



## Apprenticeship Levy and Workplace Opportunities for Young People Debate on 4 July 2019

### Summary

On 4 July, the House of Lords is due to debate a motion moved by Lord Young of Norwood Green (Labour) that “this House takes note of the apprenticeship levy and the case for the effective delivery of workplace opportunities for young people”.

Apprenticeships have been identified as a means of improving skills in the UK workforce and increasing productivity. Both the current Government and previous governments have sought to increase the number of apprenticeships and improve standards. In 2015, the Conservative Government, then led by David Cameron, announced it would support 3 million new apprenticeship starts by 2020. Since then, the Government has made a number of reforms to the apprenticeship system in England. This has included the gradual replacement of apprenticeship frameworks with apprenticeship standards. Apprenticeship standards were first introduced under the Coalition Government. They are intended to be more occupation-focused and more responsive to the needs of employers.

In April 2017, the Government introduced the apprenticeship levy. The apprenticeship levy is paid by employers across the UK with a pay-bill of over £3 million each year. The purpose of the apprenticeship levy is to provide financial support for the increase in the number of apprenticeships. Funds from the levy can be accessed by both levy payers and by smaller employers who do not pay the levy.

There has been some criticism of the Government’s apprenticeship programme and the way it has been implemented. The House of Commons Education Committee, Public Accounts Committee, the Opposition and the Liberal Democrats have all called for the system to be reformed. Critics of the levy have highlighted: an initial lack of take-up in the scheme; too much emphasis on the total number of apprenticeship starts, at the expense of quality; the rules to access levy funds being overly complex and inflexible; and that it does not do enough to support small and medium sized enterprises.

The Government has defended its apprenticeship programme. It has argued there has been an increase in the take up of apprenticeship standards since the introduction of the levy. It has also said it would review the apprenticeship levy and look for ways to ensure funding was spent more effectively.

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## I. Background

Both the current Government and previous Coalition Government have identified apprenticeships as a means of improving skills in the UK workforce and increasing productivity. Consequently, they have sought to increase the number of apprenticeships and improve standards.<sup>1</sup> In 2012, the Richard review of apprenticeships, commissioned by the Coalition Government, outlined the following benefits of apprenticeships:<sup>2</sup>

- There was an economic benefit. The review identified apprenticeships as improving the skills of the UK workforce.
- There was a benefit to employers, as it ensured employees remained more loyal and more effective.
- There was also a societal benefit, with apprenticeships providing a “ladder into meaningful employment”.<sup>3</sup> They also enabled the Government to fulfil an obligation to young people to prepare them for work.

However, the Richard review argued there had been a drift towards calling things apprenticeships that were not in fact apprenticeships.<sup>4</sup> It recommended all apprenticeships must entail a new job role. It also recommended apprentices should learn enough to enable them to do that job effectively.

### **Forms of Apprenticeship**

Guidance published by the Government sets out the requirements that apply to apprenticeships in England:<sup>5</sup>

- All apprenticeships must involve a mix of payed work and off-the-job training.<sup>6</sup>
- They must last for a minimum of 12 months and entail at least 30 hours work a week.<sup>7</sup>

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<sup>1</sup> A summary of apprenticeships policy under the Coalition Government is provided in the House of Lords Library briefing [Availability and Quality of Apprenticeships, and the Spread of Apprenticeships across the Labour Market](#), 12 October 2015.

<sup>2</sup> Doug Richard, [The Richard Review of Apprenticeships](#), November 2012, p 3.

<sup>3</sup> *ibid*, pp 3–4.

<sup>4</sup> *ibid*, p 4.

<sup>5</sup> Education and apprenticeships policy is devolved in the UK. This briefing focuses on apprenticeships in England.

<sup>6</sup> National Apprenticeship Service, [A Guide to Apprenticeships](#), March 2019, p 1.

<sup>7</sup> Education and Skills Funding Agency, [‘Apprenticeship Funding Rules for Employers: What is an Apprenticeship?’](#), 15 March 2019.

- Apprentices aged under 19 must be paid at least the national minimum wage rate, which is £3.90 per hour.<sup>8</sup> This also applies to apprentices aged 19 or over and in the first year of their apprenticeship.

Apprenticeships may take different forms. For example, apprenticeships may be different levels. These levels are referred to as intermediate (level 2), advanced (level 3), higher (levels 4–7) or degree (levels 6–7). They are equivalent to the following educational qualifications:

**Table 1: Apprenticeships and Equivalent Educational Levels<sup>9</sup>**

Apprenticeship	Level	Equivalent Educational Level
Intermediate	2	5 GCSE passes at grade A*–C or 9–4
Advanced	3	2 A level passes, Level 3 Diploma or International Baccalaureate
Higher	4,5,6 and 7	Foundation degree and above
Degree	6 and 7	Bachelor's or master's degree

There are also currently two types of apprenticeship: standards and frameworks:<sup>10</sup>

- Frameworks are described by the Government as being 'primarily qualification-focused'.<sup>11</sup> The aim of frameworks is for the apprentice to achieve a competency-based qualification, such as an NVQ, or a technical qualification, such as a BTEC.
- Apprenticeship 'standards' were introduced in 2013 by the Coalition Government.<sup>12</sup> These are intended to be more occupation-focused than frameworks. Different standards are developed by groups of employers referred to as 'trailblazers' for different types of employment. Standards also include an assessment at the end of the apprenticeship. This assessment is

<sup>8</sup> National Apprenticeship Service, [A Guide to Apprenticeships](#), March 2019, p 1.

<sup>9</sup> *ibid.*

<sup>10</sup> Institute for Apprenticeships and Technical Education, '[Apprenticeship Frameworks and Standards: The Main Differences](#)', 1 August 2017.

<sup>11</sup> *ibid.*

<sup>12</sup> Department for Business innovation and Skills, [The Future of Apprenticeships in England: Implementation Plan](#), October 2013.

- intended to establish whether the apprentice has achieved the skills required by employers in that particular field.<sup>13</sup>

## 2. Government Apprenticeship Programme

In 2015, the Conservative Government, under the then Prime Minister, David Cameron, announced it would support 3 million new apprenticeship starts by 2020.<sup>14</sup> In order to achieve this goal, the Government has introduced the following reforms to apprenticeships:

- Since May 2016, the term ‘apprenticeship’ has been legally protected under the Enterprise Act 2016.<sup>15</sup> This made it an offence to provide or offer a course or training as an apprenticeship if it is not a statutory apprenticeship.<sup>16</sup>
- In April 2017, the Government launched the Institute for Apprenticeships.<sup>17</sup> The role of the Institute was to oversee the development of apprenticeships, including the approval and publication of apprenticeship standards. In 2018, the title of the Institute was amended to the Institute for Apprenticeships and Technical Education. This was to reflect its expanded remit, which would include overseeing the Government’s other reforms to technical education.
- Also in April 2017, the Government introduced the apprenticeship levy.<sup>18</sup> The levy is intended to encourage businesses to take on more apprenticeships.
- In June 2017, the Education and Skills Funding Agency published guidance requiring apprenticeships include at least 20 percent ‘off-the-job’ training.<sup>19</sup> This training had to take place within the apprentice’s paid contracted hours. It would also be in addition to English and Maths training forming part of the apprenticeship.<sup>20</sup>

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<sup>13</sup> Institute for Apprenticeships and Technical Education, ‘[Apprenticeship Frameworks and Standards: The Main Differences](#)’, 1 August 2017.

<sup>14</sup> HM Government, [Queen’s Speech 2015: Background Briefing Notes](#), 27 May 2015, p 5.

<sup>15</sup> Enterprise Act 2016, s 25.

<sup>16</sup> [Explanatory Notes to the Enterprise Act 2016](#), pp 35–6.

<sup>17</sup> Institute for Apprenticeships and Technical Education, ‘[What We Do](#)’, accessed 25 June 2019.

<sup>18</sup> Education and Skills Funding Agency, ‘[Apprenticeship Funding: How It Works](#)’, 13 March 2019. Since the introduction of the apprenticeship levy, the Government has made a number of changes to the way in which it operates. These are set out later in this briefing.

<sup>19</sup> Department for Education, [Apprenticeship Off-the-Job Training Policy Background and Examples](#), April 2019.

<sup>20</sup> National Apprenticeship Service, [Off-the-Job Training: Steps to Help You Determine Whether an Activity Counts as Off-the-Job Training](#), June 2017.

- The Government has sought to replace apprenticeship frameworks with standards. In October 2018, the Government announced that all apprenticeship frameworks would be withdrawn at the end of the 2019–20 academic year.<sup>21</sup>

The Government has also introduced other reforms intended to improve skills in the UK workforce. This included the introduction of T-levels in 2016, a new technical education study programme. T-levels and apprenticeships are intended to form what the Government has referred to as ‘pathways’ into work. The aim of the T-level is to provide an alternative to the academic route into employment and reduce the stigma attached to technical education.<sup>22</sup> The T-level programme would also include a work placement of up to 3 months.<sup>23</sup>

## 2.1 Apprenticeship Levy

The purpose of the apprenticeship levy is to provide financial support for the increase in the number of apprenticeships.<sup>24</sup> It is also intended to incentivise both large employers and small and medium sized enterprises (SMEs) to take on more apprentices. The levy system works in England as follows:

- The apprenticeship levy is paid by all employers across the UK with a pay bill of over £3 million each year.<sup>25</sup> The levy is set at 0.5 percent of their annual pay bill.<sup>26</sup> It is paid by employers through the PAYE system.
- A proportion of the revenue from the levy is then given to the devolved administrations according to the Barnett Formula.<sup>27</sup> The remaining revenue is retained by HM Treasury. Funds are paid by the Treasury into the Department for Education apprenticeships budget.

<sup>21</sup> Education and Skills Funding Agency, ‘[Statement on Frameworks Withdrawal—May 2019](#)’, 2 May 2019.

<sup>22</sup> Department for Education, [Post-16 Technical Education Reforms: T-level Action Plan](#), October 2017. Further information on the Government’s reforms to technical education are provided in the House of Commons Library briefing, [T Levels: Reforms to Technical Education](#), 23 April 2019.

<sup>23</sup> Department for Education, [Post-16 Technical Education Reforms: T Level Action Plan](#), October 2017, p 6.

<sup>24</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 5.

<sup>25</sup> Education and Skills Funding Agency, ‘[Apprenticeship Funding: How It Works](#)’, 13 March 2019.

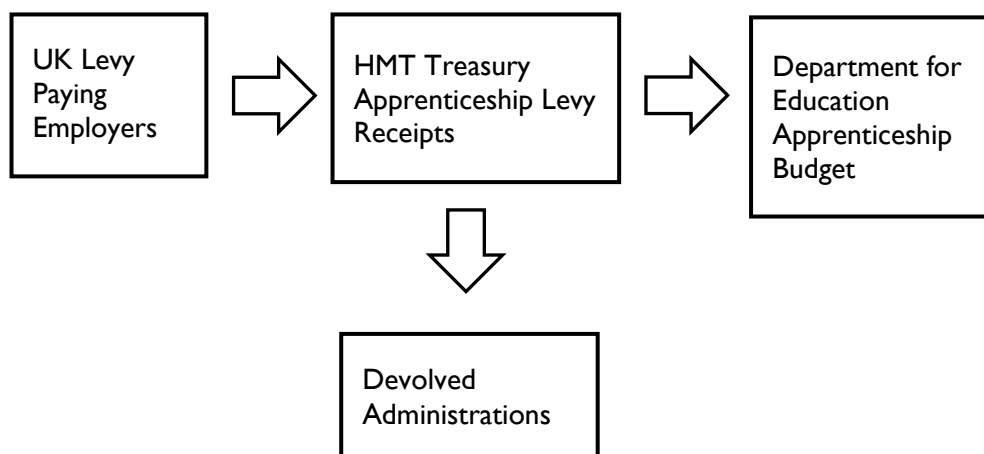
<sup>26</sup> Employers benefit from a levy allowance of up to £15,000 each financial year. As the levy is 0.5 percent of the employers pay bill, this results in employers with a pay bill of less than £3 million per year being exempt from the Levy (National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 14).

<sup>27</sup> HM Treasury, ‘[UK Government Agrees Apprenticeship Levy Funding Deal with Devolved Administrations](#)’, 14 November 2016.

- Both levy-paying and non-levy paying employers in England are able to receive funds from the apprenticeships budget. This is provided to them by the Education and Skills Funding Agency. These funds are referred to by the Government as 'levy funds'.<sup>28</sup> The apprenticeships budget is also used to fund apprenticeships that started before the levy was introduced.<sup>29</sup>

In 2017–18, £2 billion in apprenticeship levy payments were collected from UK employers and allocated to England.<sup>30</sup> In the same year, the total public spending on apprenticeships was £1.6 billion. The programme's budget for 2018–19 is £2.2 billion.<sup>31</sup>

**Figure 1: The Apprenticeship Levy—Where the Money Goes**<sup>32</sup>



### Levy Conditions

There are several conditions that apply to the amount of levy funds employers can receive:

- The funding received depends on the number and type of apprenticeship the employer takes on.<sup>33</sup> The Government sets

<sup>28</sup> Although these funds are referred to as levy funds, the Government has stated that the apprenticeship budget is “distinct from the levy and is not dependent on receipts from the levy” (House of Commons, [‘Written Question: Apprentices: Taxation’](#), 7 May 2019, 238037).

<sup>29</sup> House of Lords, [‘Written Question: Apprentices: Taxation’](#), 20 March 2019, HLI4289.

<sup>30</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

<sup>31</sup> *ibid*, p 6.

<sup>32</sup> Figure 1 is based on the slides published by the Institute for Apprenticeships: Institute for Apprenticeships, [South West Employer Conference: 30 November 2018](#), January 2019, slide 8.

<sup>33</sup> In the case of levy payers, funding is provided directly to training provider by the Education and Skills Funding Agency. This is done through an online apprenticeship service

the maximum for the amount it will provide for each type of apprenticeship standard or framework.<sup>34</sup> If the training provider charges more than this maximum amount, the employer must meet the remaining costs from their own budget.

- The levy funds can only be spent on the training and assessment of apprentices.
- The levy funding provided by the Education and Skills Funding Agency is intended for the English apprenticeship system only. Therefore, the total amount employers in England receive is in proportion to the percent of the workforce who live in England.<sup>35</sup> This is referred to by the Government as the “English percentage”.

As stated above, large employers who pay the levy and smaller employers who do not can both receive levy funds. However, the rules for large and small employers are different.

### **Large Employers**

Employers who pay the levy can receive back up to the total amount they have paid to HM Treasury in levy funds.<sup>36</sup> This total is multiplied by the English percentage, described above. In addition, the Government provides up to 10 percent of this total amount. Levy-paying employers have a period of up to 24 months to access levy funds before they expire.

### **Small Employers with Fewer than 50 Employees**

Businesses with fewer than 50 employees who take on apprentices aged 16–18 (or up to the age of 24 for care leavers) are subject to the ‘small employer waiver’. This waiver means the Government will meet the full cost of training and assessment.<sup>37</sup>

### **Other Small Employers**

Other employers with a pay bill of less than £3 million receive levy funds in the following way. The cost of training and assessing apprenticeships is

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account set up by the employer (Education and Skills Funding Agency, [‘Apprenticeship Funding: How It Works’](#), 13 March 2019).

<sup>34</sup> Education and Skills Funding Agency, [‘Apprenticeship Funding Bands’](#), 19 June 2019.

<sup>35</sup> The ‘English percentage’ is calculated by HM Revenue and Customs from the information provided by the employer about their pay bill (Education and Skills Funding Agency, [‘Apprenticeship Funding: How It Works’](#), 13 March 2019).

<sup>36</sup> Education and Skills Funding Agency, [‘Apprenticeship Funding: How It Works’](#), 13 March 2019.

<sup>37</sup> House of Commons, [‘Written Question: Apprentices: Small Businesses’](#), 26 February 2019, 222813.



shared between these employers and the Government. This system is referred to as 'co-investment'.<sup>38</sup> The employer contributes 5 percent of the cost of an apprenticeship while the Government pays the remaining 95 percent.<sup>39</sup> However, this is only up to the maximum threshold for that type of framework or standard. As with larger employers, if the cost of the apprenticeship is above that threshold, the employer must meet the difference from its own funds.

### ***Transferring Funds***

Levy-paying employers are also able to transfer a certain amount of their levy funds to other employers.<sup>40</sup> Funds can be shared with both levy paying and non-levy paying employers. The Government states this is to enable employers to support apprenticeships in smaller employers in their supply chain.<sup>41</sup> Employers may also provide funds to Apprenticeship Training Agencies, organisations who recruit, employ and arrange training for apprentices on behalf of employers.<sup>42</sup>

Originally the amount an employer was able to transfer was up to 10 percent of its annual levy funds. Since April 2019, this amount has been raised to 25 percent.

There are certain conditions on these transfers:

- Levy paying employers must agree with the employer receiving the funds which individual apprenticeships are being funded.
- Transfers can only be used for funding apprenticeship standards, not apprenticeship frameworks.
- Employers receiving the funds must take account of state aid rules.<sup>43</sup>

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<sup>38</sup> Education and Skills Funding Agency, '[Apprenticeship Funding: How It Works](#)', 13 March 2019.

<sup>39</sup> Originally the amount small employers contributed was 10 percent. This amount was reduced in to 5 percent on 1 April 2019. Education and Skills Funding Agency, '[Apprenticeship Funding: How It Works](#)', 13 March 2019.

<sup>40</sup> Education and Skills Funding Agency, '[Apprenticeship Funding: How It Works](#)', 13 March 2019.

<sup>41</sup> *ibid.*

<sup>42</sup> *ibid.*; Education and Skills Funding Agency, '[Register of Apprenticeship Training Agencies](#)', 3 December 2018.

<sup>43</sup> Further information on state rules is provided in Department for Business, Energy and Industrial Strategy, '[Guidance: State Aid](#)', 10 July 2015.

### 3. Reaction to Apprenticeship Programme

#### 3.1 Take-up of Levy Funds and Apprenticeship Starts

There has been some criticism of the apprenticeship levy and the way it has been implemented. Critics of the levy have noted an initial lack of take-up in the scheme.<sup>44</sup> In the first year that the levy operated, there was a drop in the number of people taking up new apprenticeships. Between the 2015–16 and 2017–18 academic year there was a 25% drop in apprenticeship starts.<sup>45</sup> Figures appear to have improved since then. Apprenticeship starts for the 2018–19 academic year have yet to be published. However, according to the most recently published quarterly figures, there was an increase during the first quarter of 2018–19 by 15.4% compared to the first quarter of 2017–18.<sup>46</sup>

While there was an overall decline in apprenticeship starts during this first year, there has been an increase in the number of young people taking up apprenticeships. In 2017–18, 28% of apprenticeship starts were from people aged under 19, compared to 25% in the previous academic year.<sup>47</sup> The reduction in starts was mainly in older age bands. Levels of interest in apprenticeships from young people are also high. The results of a survey, published by the Sutton Trust in July 2018, indicated 64% of young people aged 11–16 would be either “very” or “fairly interested” in doing an apprenticeship after leaving school.<sup>48</sup>

In the first year following the introduction of the levy, the proportion of levy funds accessed by employers was also lower than expected.<sup>49</sup> The National Audit Office (NAO) has argued a lack of take-up overall in new apprenticeships had resulted in an underspend in the apprenticeships budget. In March 2019, it reported that:

In [the 2017/18 financial year], levy-paying employers used 9 percent of the funds available to them to pay for new apprenticeships. These employers accessed £191 million of almost £2.2 billion of levy funds

<sup>44</sup> Seb Murray, [‘Two Years In, Is the Apprenticeship Levy Still Working?’](#), *Guardian*, 5 March 2019.

<sup>45</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

<sup>46</sup> Department for Education, [Apprenticeships and Traineeships Release, England: January 2019](#), 24 January 2019. Further statistics on apprenticeships in England are provided in House of Commons Library, [Apprenticeship Statistics for England](#), 11 February 2019.

<sup>47</sup> Department for Education, [Apprenticeships and Traineeships Data](#), 28 March 2019. Demographic information for apprenticeship starts is provided by the House of Commons Library, [Apprenticeship Statistics for England](#), 11 February 2019, p 9.

<sup>48</sup> Sutton Trust, [Apprenticeship Polling 2018](#), July 2018, p 1.

<sup>49</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

and government top-up available to them. The funds expire after 24 months. The Department had projected that levy-paying employers would use 13 percent of the available funds in 2017/18. Partly because the amount used was lower than expected, the Department spent less on the programme than it had budgeted. In 2017/18, it spent £1.6 billion (a £400 million underspend); and, at the time of our work, it expected to spend around £1.7 billion in 2018/19 (a £500 million underspend).<sup>50</sup>

The initial low take-up has led to criticism that the Government will not be able to meet its 2020 target for 3 million new apprenticeship starts. The House of Commons Public Accounts Committee, in its 2019 report on the apprenticeships programme, concluded the Government was not on track to meet this target.<sup>51</sup> The committee did however note that the level of apprenticeship starts has begun to recover after the first 12 months of the levy.

In March 2019, the Government stated that it was undertaking a review of the apprenticeship levy. This review would consider issues including how levy funds could be used most effectively.<sup>52</sup> In April 2019, the Government stated there had been 1,709,500 apprenticeship starts since May 2015 and that it was therefore 57 percent of the way to achieving its 2020 target for 3 million apprenticeship starts by 2020.<sup>53</sup> Subsequently, on 26 June 2019, the Education Secretary, Damian Hinds, confirmed during an oral evidence session with the House of Commons Education Committee that the Government was not on track to meeting its 2020 target.<sup>54</sup>

### 3.2 Apprenticeship Quality

The Government has been criticised for placing too much emphasis on the total number of apprenticeship starts, at the expense of quality. In June 2018, the House of Lords Economic Affairs Committee called on the Government to scrap its target to create 3 million new apprenticeship starts between 2015 and 2020.<sup>55</sup> It argued this prioritised “quantity over quality”. Specifically, it said the target did not take account of whether or not an

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<sup>50</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

<sup>51</sup> House of Commons Public Accounts Committee, [The Apprenticeships Programme: Progress Review](#), 22 May 2019, HC 1749 of session 2017–19 p 3. The Government has yet to publish a response to this report.

<sup>52</sup> House of Lords, [‘Written Question: Apprentices: Taxation’](#), 20 March 2019, HL14289.

<sup>53</sup> Department for Education, [Progress Report on the Apprenticeships Reform Programme](#), April 2019, p 9.

<sup>54</sup> Sean Coughlan, [‘Apprenticeships Pledge “Will Be Missed”](#)’, BBC News, 26 June 2019.

<sup>55</sup> House of Lords Economic Affairs Committee, [Treating Students Fairly: The Economics of Post-School Education](#), June 2018, HL Paper 139 of session 2017–19, pp 76–7.

apprenticeship was for one year or for three years.<sup>56</sup> It also argued the emphasis on apprenticeship starts alone was flawed because it did not take account of the number that were not successfully completed. In the 2016–17 academic year, 32 percent of people who started an apprenticeship did not complete it.<sup>57</sup> The Sutton Trust has also argued that the focus on the Government’s 3 million apprenticeship starts target was resulting in not enough “quality apprenticeships” being made available for young people.<sup>58</sup> The CEO of the Sutton Trust, James Turner, has said:

Number targets and the apprenticeship levy have too often encouraged the creation of apprenticeships that are simply a rebranding of lower level training, with companies accrediting the existing skills of their current staff.<sup>59</sup>

The Government has argued it has improved the quality of apprenticeships while at the same time increasing their number. Responding to the House of Lords Economic Affairs Committee’s report, the Government argued it was making progress in ensuring apprenticeships were of a high quality. It noted that 44 percent of new starts in 2017–18 were apprenticeship ‘standards’ rather than ‘frameworks’, compared to 2.5 percent in the previous year.<sup>60</sup>

During an oral question in the House of Lords on 25 June 2018, the Liberal Democrat spokesperson for Business, Energy and Industrial Strategy in the House of Lords, Lord Fox, called on the government to drop its 3 million apprenticeship starts target.<sup>61</sup> Responding for the Government, the government whip, Viscount Younger of Leckie, argued the apprenticeship levy would take time to bed in but that the Government continued to support the policy. He also noted the increase in the uptake of apprenticeship standards, which he argued were of a higher quality than apprenticeship frameworks and more suited to the needs of employers.

In March 2019, the NAO concluded that employers generally had a positive view of standards in principle. However, it criticised the Government for delays to the introduction of standards. It noted that in December 2018

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<sup>56</sup> House of Lords Economic Affairs Committee, [Treating Students Fairly: The Economics of Post-School Education](#), June 2018, HL Paper 139 of session 2017–19, pp 76–7.

<sup>57</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

<sup>58</sup> Sutton Trust, [‘Realising the Social Mobility Promise of Apprenticeships’](#), 6 March 2019.

<sup>59</sup> *ibid.*

<sup>60</sup> Department for Education, [Government Response to the House of Lords Economic Affairs Committee Report: Treating Students Fairly: The Economics of Post-School Education](#), August 2018, Cm 9689, p 9; and National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 4.

<sup>61</sup> [HL Hansard, 25 June 2018, cols 2–4.](#)

around 360 of a potential 600 standards had been approved.<sup>62</sup> This was five years after the process of their introduction began under the Coalition Government.

This delay to the introduction of the apprenticeship standards in all areas of work has led to calls for the Government to extend the period of time before levy funds expire.<sup>63</sup> In May 2019, the Local Government Association (LGA) published an open letter to the Government. The letter acknowledged that the first two years of the levy had helped people enter apprenticeships. However, it recommended the Government should extend the 24-month expiry date for unused levy funds. The LGA argued this was important as some apprenticeship standards had only just been approved or were still in development. This included standards for social work and planning.

In May 2019, the Independent Panel Report to the Review of Post-18 Education and Funding was published.<sup>64</sup> The review, chaired by Dr Philip Augar, made number of recommendations concerning apprenticeships, including regarding their quality. The Independent Panel noted warnings from the Office for Standards in Education, Children’s Services and Skills (Ofsted) that there were signs of a reduction in the quality of apprenticeships as the number of apprenticeship providers expanded.<sup>65</sup> The Independent Panel recommended Ofsted’s role should be strengthened.<sup>66</sup> It noted the that Office for Students and Ofsted has responsibility for monitoring the quality of apprenticeship provision. The Independent Panel argued Ofsted should be given overall responsibility for apprenticeships quality and for it to maintain “a single knowledge hub for apprenticeship quality”.<sup>67</sup>

### 3.3 Complexity and Restrictiveness of the Levy

The rules that apply to employers seeking to access levy funds have been criticised as overly complex and inflexible. In September 2017, the British Chambers of Commerce published the results of a survey it had commissioned of 1,400 businesses. This found that 23 percent of levy-paying firms had no understanding of the apprenticeship levy and how to access levy funds.<sup>68</sup> In June 2018, both the Chartered Management Institute and

<sup>62</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, pp 8–9.

<sup>63</sup> Local Government Association, ‘[An Open Letter on the Apprenticeship Levy](#)’, 13 May 2019. This page includes a list of the other signatories to the letter.

<sup>64</sup> Department for Education, [Independent Panel Report to the Review of Post-18 Education and Funding](#), May 2019, CP 117.

<sup>65</sup> *ibid*, p 154.

<sup>66</sup> *ibid*, p 155.

<sup>67</sup> *ibid*.

<sup>68</sup> British Chambers of Commerce, ‘[New Apprenticeship System Is Increasing Costs and Uncertainty for Business](#)’, 29 September 2017.

British Chambers of Commerce called for the apprenticeship levy to be reformed.<sup>69</sup> They argued that the Government should relax “complex and restrictive” levy rules.<sup>70</sup> They also argued employers should be able to use levy funds for other forms of skills development in addition to apprenticeships. Subsequently, the British Chambers of Commerce welcomed the Government’s announcement that it would ease the 10 percent limit of levy fund transfers, arguing this was a step in the right direction.<sup>71</sup> However, it maintained the Government should do more to relax the rules for accessing levy funds.

The apprenticeship levy has also been criticised by the Liberal Democrats and the Labour Party on grounds of its complexity. The Liberal Democrat spokesperson for Business, Energy and Industrial Strategy in the House of Lords, Lord Fox, has argued it should be possible for levy funding to be spent on other forms of training than apprenticeships.<sup>72</sup> He also argued there was too much ‘red tape’ involved in transferring levy funds between employers, which was acting as a disincentive to accessing funds. In January 2018, the House of Commons held a debate on the Government’s apprenticeships and skills policy, tabled by Judith Cummins (Labour MP for Bradford South).<sup>73</sup> During this debate, Ms Cummins stated that she had been told by businesses in her constituency that the “complexity of the system [was] a major barrier to entry, and that [seemed] to be a particular problem for small and medium-sized businesses”.<sup>74</sup>

There have also been calls to relax other apprenticeship rules introduced by the Government. The House of Commons Education Committee has recommended the Government conduct pilots to explore the effect of relaxing the requirement that 20 percent of an apprentice’s time be spent on off-the-job training.<sup>75</sup> It argued the right balance between on-the-job and off-the-job training should be different for each standard, depending on the type of career the apprentice was looking to enter. Responding to the Committee’s report, the Government stated it would retain this minimum requirement, arguing this was in line with international best practice.<sup>76</sup>

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<sup>69</sup> Charter Management Institute and British Chambers of Commerce, [Making The Apprenticeship Levy Work For All](#), June 2018.

<sup>70</sup> *ibid.*

<sup>71</sup> British Chambers of Commerce, ‘[Apprenticeship Levy Reform Step in the Right Direction, But More to Do](#)’, 26 June 2018.

<sup>72</sup> Lord Fox, ‘[We Owe It to Our Young People to Make the Apprenticeship Levy Work](#)’, *Politics Home*, 16 May 2019.

<sup>73</sup> [HC Hansard, 8 January 2019, cols 71–94WH](#).

<sup>74</sup> *ibid.*, col 74WH.

<sup>75</sup> House of Commons Education Committee, [The Apprenticeships Ladder of Opportunity: Quality Not Quantity](#), 8 October 2018, HC 344 of session 2017–19, p 16.

<sup>76</sup> House of Commons Education Committee, [The Apprenticeships Ladder of Opportunity: Quality Not Quantity: Government Response to the Committee’s Sixth Report of Session 2017/19](#), 20 December 2018, HC 1814 of session 2017/19, pp 6–7.

### 3.4 Higher-Level and Lower-Level Apprenticeships

The Government's apprenticeship programme has also been criticised following growth in higher-level apprenticeship starts and a fall in lower-level apprenticeship starts. The following figures indicated this trend:

- The number of level 2 apprenticeship starts by people aged 25 or over declined in the 2017–18 academic year at a faster rate than that for the overall decline in apprenticeship starts. Level 2 apprentices starts for this age group declined by 55 percent, compared to the overall decline of 26 percent.<sup>77</sup>
- At the same time there has been an increase in the number of starts at level 4 or above. In 2017–18, 12.8 percent of starts were at this level, compared with 5.3 percent in 2015–16.<sup>78</sup>
- The NAO has also noted the average cost of training an apprentice on an apprenticeship standard is around double what was expected. It argued this was a result of the increase in high level apprenticeships.<sup>79</sup>

In December 2018, FE Week (a further education publication) reported figures produced by the Institute for Apprentices for apprenticeships spending which indicated a rise in the proportion of funding provided to higher-level management apprenticeships.<sup>80</sup> FE Week argued, because higher level apprenticeships were more expensive, this could result in an eventual overspend in the overall apprenticeship budget.<sup>81</sup> The NAO has also warned a rise in the average cost of apprenticeships would make it more likely in future that the apprenticeships budget would be overspent.<sup>82</sup>

The House of Commons Public Accounts Committee has argued employers have used the apprenticeship funds to pay for professional training or management courses that they would otherwise have paid for themselves.<sup>83</sup> It also argued a reduction in the proportion of level 2 apprenticeships risked “leaving behind people with lower skills and those from disadvantaged communities”.<sup>84</sup> The Independent Panel Review of Post-18 Education and

<sup>77</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 8.

<sup>78</sup> *ibid*, p 9.

<sup>79</sup> *ibid*, p 8.

<sup>80</sup> Jude Burke, ‘[Levy Budget Bust: Government Agency Warns of Imminent Apprenticeship Over-Spend](#)’, FE Week, 3 December 2018.

<sup>81</sup> *ibid*.

<sup>82</sup> National Audit Office, [The Apprenticeships Programme](#), 6 March 2019, HC 1987 of session 2017–19, p 8.

<sup>83</sup> House of Commons Public Accounts Committee, [The Apprenticeships Programme: Progress Review](#), 22 May 2019, HC 1749 of session 2017–19, p 3.

<sup>84</sup> *ibid*, p 5.



Funding's 2019 report also argued the Government should prevent the apprenticeship levy system being used to up-skill existing employees. The panel recommended apprenticeships at degree level and above should normally only be funded for those who do not already have a publicly-funded degree.<sup>85</sup>

The House of Commons Public Accounts Committee recommended the Government should assess whether there were enough level 2 standards.<sup>86</sup> It argued level 2 standards were more targeted at enabling school leavers or those with fewer skills enter employment. The House of Lords Economic Affairs Committee similarly recommended the Government should:

[...] consider ways to promote the progression from lower to higher level apprenticeships, rather than higher level apprenticeships becoming the preserve of those with academic backgrounds.<sup>87</sup>

The Shadow Skills Minister, Gordon Marsden, has called on the Government to combat the decrease in levels 2 and 3 apprenticeship starts.<sup>88</sup> He described these apprenticeships as an important means of enabling more people to enter the workforce. He argued:

Whether someone is a hairdresser [...] a social care provider, a brickie, an electrician or a plumber, those are the people we need, and the skills that we need. Level 3 is a de facto licence to practise.<sup>89</sup>

In an interview with FE Week, the Skills Minister, Anne Milton, said that she did not believe the apprenticeships budget would be overspent as a result of an increase in higher level apprenticeships.<sup>90</sup> The Government has stated funding for the apprenticeship programme beyond 2019/20 will be determined by the forthcoming spending review.<sup>91</sup> With respect to the decline in the number of level 2 apprenticeships, Ms Milton has said the Government was working to identify the cause of this change.<sup>92</sup>

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<sup>85</sup> Department for Education, [Independent Panel Report to the Review of Post-18 Education and Funding](#), May 2019, CP 117, p 11.

<sup>86</sup> House of Commons Public Accounts Committee, [The Apprenticeships Programme: Progress Review](#), 22 May 2019, HC 1749 of session 2017–19, p 5.

<sup>87</sup> House of Lords Economic Affairs Committee, [Treating Students Fairly: The Economics of Post-School Education](#), June 2018, HL Paper 139 of session 2017–19, p 76.

<sup>88</sup> [HC Hansard, 8 January 2019, col 90WH](#).

<sup>89</sup> *ibid.*

<sup>90</sup> Jude Burke, 'Skills Minister Responds to Concern Apprenticeship Budget Will Be Overspent', *FE Week*, 8 January 2019.

<sup>91</sup> House of Commons, 'Written Question: Apprentices: Taxation', 7 May 2019, 248037.

<sup>92</sup> [HC Hansard, 8 January 2019, col 94WH](#).



### 3.5 Small and Medium Size Enterprises: Access to Funds

A further concern raised regarding the apprenticeship programme has focused on SMEs (small and medium size enterprises). The House of Commons Public Accounts Committee has argued the Government's apprenticeships programme is not adequately supporting smaller employers.<sup>93</sup> The committee concluded that, under the current scheme, there were not enough guarantees that non-levy payers would be able to access levy funds. Its May 2019 report stated:

Under current funding arrangements, if levy-payers spend more than around half of their funds, the ESFA [Education and Skills Funding Agency] will have less money available to fund apprenticeships among smaller employers. While levy-paying employers have spent a relatively small proportion of their funds so far, training providers are already reporting that they do not have enough funding to offer as many apprenticeships to smaller employers as they would like.<sup>94</sup>

The report recommended the Government should explain how it intended to ensure smaller employers were able to benefit from its apprenticeships programme.<sup>95</sup> It also recommended it consider providing greater protection for the funding received by non-levy paying employers. The Independent Panel Review of Post-18 Education and Funding's 2019 report recommended the Government achieve a "better understanding and address the barriers SMEs face within the apprenticeship system".<sup>96</sup>

During an oral question in the House of Lords on the apprenticeships levy, the Shadow Spokesperson for Education, Lord Watson of Invergowrie, criticised the co-investment rules for SMEs.<sup>97</sup> He argued that the then requirement for employers to contribute 10 percent of the costs was preventing SMEs from taking on apprentices. He asked the Government to consider suspending this requirement. The Minister, Viscount Younger of Leckie, responded by saying the Government would keep the level of co-investment under review. The proportion was subsequently reduced to 5 percent in April 2019.

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<sup>93</sup> House of Commons Public Accounts Committee, [The Apprenticeships Programme: Progress Review](#), 22 May 2019, HC 1749 of session 2017–19, p 6.

<sup>94</sup> *ibid.*

<sup>95</sup> *ibid.*

<sup>96</sup> Department for Education, [Independent Panel Report to the Review of Post-18 Education and Funding](#), May 2019, CP 117, p 11.

<sup>97</sup> [HL Hansard, 25 June 2018, cols 2–4.](#)