal wages are expected to fall. It cannot be assumed, therefore, that funding pressures on the Apprenticeship Programme Budget could be eased by the levy raising extra revenue in the future compared to the past.

10 From an Apprenticeship Levy to a Skills Levy

In England, the levy funds apprenticeships only and, specifically, the direct training costs associated with apprenticeships. There are calls for 10% of levy payments to be used by employers to contribute towards administration costs. More broadly, there are calls from employer bodies in particular to transform the apprenticeship levy into a wider skills levy. This would represent a radical reform of the apprenticeship levy and consideration would need to be given to whether fewer apprenticeships would be available for young people, small firms and older workers.

Apprenticeship Funding in England: A Busted Programme Budget

Julian Gravatt, Deputy Chief Executive, Association of Colleges

Apprenticeships are an English success but money is running out. If nothing is done, this could cause many to lose faith and hold back efforts to improve productivity. In the three years since the Treasury adopted the levy, there has been a step-change in engagement.

As apprenticeships have spread, more people have taken an interest including large company HR directors, secondary school career advisors, public service planners and journalists. Big apprenticeships programmes are now coming on stream in policing, nursing and the civil service itself. But this is now at risk because of shortcomings in the design of the levy and employer- controlled funding.

Reducing the Fiscal Deficit

The Treasury introduced the UK Apprenticeship Levy in April 2017 to fill a gap in its budget. The idea was to increase activity without adding to the government's deficit. The business tax raised £2.6 billion in its first year (2017/18) but also helped the Treasury save £1.6 billion in England because the levy replaced general taxation which funded existing apprenticeship spending.

Levy and Regulatory Reforms in England

At the same time as the levy started, just about everything relating to apprenticeships in England also changed. Employers were given control of spending

via a new Digital Apprenticeship Service. A new register of training providers was introduced. Standards replaced Frameworks. New rules on off-the-job training took effect. Unsurprisingly these changes affected take-up because it takes time for employers and providers to adjust to changes.

Underspending at the Start

Together, the new funding system and regulatory reforms resulted in an £800 million underspend in England in the first two years (2017/18 and 2018/19) which has been used elsewhere in government; and crucially, the Treasury did not allow the underspends to be carried forward even as apprenticeship costs escalated.

A Busted Programme Budget from 2019/20

Demand, however, is now building up again and budget limits are now being reached. In a carefully worded report published early in 2019, the National Audit Office explained that the unit costs (cost per apprentice) are twice what was expected (£9,000 not £4,500) because of the shift to higher level standards and, that, if nothing is done the budget might overspend in 2019-20. Certainly, the Apprenticeship Programme Budget could be overspent in 2020/21 although no extra funding was announced in the spending review held on 4th September 2019 which specifically covered the 2020/21 financial year.

Everyone inside the bus knows it's heading for a brick wall but no-one knows which brakes to pull. In her last few months as Skills Minister, Ann Milton, tried to warn people. She floated the idea of a higher levy, an age limit or starting salary cap. All of these might help but the structure of the system needs attention.

24 Months to Spend the Levy

Levy-paying employers get a full 24 months to spend 110% of what they put in. It has taken them time to cash in their entitlements but, for each month that passes, the amount they take out may start to exceed the amount they pay in. A century ago, Charles Ponzi got into trouble making promises he couldn't keep. In 2020, the Treasury may find themselves repeating one of his mistakes.

THREE RECOMMENDATIONS

1 Our first recommendation is for the government to put the budget on a more sustainable footing. One way to do this would be to fund 16 and 17 year old apprenticeships from general taxation. This would make public funding consistent at the age when education and training is compulsory. If the Treasury cannot do this, then it needs to accept changes to the training credit to levy paying employers. If employers were given 75% rather than 110% of what they pay in, the programme will become more affordable and there might even be money available for clear

public purposes – to support particular sectors or measures that tackle obstacles and segregation in the workplace.

2 There must be more transparency on where money is being spent. £2 billion is allocated each year for apprenticeships in England but there's no budget. HMRC rules about taxpayer confidentiality mean that they never disclose how much tax is paid by individual companies. But bizarrely the government extends this confidentiality to the use of training funds. As a result, no-one really knows what is going on.

Rumours swirl but facts are short. What should happen instead is a choice. Employers who wish to preserve their confidentiality should be able to do so but only if they take nothing out. Meanwhile those who wish to draw down funding for apprentices as well as pay in should expect this fact to be reported. Data could then be compiled and analysed to improve collective understanding and planning of our labour market.

3 The successful re-launch of apprenticeships in this century must not be put at risk by

those who use the programme to displace other funding. There appear to be too many mid-career managers taking apprenticeships so that this can save their employer a tidy sum. The value of an apprenticeship as a job with training to acquire a skill needs to be protected from those who see it as a funding scheme. Regulators need to analyse and then act.

Apprenticeship Starts in England: Changes Since the Levy

Kathleen Henehan, Research and Policy Analyst, Resolution Foundation

Apprenticeships in England have changed substantially over recent years. The UK Apprenticeship Levy came into force during 2017, which requires all organisations with a wage bill of £3m or more to pay 0.5% to the Treasury. In England, levy paying employers can only spend their payments on apprenticeship training. The levy in England operates on a *use it or lose it* basis. A limited amount of apprenticeship funding is also available to non-levy paying employers, predominantly SMEs.

Running alongside the apprenticeship levy have been big reforms on apprenticeship delivery, including requirements that apprentices spend at least a fifth of their time doing off-the-job training, that their programmes last a minimum of

12 months, and that they undergo an end-point assessment upon completion.

These changes generated a fair number of headlines, with some predicting that firms would avoid engaging with apprenticeship at all and others arguing there would be a surge in apprenticeship numbers – albeit in low-quality programmes. Two years on, we’re in a position to assess what has happened, why and what policymakers should consider doing next.

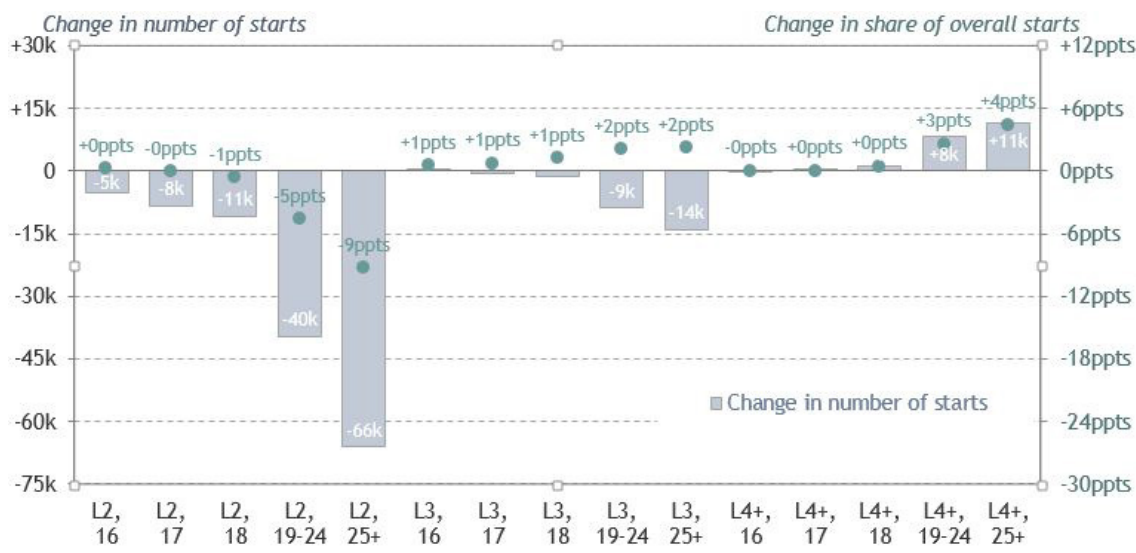
Falling Starts

First off, numbers have indeed fallen: provisional figures tell us that there were just over 360,000 apprenticeships started between August and June of the 2019/20 academic year. That figure

represents a slight increase (about 1,200) on the previous year but a substantial reduction (more than 100,000) when compared to the same period over 2015/16 – the year preceding the apprenticeship levy and wider delivery reforms.

On age alone, the composition of apprenticeship starts appears to have changed only slightly: in 2015/16, 44% of starts went to those aged 25+, 30% to 19-24 year olds, 11% to 18 year olds and 15% to 16 and 17 year olds combined. In 2017/18, 41% of starts went to those aged 25+, 30% to 19-24 year olds, 12% to 18 year olds and 16% to 16 and 17 year olds. And yet, when we consider age within level – as in Figure 1 – changes are far more substantial.

Figure 1: Change in apprenticeship levels has been starkest among those over age 25
Change in apprenticeship starts, by age and level: England, 2015/16-2017/18



Source: RF analysis of DfE, Apprenticeships and traineeships

Across all age groups, there was an absolute fall in the number of starts at Levels 2 and 3, and for those age 17 and over, a smaller rise in the number at Level 4+. However, the magnitude of change is much larger for older apprentices: the number of under-19 starts at Level 2 fell by 23,000 while the number at Levels 4+ rose by 2,000; for those aged 25 and above, the figures were 66,000 and 17,000, respectively.

Though the reduction in numbers is stark, it does appear that the types of programmes experiencing the largest falls offered little training in the first place: Figure 2 highlights the

fact that apprentices in these areas spent less time on formal training and were more likely to be unaware of their status as an apprentice.

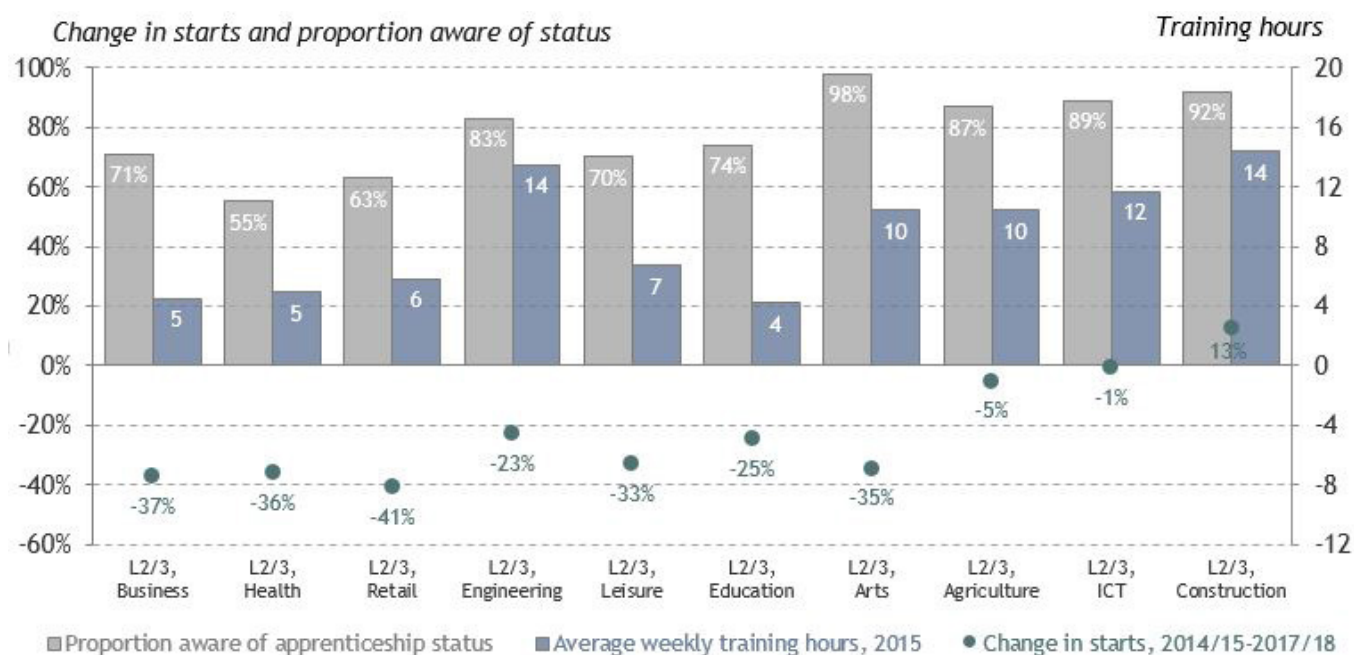
It is difficult to bemoan a fall in apprenticeships that really didn't do what they said on the tin. And yet, we should be worried that the types of programmes that appear to be growing – those at the higher education level, i.e. Level 4+ – do not go to young people or new starters. A DfE survey published in 2017 found that 83% of all higher-level apprentices aged 25 and over said they were employed by the same firm prior to beginning their apprenticeship.

The Levy has Not Caused the Falling Starts at Level 2

Although it's critical to understand what is happening in the system, those wanting to shift policy also need to know the *why*. While the levy is frequently blamed for the overall fall in apprenticeship starts – especially at Level 2 – recent work by the Resolution Foundation casts doubt on that assumption. Figure 3 indicates that levy-paying firms are just as likely as non-levy payers to invest in the types of lower-level programmes that have experienced substantial reductions in starts.

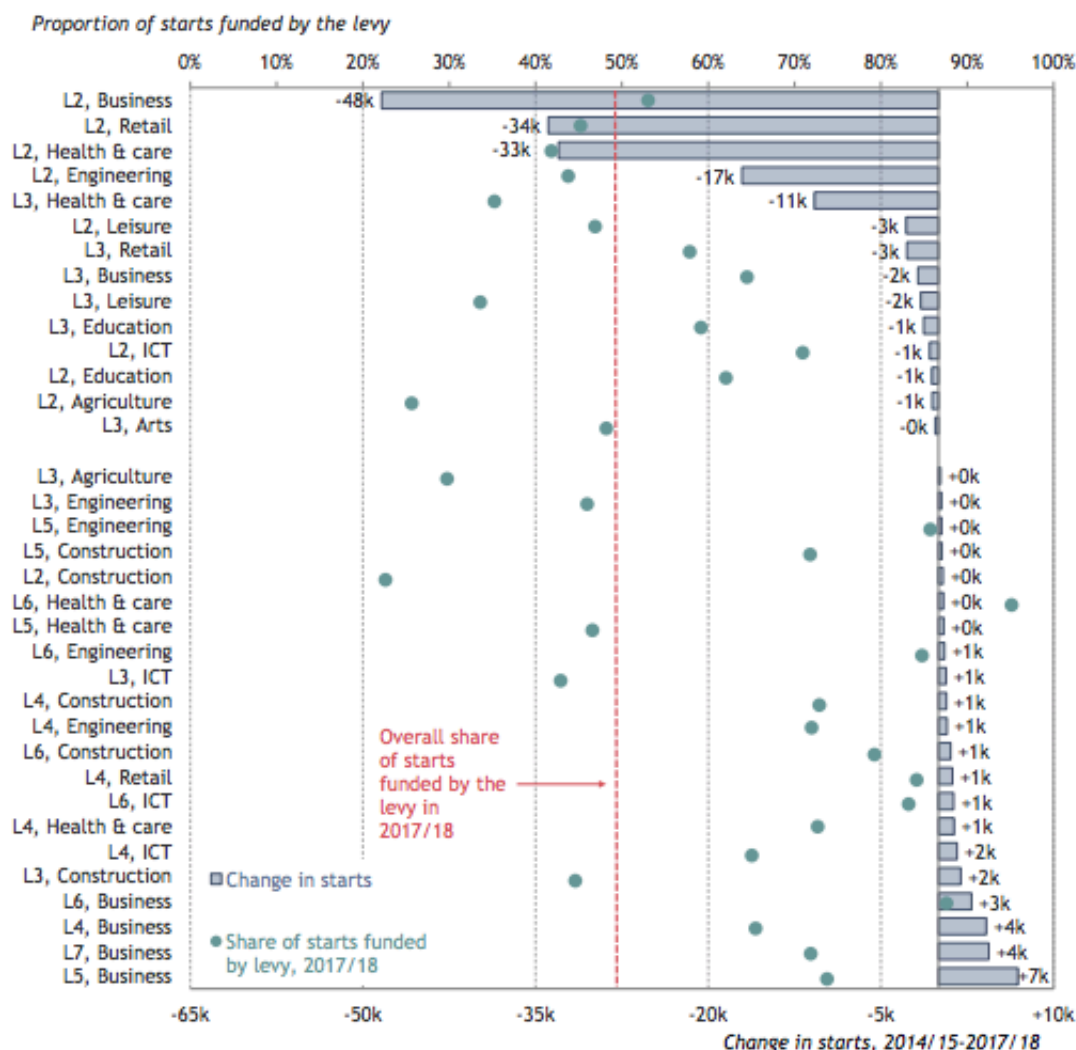
Instead of the levy, it looks as though regulatory reforms, which

Figure 2: Apprenticeships that experienced the largest drop in starts tended to have lower levels of apprentice awareness and fewer training hours
Change in apprenticeship starts and apprentice awareness, and formal training hours, by level and sector: England, 2014/15-2017/18



Notes: Figures on awareness and training hours are based on a 2017 survey of apprentices who had completed their programme between June 2015 and January 2016. Formal training hours refers to the combined number of hours apprentices reported having spent on formal training within their own workplace and formal training at an external provider. Source: RF analysis of DfE, Apprenticeship and traineeships; DfE, Apprenticeships evaluation, 2017: learners

Figure 3: There is no clear association between the levy and the fall in lower-level starts
Change in apprenticeship starts, and proportion of starts coming from levy-paying firms, by level and sector:
England, 2014/15–2017/18



Notes: 49% of all apprenticeship starts were funded by levy payers in 2017/18. The 18 programmes that had fewer than 200 starts each during 2017/18 are excluded from this figure. Source: RF analysis of DfE, Apprenticeship and traineeships

required more training (and more money), are a more convincing explanation for the reduction in numbers. On the other hand, Figure 3 does appear to indicate that the levy encouraged growth in higher-level starts in higher-paying sectors: on average, levy payers were more likely than non-levy payers to invest in these areas. In any case, the shift towards higher-level programmes has placed substantial pressure on the apprenticeships budget, which is now expected to come up short within the next two years.

THREE RECOMMENDATIONS

So how should policymakers react? At the Resolution Foundation, we see apprenticeships as a route to a career rather than a one-off training course.

1 We recommend that policymakers should hold firm on many of the training regulations that appear to have driven out some disappointing provision.

2 Policymakers should alter the funding rules so that they

are more strongly incentivised to open up routes for new starters and young people and adults under the age of 30 - for instance by requiring levy payers to dedicate at least half of their levy expenditure to new starters within the organisation and at least half to young people and adults.

3 We think the government should maintain a laser-like focus on apprenticeships' core objective: providing a clear route to the skills required for a good career.

Mending the English Apprenticeship Funding System

John Cope, Head of Education and Skills, CBI

The need for high-quality apprenticeships in every sector of the economy is clear. They offer a valuable combination of academic and vocational learning, with clear links to profession and employment. To its credit, the Government had undertaken significant and systemic reform of England's skills system over the last several years with this objective in mind. A key part of this reform is the Apprenticeship Levy, introduced in April 2017, that marked a shift to an employer-led skills system.

Meanwhile, the new T-Level qualifications (the first of which will be delivered from 2020) present the opportunity for a technical equivalent to A-levels – a vital, missing link in our education system that employers have been calling for. The Institute for Apprenticeships (IfA) was set-up to give businesses more of a voice in skills provision and design, as well as regulating the apprenticeships system. However, it has had a challenging first two years since its creation in early 2017. The pace at which apprenticeship standards have been approved and the recent funding band review have highlighted the tension between the IfA's role as an arms-length government body, as well as being independent and employer-led. The fall of around 30% in apprenticeship starts since the introduction of the Levy also cannot be ignored.

Employers Want Serious Reform

After months of working with the CBI and others, the Government accepted in the Budget last year the need to start serious reform, including a fundamental review of the Levy.

Employers, more than ever, are passionate supporters of apprenticeships – and invest more than £44 billion a year in training overall. They also, on the whole, agree that the levy helps to plug skills gaps, especially given the focus on quality.

There are common problems however that hold many firms back. Small, independent companies too often go to their local training providers only to be told the money has run out. Large levy-paying employers often struggle with the complexity and inflexibility of the system.

Certainly, companies want the apprenticeship levy system to become more user-friendly – whether that's helping smaller businesses switch to the National Apprenticeship Service, or providing much better guidance on the 20% off-the-job rule so it doesn't act as a barrier. This also means having more locally-led "matching services" that allow large firms to pass on levy funds to their supply chains when this makes business sense. A great example where this is taking place is in the West Midlands, where Mayor Andy Street is pioneering exactly such a service.

THREE RECOMMENDATIONS

In September 2019, the CBI published a new report - Learning on the job: Improving the Apprenticeship Levy - which outlines urgent steps the government must take to reform the system and make the Apprenticeship Levy a success.

1 Firms rightly expect transparency around levy receipts and expenditure. They are confused and crying out for clarity on how their levy funds are being used. They read speculation in the papers that the levy is overspent, but continue to find it hard to utilise their levy funds for training – this feels totally illogical. It's vital the government is more open with employers about how the levy system works, what's being funded, and how their contributions are being spent. This includes clarity on levy money covering the apprenticeship provision for non-levy payers.

2 Given the financial pressure on the levy, making it sustainable is becoming more and more urgent. By introducing an immediate £100 million annual government top-up to the levy budget, employers can continue using the scheme in the short to medium-term to take on apprentices of all ages and skill levels. Without this, there's a serious risk that the levy will become overspent in the coming year. £100 million is by no means

a long-term solution, but it would buy the government breathing space.

3 CBI members favour broadening the Apprenticeship Levy into a more flexible “skills

levy” to allow employers to deliver a greater variety of high-quality training that helps to grow their business and gives people successful careers. Such a change must involve a full public consultation, given the potential

trade-offs or additional money needed to increase the scope of the levy. An honest conversation with employers needs to be had – and soon.

Small Firms – In or Out of the Apprenticeship Levy?

**Jane Gratton, Head of People Policy,
British Chambers of Commerce**

Since the introduction of the apprenticeship reforms, the BCC has argued consistently against imposing additional costs and taxes on employers, as this limits a firm's ability to invest. We lobbied successfully to halve the SME co-investment rate and to increase the percentage of levy they can receive from larger firms, to help reduce the costs of apprenticeships.

Keep SMEs Out of the Levy

We believe that bringing SMEs within the levy threshold would be a huge mistake. It would add to the cumulative up-front cost burden that weighs them down, and would stymie opportunities for people development. The government should fund non-levy apprenticeships separately and allow larger firms the flexibility they need to train their people in the best way to meet the needs of the business.

It is in everyone's interests to encourage businesses to train more people and that requires greater flexibility in the apprenticeship levy system. More broadly, it means putting businesses at the heart of planning for the future workforce of this country and celebrating, supporting and developing the most important part of any business - its people. That's why the focus of BCC's new national People Campaign is on helping to make the UK a more productive, attractive and modern place to work.

Multiple changes to the skills system, varying quality of training and resources, and an evolving working environment have left businesses struggling to find the right people for their teams. Never has it been more important for employers to take the initiative and invest proactively in skills at all levels of the business. Improving workforce skills is crucial to boosting business productivity, competitiveness and growth. But we need to create an environment that gives SMEs the confidence to invest in people for the longer-term. That means creating a simple, stable and coherent skills system - without the continued tinkering and change - and ensuring employers have the freedom, flexibility and funding to invest in the training that best meets the needs of their team.

Access to skills is in the top 3 concerns of our members across all regions and sectors. While demand for skilled workers is increasing, it's becoming more difficult to recruit them. This year, levels of employment have reached record highs and BCC research shows that over three quarters of manufacturing and services firms recruiting to fill job vacancies will experience difficulties. It can now take up to 6 months to fill a skilled role, and many job vacancies remain open, jeopardising the future of the business and its employees. This situation is likely to be exacerbated by proposed changes to UK immigration

policy that could restrict access to EU workers for businesses who rely on their skills. Against this background, businesses know they need to invest more in workforce skills, and that apprenticeships are a big part of the solution. What they need right now is support, not an additional tax.

Additional Support to Invest in Skills

While the apprenticeship reforms have boosted business confidence overall in the quality, relevance and coherence of the apprenticeship system, we have yet to see a significant increase in apprenticeship take-up among SMEs. In fact, we have seen a worrying decline, particularly in opportunities for young people. Firms report a range of barriers, including a lack of apprenticeship candidates applying for jobs, difficulty in finding an apprenticeship standard that meets their needs and problems accessing local training provision. On top of this, SMEs are struggling to manage off-the-job training and the broader costs of taking on an apprentice. The apprenticeship system has undergone a massive upheaval – and needs time to settle down. Similarly, businesses need time to adapt to the changes. How would extending the apprenticeship levy to SMEs at this stage make things better? It wouldn't, of course.

Our research shows consistently that firms are weighed down by

the growing, cumulative up-front costs of doing business. Pensions auto-enrolment, above-inflation national minimum wage costs and immigration skills charges, for example, together with business rates and Making Tax Digital add up to an unsustainable cost burden that stymies future investment. All this, against a backdrop of overwhelming uncertainty over Brexit, means this is the worst time to contemplate taxing SMEs to fund the apprenticeship system. It would simply add to the unsustainable cost burden and prevent them from investing in the training and development needs of their people.

It's great that more employers are using apprenticeship funding to upskill and reskill parts of their existing workforce. We should celebrate the fact that businesses are using apprenticeships to improve the skills of managers - as this is key to driving-up productivity and increasing opportunities for everyone in the workforce.

Crucially, the government must ensure that SMEs can continue to access funded apprenticeship standards from Level 2 to Level 5 and above, to provide a genuine route to progression and ensure we deliver the parity of esteem and opportunity for people choosing a technical and vocational route to learning and employment. The big question is, how do we continue to fund this desired level of access for all employers when only a few businesses are paying the levy? Reports of a predicted levy overspend are concerning, but extending the levy to SMEs would be counterproductive.

The system is not yet working for levy-payers. Too few businesses are able to use their levy monies to meet the training and development needs of their people - and too many are resigned to simply writing the levy off as a tax. Moreover, for many firms, the levy has displaced other training budgets, resulting in employees being denied access to other forms of essential workplace training and

development. Apprenticeships are great, but they are not the only form of valued training that a business relies on. So, before the government considers bringing SMEs under the levy threshold, the system needs to be reformed, made more flexible and easier to access, to ensure that all workplace training needs can be met.

THREE RECOMMENDATIONS

- 1** Levy payers should be allowed greater flexibility in how they can use the levy to ensure greater take up of apprenticeships and that all workforce training and development needs can be met.
- 2** SME apprenticeships should be funded separately by government to ensure continued access to apprenticeships from Level 2 to Level 5 and above.
- 3** Over time, the Apprenticeship Levy should become a training levy, to include all forms of accredited training.

Investing in High-Quality Accessible Apprenticeships

Paul Nowak, Deputy General Secretary, TUC

Trade unions have a long tradition of supporting apprentices. It is no coincidence that many of the programmes where demand is greatest are those where unions have negotiated a high-quality apprenticeship offer that is open to all. And in many of our workplaces union reps are supporting apprentices on a day-to-day basis to ensure that they are treated fairly and gain the necessary skills and certification to progress to sustainable well-paid employment.

Quality and equality of access are two trademarks of the approach taken by trade unions and supported by unionlearn, the TUC's learning and skills arm. We believe that these mutually supportive principles should govern the current debate about investment in the apprenticeship programme going forward. Indeed, the TUC is glad to note that this view is shared by the Education Select Committee. In its report *'The Apprenticeships Ladder of Opportunity: Quality not Quantity'* published in October 2018 the Committee stated in very blunt terms :

"Too many apprentices are simply not getting the high-quality training they deserve and too many people, particularly the young and disadvantaged, are not being given the support they need to pursue an apprenticeship and get on in life".

Apprenticeship Shortcomings

The TUC has supported some

reforms by government, especially measures to drive up employer investment levels through the levy and regulations to improve quality, including a strengthened entitlement to off-the-job training. However, there remain significant shortcomings in government policy, in particular the slow progress in tackling poor-quality apprenticeships and widening access to under-represented groups.

As the TUC highlighted in a recent report – Get a Move On – low pay levels and limited access to student discounts, especially for public transport, creates a poverty trap for too many apprentices. It is beyond belief that one survey has shown that 40% of apprentices are spending more money on undertaking an apprenticeship programme – including outlays for travel and other expenses – than they receive in their pay packet.

Boosting access to apprenticeships is a given, but changes to the funding framework to achieve this central aim must be accompanied by other reforms to guarantee high quality training, decent employment and equality of access.

The TUC believes that we can learn much from other countries where apprenticeships are taken up by many more young people and are viewed as a high-status option for school leavers. For example, only 4% of our 25-year-

olds hold a Level 4 or 5 technical qualification as their highest qualification compared with 20% in Germany; this is largely explained by their highly valued apprenticeship system. And we also know that almost 40% of our 25-year-olds still do not progress beyond GCSEs (or vocational equivalent at Level 2) in spite of the existence of fully-funded entitlements in our education system for under-25s to attain a first full Level 3 qualification.

The reality is that our apprenticeship system is simply failing to empower enough young people to attain an Advanced Apprenticeship (Level 3) and to progress beyond this to achieve higher level qualifications.

THREE RECOMMENDATIONS

On this basis, what are the main objectives that should govern funding of the apprenticeship programme going forward? The TUC recommends that there are three areas where we need to concentrate our efforts. Achieving progress on these three fronts has the potential to move the debate on, and more importantly, to open up opportunities for many more young people to fulfil their potential and develop their long-term job prospects through an apprenticeship.

1 Employer and state funding going forward should give priority to empowering many more young people to achieve a minimum of an Advanced

Apprenticeship and to support them to progress to higher skill levels. The entitlement to attain a Level 3 skill level should be as accessible through the apprenticeship system as it is for young people taking up college courses. To support this the TUC is calling on the government to introduce a new "right to progress" for apprentices who have completed a Level 2 apprenticeship – this would entitle them to progress to achieve a Level 3 apprenticeship and to trigger the necessary funding for this.

2 In order to achieve greater consensus on apprenticeship policy, the government should draw on the experience of other European countries which have established national strategic apprenticeship bodies comprising representatives of employers, unions and other stakeholders. An equivalent approach in the UK would do much to develop national dialogue and a greater consensus on the general principles that should underpin our apprenticeship system. The Institute for Apprenticeships is very different to equivalent bodies across Europe where unions

have a proper say and social partners discuss broader strategic priorities.

3 There is a case for introducing flexibilities to the levy immediately in order to stimulate more high quality and accessible apprenticeships. In our response to the review of the levy we said that employers should be allowed to spend a portion of their levy funds on innovative pre-apprenticeship programmes and other initiatives aimed at widening access to apprenticeships by under-represented groups (e.g. outreach programmes).

Directing Apprenticeship Funding to Raise Organisational Productivity

Adrian Anderson, Chief Executive, UVAC

Go back to 2017 and the rationale for the introduction of the Apprenticeship levy was to tackle the UK's productivity crises.

Crisis is an accurate summary – put simply a British worker is 23% less productive than their French counterpart and 26% less productive than a German worker. Low productivity means lower wages, a lower tax take and less money for our public services. Economists disagree on the precise reasons for the UK's productivity gap, but skills gaps and shortages caused by a lack of investment in training and development for new and existing employees almost always features as a big causal factor in any analysis.

Raising Organisational Productivity

The Apprenticeship Levy and wider apprenticeship reforms in England were supposed to tackle this problem. The Government promised employers that they would be in the 'driving seat'; through a Trailblazer process they could develop the apprenticeships their industries needed and could use *their* levy payments to purchase the apprenticeships they wanted to raise their performance and productivity of their organisations.

While the implementation of the apprenticeship reforms and introduction of the Apprenticeship Levy hasn't been plain sailing they are starting to deliver. Employers have developed a highly impressive

range of apprenticeship standards and are concentrating on using those that their organisations need.

Productivity before Social Inclusion

So all good? Unfortunately not. The problem is apprenticeships, in the past, have not really been a productivity programme.

In 2015 around 60% of apprenticeships were at Level 2 and less than 5% were at Level 4 -7. This wasn't the pattern of provision needed to tackle UK skills gaps and shortages, or to develop a high skill, high productivity and high wage economy. Nor was it a pattern of provision that would make our OECD competitors tremble.

Why did the Skills Funding Agency fund a pattern of provision that didn't correlate to the skills gaps and shortages evident in the labour market? The answer is that the focus of apprenticeships was to provide a work-based learning pathway for young people not staying on at school and to tackle the NEET (not in education, employment or training) problem. The apprenticeship reforms and Apprenticeship Levy with respect to England have upset the apple cart.

Boosting the Productivity of Large Employers in England

Through the introduction of the Apprenticeship Levy Government transferred the way apprenticeships

are funded from general taxation to a hypothecated tax. Messaging from Whitehall could not have been clearer – employers in England paying the Apprenticeship Levy could recover their Apprenticeship levy through their apprenticeship account when they spent on apprenticeships their business needed.

Straightforward? Well no. Firstly, apprenticeships have in the past been disproportionately used by small businesses, but the Apprenticeship Levy is paid by large business and disproportionately by the public sector. Secondly, employers in England are spending their levy on the apprenticeships their organisations need and not on the lower level apprenticeships that dominated provision in the past.

Understandably, large employers will increasingly plan to fully recover *their* levy payments. UVAC hopes, for example, that the NHS fully utilises its levy to tackle the nursing crisis and police forces use their levy payments on police constable degree apprenticeships. Put bluntly levy payments paid by the NHS police forces or local authorities should not be transferred to provide 95% subsidies for small private businesses through apprenticeships to train, for example, customer service or business administration staff.

Prioritisation and Rationing

But if levy paying employers spend most of their levy payments how will Apprenticeships for SMEs be funded? The answer must be prioritisation and rationing.

In the context of the forecast over spend of the Apprenticeship Levy pot, ministers have talked about the need to make tough decisions. Ministers need to decide if the Apprenticeship Levy as it operates in England is a hypothecated tax that employers can use to train the new and existing staff they need to raise productivity as was originally intended. Or, if the Apprenticeship Levy is simply an additional tax on employers to pay for the shortcomings of the pre-16 English education system.

THREE RECOMMENDATIONS

1 The Government should reinforce the message that apprenticeship is first and foremost a *productivity programme*. Employers are best placed to decide which apprenticeships they need and how to spend on apprenticeship.

2 If apprenticeship funding needs to be rationed this should be done on the need to deliver high-quality public services and in the private sector, in accordance with the Government's Industrial Strategy. Levy payments made by public sector employers should be ring-fenced. In the private sector, priorities for spend should be based on the Government's Industrial Strategy. This could be achieved by requiring

employers to pay a lower co-investment rate for certain types of apprenticeships – for example engineering, construction, management and digital - but a higher co-investment rate for apprenticeships that were not an Industrial Strategy priority – especially business administration and customer service apprenticeships.

3 Employers should not be forced to pay for programmes for 16-18 year-olds to tackle the NEET problem. The Government should confirm that Level 2 and 3 apprenticeships for 16-18 year olds should be funded through general taxation and the 16-19 Education Budget.

Apprenticeship Funding: Hard Choices, Even Harder Decisions

Mark Dawe, Chief Executive, Association of Employment and Learning Providers

Doubts about a politician's promises in a leadership campaign are nothing new. When Boris Johnson offered a promise in the Daily Telegraph on 8th July 2019 that apprenticeships would be *properly funded* if he became Conservative Prime Minister, AELP was never going to get carried away.

The Chancellor's subsequent spending review held on 4th September 2019 contained no mention of apprenticeships and no extra funding for 2020/21. But rather than jump to the conclusion that the Prime Minister's promise has already been broken, AELP would argue that the battle is far from lost. If this government survives the coming weeks, then an Autumn Budget could be on the cards and this might see some movement towards addressing the funding shortfall.

It was encouraging that implicit in Mr Johnson's leadership campaign comments was the fact that apprenticeships were not being properly funded under the previous administration. AELP doubts that the Prime Minister was familiar with the sector's complaints that some apprenticeship standards have been assigned funding bands too low to deliver consistently high-quality training. However, he was probably aware that proceeds from the levy alone are insufficient to meet demand for apprenticeships from both levy paying employers and non-

levy paying SMEs. AELP is being told that if we want the Autumn Budget to yield results, then the focus of our lobbying must be on SMEs being let down by the funding shortage.

AELP Research

As our recent survey (results of which were published in the Financial Times) showed, we were already on the case in this respect. The AELP research highlighted that three out of four apprenticeship training providers can no longer meet demand from SME employers to train new apprentices. It also found that:

- a quarter of providers have had to turn away a prospective new SME employer of apprentices
- 17% of providers have stopped recruiting apprentices altogether for new and existing SME employer customers and
- a third of the providers need up to 25% of additional funding on their government funding contract to meet current demand.

Funding Pressures

Yet with so many other departmental programmes competing for the Chancellor's favour, there is no guarantee that additional funding will be added to the levy's proceeds. Taking this into account and the fact that the levy overspend is now having a major impact on the sustainability of the programme, the matter of making hard choices, as the DfE Permanent Secretary called them

back in March 2019, on how levy funding is allocated in England is very much alive. According to the government, the choices mean looking at possible restrictions on age, standard levels, salaries and/or sectors.

THREE RECOMMENDATIONS

1 If we were forced to make a choice, our first recommendation would be focusing on the cause of the levy running dry, which is the levy-paying employers using their funding entitlement to train new and existing members of staff on higher level and more costly apprenticeships. This is something which we warned ministers about before the levy was introduced. In our view, these apprenticeships must be funded through the Higher Education loans system as we are seeing a shift from full-time academic programmes to apprenticeships. The 75,000 higher and degree starts this year alone will require some £615m funding per year for the next two years, and these numbers are likely to grow significantly.

2 AELP recommends that a £1.5bn standalone apprenticeship budget for SMEs should be established to run alongside levy funding. The original plan was that the levy should fund only the apprenticeships of the levy-payers but at a late hour, the Treasury decided that it should fund the entire programme without realising the consequences. Therefore, AELP is only asking for

the restoration of a budget that was taken away from SMEs.

3 Our third recommendation concerns the levy reforms losing sight of giving young people a good start to working life as the official statistics for starts at lower levels and for the youngest age groups over the last two years testify to an appalling degree. The creation of the new

standards demonstrates that low level does not mean low quality; in fact, there are too few apprenticeship standards available at Level 2 for Entry-Level roles, hindering access to talent. AELP believes that there should be a guaranteed government-funded legal entitlement for fully-funded apprenticeship training for 16-19 year olds wanting to undertake an apprenticeship. This would

be funded from general taxation through the DfE 16-19 Educational Budget, giving us a truly sustainable apprenticeship programme.

Apprenticeship Funding: Issues for London

Mark Hilton, Executive Director Policy, London First

London is a highly productive city, with a thriving economy and dynamic labour market. However, our capital city faces significant challenges around accessing skills which risk undermining this success. London has more skills shortages than any other region in the UK: an estimated 30,000 unfilled vacancies as a direct result of people not having the right skills. London First research also shows that 75% of London employers are struggling to find the right skills. Too many Londoners are not currently sharing in the prosperity of the city, as they are missing out on the skills necessary to succeed. Unemployment is particularly high among women, disabled and ethnic minority workers. This is an unacceptable waste of resource.

Apprenticeships aren't Working for our Capital

While apprenticeships should be a major part of the solution to meeting skills shortages, the UK's apprenticeship model complicates rather than facilitates employers in taking on more apprentices. At the same time, too many people face difficulty in finding the right apprenticeship. The apprenticeship levy has added to employers' difficulties; since it was introduced, apprenticeship starts have fallen by 30% across the UK because employers find it difficult to use (see *Employments and Skills Commission Final Report: An Employment and Skills Action Plan for London, June 2018*).

This is particularly worrying for London, where apprenticeship numbers have long been lower than the national average: in 2015/16, there were just 8 apprenticeship starts per 1,000 adults in London, the lowest of any region in England. It seems the 2017 reforms have made matters worse for our capital and led to unintended consequences. Apprenticeships are only working for Londoners who are male, white and already in employment in higher skilled knowledge-based sectors. Success with new starters in the 16-18 cohort especially at Level 2 and 3 is marginal at best.

Apprenticeships are Good for London's Employers, But...

It is not that London's employers think apprenticeships are a waste of time. Far from it, London First research shows they want to do more. They see the productivity gains that could come from the new skills that apprentices can bring. And of course, once the UK leaves the EU – deal or no deal – they recognise a more restrictive immigration regime will follow, meaning it will be even more critical to get the UK's skills system working properly.

Underspend or Overspend?

At the heart of the problem is funding and the cost of the system. Yet, as a result of the complex rules and procedures, combined with a less than optimal communications strategy from the Government, many London employers are struggling

to spend their levy funding on the apprenticeships they need, and as of April 2019, they are now seeing this money being taken back by the Treasury to be spent elsewhere. Take London First member Mace Group Ltd, who has been very open about its challenges. Mace has paid more than £2.3m into its apprenticeship levy account but has only been able to use £215,000 of it. This is despite the fact that they take on over 150 graduates and apprentices every year.

Apprenticeship Funding: First Steps to Devolution

London's Mayor is seeking to tackle this through his recent Call to Action on Devolution. Having already secured control of the £300m Adult Education Budget for London, he is pressing the present Government to give him the powers and accountability over other skills funding streams. On apprenticeships, as a first step he is calling for devolution of the capital's non-levy allocation (levy contributions not spent by the contributing employer), the ability to use these funds flexibly to meet the capital's skills needs, and responsibility and funding for promoting apprenticeships via a London Apprenticeship Service. This is what London First called for in our own *Employment and Skills Commission Report* published in 2018. London business would much rather its funding be retained in London than diverted elsewhere by the Treasury. We estimated this underspend could be up to

£300m by April 2019 - a tidy sum that could go along way to help support London's non-levy paying SMEs.

Apprenticeship Funding: Full Devolution

Business supports the Mayor's ambition to create a holistic employment and skills system for London. Yet, business believes the case still needs to be made for full devolution of the levy. Those employers who operate across the UK don't want the complicating factor of having to deal with a different set of rules in each region.

THREE RECOMMENDATIONS

Investing in reforms that make it easier for London and UK employers to deliver more apprenticeships at all levels,

something they are desperate to do, would mean a boost for UK plc, through growth in business activity and productivity. Business stands ready to work with the Government to ensure the system delivers best value, meets critical strategic skills needs and helps to drive social mobility. In our view, the next three reforms to post-16 apprenticeships in England should be as follows:

1 Employers should be granted more flexibility over how they spend their Apprenticeship Levy fund. Levy-payers should be allowed to use 10% of their payments to cover the cost of administering apprenticeship training and use the levy to cover pre-employment training.

2 Rules for apprenticeship funding should be simplified and

communicated to employers more effectively. The focus should be on making 25% supply chain transfers easier – including providing a service to match levy and non-levy payers – as well as allowing transfer to be used for 16-18 year olds.

3 Apprenticeships for 16-18 year olds on Level 2 and Level 3 should be paid through a separate DfE demand-led and ring-fenced budget rather than the Apprenticeship Levy.

Apprenticeship Funding: Issues for Greater Manchester

Andy Westwood, Vice Dean for Social Responsibility, University of Manchester

It is reasonably clear to any informed observer that the policy framework underpinning the apprenticeships system must change. It is not going to hit its targets, it is rapidly running out of money and the economy isn't yet getting the outcomes it needs to drive improved workplace performance or productivity. Add to that complaints about the operation and focus of the levy, an unnecessarily bureaucratic system and a haphazard approach to costs, qualifications and frameworks and it is clear that change must come.

The one thing we can depend on any government of any stripe is that in England at least they are always prepared to fiddle in and 'reform' our vocational education and training system. The only doubt is the nature of that intervention.

Devolving Apprenticeship Funding – Does it Make Sense?

Sadiq Khan recently proposed that more skills funding be devolved to London including at least some apprenticeship funding. This is not a new proposal and in both Manchester and London, the city region authorities have been keen for greater control over skills and apprenticeship funding for many years. David Hughes, CEO of the Association of Colleges recently told the story of London's pitch in 2008/9 under the last Labour Government. The same proposals came from Greater Manchester – albeit without a mayor at

that time – and they continue in a similar vein today. But do either make sense in a largely national system of skills and apprenticeships?

To begin to answer that question we can travel much further back in time. *The Statute of Artificers* was an Act of Parliament in 1563 (it's not just the Supreme Court that can quote such long-standing precedent). It sought to fix prices, impose maximum wages, restrict workers' freedom of movement and regulate training. Specifically it applied most significantly to the Guilds in London, insisting that all apprenticeships last for 7 years and be more open to a wider pool of applicants and less restrictive practices. It was repealed in 1813 (which in training policy is a record that is unlikely to be beaten).

So it is not a new idea that cities might wish to express a view on vocational training, apprenticeships or labour laws. Nor is it uncommon in other cities today with local and regional government and mayors in the US and the EU controlling much more significant parts of the training system. So even if a system remains largely national, it appears to be a no-brainer to find at least some way of building in the priorities and capabilities of cities and other local areas.

Greater Manchester - Local Industrial Strategy

The Greater Manchester Local

Industrial Strategy – like that in London and elsewhere – is clear what these priorities should be citing the key sectors of health innovation, clean growth, advanced materials and manufacturing, digital, creative and media and an objective for the 'increased take-up of technical qualifications, including apprenticeships, needed to drive the Greater Manchester Local Industrial Strategy (particularly at levels 4 and 5).'

The Government's recent Augar Review of Post-18 Education largely supports a Greater Manchester focus on upper technical skills, recommending the redistribution of significant resources to a 'missing middle' between further education and universities. Augar notes that current incentives for learners and providers 'are stacked in favour of the provision and take-up of three-year full-time undergraduate degrees and against the provision and take-up of Level 4/5 courses – and of part-time and adult study generally.' The big policy change then is to recommend 'a stronger technical and vocational education system at sub-degree levels to meet structural skills shortages'.

But in meeting Augar's 'missing middle' of higher technical education – as well as its potential links to productivity – the city region is more of a laggard. As the recently published Greater Manchester

Independent Prosperity Review shows, there is *'no clear route through vocational training to higher levels'* and provision of education and training *'is patchy, fragmented and lacks co-ordination'*. And Greater Manchester's productivity is low at 89% of the UK average in 2016, falling from 92.2% in 1998.

This, the panel believes, is the layer of higher education that is key to addressing 'the UK's weak productivity performance' and that it is a better policy intervention than further expansion of full time students studying degrees. The OECD (2017) agrees pointing to the UK's *'longstanding problems in technical education, especially at 'higher' levels (Level 4 and above), and an over-reliance on graduate education, often leading to 'non-graduate' work'*.

It is reasonably straightforward what Greater Manchester and much of the rest of England needs - that is a broader system that strengthens the supply and utilisation of higher level technical skills in key sectors. But at the moment the

apprenticeship system is unlikely to help them to deliver it. As the evidence supporting the Greater Manchester Industrial Strategy shows, the provision of education and training is patchy, fragmented and lacks co-ordination with demand from employers. There are too many underperforming schools in the city region – and no clear route through vocational training to higher levels. Despite many attempts, this has not been successfully addressed through national policy in recent decades.

THREE RECOMMENDATIONS

- 1** The apprenticeship system should work alongside the Industrial Strategies of city-regions such as Greater Manchester.
- 2** Resources and choices should be better focused on the levels and sectors that both Greater Manchester and Augar have identified. That means cutting back on the highest level apprenticeship programmes (at high cost) and on many lower level apprenticeships in low pay sectors. The priority must be to help strengthen a technical

offer at Levels 3, 4 and 5 and the utilisation of those skills in Greater Manchester workplaces. Incentives, funding and regulation should prioritise and reinforce these routes.

- 3** Greater Manchester, like other city regions can help to bring important resources to its apprenticeship and skills system. It has control over much business support and a strong chamber of commerce and significant funding levers and powers in major sectors such as health and clean growth. The Mayor Andy Burnham has long championed a better Information, Advice and Guidance system for apprenticeships and has recently introduced free travel for 16-18 year olds. Greater Manchester can then support apprenticeships and Vocational Education and Training provision as well as help shape the broader system. It can improve participation, wages and outcomes for individuals as well as productivity for firms and the city region as a whole.

Brexit, the UK Apprenticeship Levy and Apprenticeship Funding in England

Mark Corney, Policy Consultant

Introduced in April 2017, the UK Apprenticeship Levy is a business tax. Organisations pay 0.5% of their wage bill above £3m to the Treasury. Two factors determine the amount of apprenticeship levy paid above the £3m threshold by UK employers:

The first is nominal wages, and the second is the number of employees (excluding temporary workers). When the economy does well or is forecast to do so, nominal wages and employment levels increase: as a result, total wage-bills rise and more revenue is collected. When the economy does less well or is forecast to do so, increases in nominal wages and employment levels fall; as a result, total wage-bills are lower and less revenue is collected.

Levy Revenue - OBR Forecasts

At each fiscal event, the Office for Budget Responsibility (OBR) assesses the UK economy and the state of the public finances

including public spending and tax receipts. As a business tax raising a considerable amount of revenue for the Treasury, the OBR calculates how much the UK Apprenticeship Levy will raise in each year of the forecast period.

The first forecast by the OBR of revenue from the UK Apprenticeship Levy was made in November 2015. The last forecast published by the OBR was March 2019. In their March 2019 forecast, the OBR estimated that the UK Apprenticeship Levy would raise £8.2bn between 2017/18 and 2019/20, about £300m less than its forecast in November 2015. Between 2020/21 and 2022/23, however, revenue would be £1.1bn higher raising £9.3bn (See Table 1).

A Managed Brexit

The increase in estimated revenue from the UK Apprenticeship Levy between

2020/21 and 2022/23 by the OBR is driven by higher employment levels and rising nominal wages for the UK economy in general as at March 2019. Central to the March 2019 forecast, however, is a managed Brexit from the European Union.

A No-Deal No-Transition Brexit

In July 2019, the OBR modelled the impact of a no-deal, no-transition *risk test* to the UK economy. Compared to a managed Brexit, the economy would be in recession in 2020/21, employment would be 400,000 lower and nominal wages would grow by 1.4% instead of 3.5%. Although the OBR did assess the impact of a no-deal no-transition Brexit on the UK Apprenticeship Levy the inference is clear: much of the £1.1bn increase in revenue expected between 2020/21 to 2022/23 at the time of the March 2019 forecast *could* be lost.

TABLE 1				
	2017/18	2018/19	2019/20	TOTAL
NOVEMBER 2015	FORECAST £2.7bn	FORECAST £2.8bn	FORECAST £3.0bn	£8.5bn
MARCH 2019	OUTTURN £2.6bn	OUTTURN £2.7bn	FORECAST £2.9bn	£8.2bn
DIFFERENCE	-£0.1bn	-£0.1bn	-£0.1bn	-£0.3bn
	2020/21	2021/22	2022/23	TOTAL
MARCH 2019	FORECAST £3.0bn	FORECAST £3.1bn	FORECAST £3.2bn	£9.3bn

Source: Office for Budget Responsibility

TABLE 2				
	2017/18	2018/19	2019/20	TOTAL
DEVOLVED NATIONS	£425m	£442m	£459m	£1,326m
ENGLISH APPRENTICESHIP PROGRAMME BUDGET	£1,977m	c£2,200m	c£2,600m	£6,777m
of which underspend	£387m	c£500m	£0m	£887m
TOTAL	£2,402m	£2,642m	£3,059m	c£8,103m

Sources: HM Treasury, National Audit Office, Public Accounts Committee

The Treasury Review

Clearly, the outcome of the Treasury Review of the Apprenticeship Levy and how it operates in England will be shaped in large part by the type of Brexit from the European Union. Lower revenue from levy caused by a slowing economy in the context of a no-deal, no-transition Brexit will lead to less public spending allocated to Scotland, Wales and Northern Ireland and added pressure on the English Apprenticeship Programme Budget.

Lack of Transparency

A more mundane point is that how the UK Apprenticeship Levy translates into public spending, especially in terms of the Apprenticeship Programme Budget in England, is less than transparent. The issue is as complex as scoring student loans in the public accounts. Another part of the problem is the lack of published figures on the levy for England only.

UK Levy Receipts

HMRC publishes data on the amount of Apprenticeship Levy collected in the UK on a monthly basis. In the 11 months from May 2017 to March 2018, £2,271m was collected. In the 12 months

from April 2018 to March 2019, the total was £2,713m.

English Levy Receipts

Regrettably, there is no publication on a monthly basis of levy receipts for *England only*. According to the highly informative National Audit Office (NAO) Report on the Apprenticeship Programme in England published in March 2019, however, the levy in England raised £1,960m in 2017/18 out of a total of £2,271m. Presumably, the levy raised £311m in the devolved nations, equivalent to 14% of the UK-wide total.

Lost Levy Employers in England

In May 2017, £135m was collected in levy in England (*sourced from Parliamentary Answers*). By May 2019, some £11m out of the £135m was unused and lost to employers in England to spend on apprenticeships (*sourced from Parliamentary Answers*). The running total of unused and lost levy between May 2019 and August 2019 is £133m. Nevertheless, there is no easily accessible and regular information on levy lost to employers in England after the 24 month expiry date. This means stakeholders in England also do

not know the share of levy lost to employers after 24 months and whether levy-paying employers are really using it or losing it.

Public Spending from the Levy

In Scotland, Wales and Northern Ireland the levy is collected from employers in cash and the Treasury uses it to increase public spending in the form of block grant. In England, the levy is used to fund the Apprenticeship Programme Budget (See Table 2).

Before the levy was introduced in April 2017, the Treasury guaranteed the devolved nations £1.3bn from the levy between 2017/18 and 2019/20, about 16% of total public spending. Interestingly, the allocation for 2017/18 to the devolved nations was £425m which is considerably more than the £311m presumably raised from the levy in the devolved nations.

Apprenticeship Programme Budget in England

According to the NAO, the Apprenticeship Programme Budget in England was £1,977m in 2017/18. It estimated that spending would rise to c£2,200m in 2018/19 and discussion at the time of the report indicated the budget could

rise to c£2,600m in 2019/20. Examining the Apprenticeship Programme Budget in detail, the NAO identified underspends of £387m in 2017/18 and c£500m in 2018/19. It suggested the budget would be fully spent in 2019/20. In terms of the £1,977m programme budget in 2017/18, the NAO stated that only a fraction was used to fund apprenticeships by levy-payers (£268m). Most of the budget was used to support apprenticeships started before the levy reform (£1,087m). Relatively small amounts were allocated to non-levy payers (£189m) and for non-participation spending (£46m).

Budget Underspends and Lost Levy

In England, two things happen with respect to the levy: firstly, it is used to fund the Apprenticeship Programme Budget in the financial year the levy is paid, and second, levy payments are entered into the digital account as a *credit to purchase* apprenticeships which employers have 24 months to use or lose. Between May 2017 and March 2018, the levy raised £1,960m in England but levy-paying employers only spent £268m (14%) during that time. In other words, the Treasury and DfE faced *potential liabilities* of £1,692m (86%) if levy-payers eventually decided to spend the credit in their digital account after April 2018 and within 24 months. HMT and the DfE could not, therefore, spend the entire £2.0bn Apprenticeship

Programme Budget in 2017/18. The £387m underspend (see Table 2) was an insurance policy to cover future use of levy payments by employers after April 2018.

A key issue, however, is whether levy-payers are spending far more levy than HMT and the DfE originally assumed. It is difficult to be precise but about 20% of the levy raised between May and August 2017 had not been spent two years later and resulted in lost levy to the employers paying it. If this percentage continues the following picture could emerge: £1,960m was collected in levy in 2017/18; £268m (14%) was spent by levy-payers in 2017/18; a further £1,300m (66%) would be spent after April 2018 but by the 24 month expiry date, and £392m (20%) would be unused and lost after the 24 month expiry date. Based on this analysis, the c£900m underspend for both 2017/18 and 2018/19 would be insufficient to cover higher than anticipated use of levy by employers.

Nevertheless, the Treasury will certainly need to allow the DfE to carry over the c£900m underspend into 2019/20 and beyond to protect the programme budget. At the same time, from an employer point of view lost or written-off levy means the loss of funding for apprenticeships; from a public spending perspective it means the end of a liability to turn a credit into cash rather than cash

savings which can be elsewhere in the skills system.

THREE RECOMMENDATIONS

- 1** To improve debate and discussion on the future of the UK Apprenticeship Levy and its performance in England, the Treasury and DfE should in one source and on a regular basis publish: (i) apprenticeship levy receipts in England and the UK, and (ii) unused and lost levy in England after the 24 month expiry date.
- 2** To improve debate and discussion on the amount of public spending available from the UK Apprenticeship Levy in terms of block grant to the devolved nations and the Apprenticeship Programme Budget in England the government should confirm: (i) as soon as possible the amount allocated to the devolved nations in 2020/21 and for the two years thereafter, and (ii) that the c£900m underspend in the programme budget between 2017/18 and 2018/19 will be carried forward to fund apprenticeships in England from 2019/20 onwards.
- 3** The government should provide additional public spending out of general taxation if, in the context of a no-deal, no-transition Brexit, the UK Apprenticeship Levy generates lower revenue than forecast as a consequence of the supply shock to the economy.

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