Changing course(s)

A new vision for employer investment in skills and the apprenticeship levy

Tom Richmond and Eleanor Regan

About the authors

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Tom has spent two decades in the world of education. He began his career teaching A-level Psychology at one of the country's leading state schools, having gained a BSc in Psychology from the University of Birmingham and an MSc in Child Development from the Institute of Education in London.

After three years in teaching, he moved into politics to work on policy development and research across the education, skills and welfare sector. This included roles at think tanks such as Policy Exchange and the Social Market Foundation, Pearson, G4S and working for an MP.

He subsequently spent two years as an advisor to ministers at the Department for Education, first under Michael Gove and then Nicky Morgan, where he helped to design and deliver new policies as well as improve existing ones. After leaving the Department for Education, he spent two years teaching at a Sixth Form College before moving back into education policy and research, first at the Reform think tank and then at Policy Exchange before deciding to launch EDSK.

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This report contains numerous quotations taken from our discussions with those listed above, but the quotations are presented anonymously to ensure that the interviewees could speak freely and openly. The interviewees are listed here in alphabetical order, but this does not correspond to the alphabetical labels attached to the quotations presented in the report.

Aside from the quotations, the views expressed in the report are attributable to the authors and do not necessarily reflect those of the interviewees or EDSK's advisory board or supporters. Any errors remain the responsibility of the authors.

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Executive Summary

In recent years, our education and training system has been buffeted by several seismic events, including the quest to reach 'Net Zero' by 2050, Brexit, the COVID-19 pandemic and now the looming prospect of yet another economic downturn. To rise to the challenge posed by each of these events, let alone a combination of them, hundreds of thousands of workers will need to be reskilled or upskilled at a speed and scale potentially never seen before in this country. Regrettably, England is starting from a position of weakness. The amount spent by employers on training their employees has fallen 28 per cent in real terms since 2005, from £2,139 to £1,530 per year (less than half of the EU average). Even before the pandemic, 39 per cent of employers had provided no training to their staff in the previous 12 months.

The introduction of the apprenticeship levy in 2017 was an attempt, at least in part, to stimulate further employer investment in skills and training. Operating like a payroll tax, UK employers with an annual pay bill of over £3 million (approximately 2-3 per cent of employers) must pay the levy at a rate of 0.5 per cent of their wage bill above £3 million. However, despite the rollout of the levy five years ago, the Government's 'Spring Statement' in March 2022 acknowledged that "the amount UK companies spend on training their employees remains relatively low", and ministers would "consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs". Consequently, this report investigates the impact of the apprenticeship levy as well as the wider skills and training system to understand why the UK remains so far behind other countries in terms of employers investing in skills, and what can be done about it.

The impact of the apprenticeship levy

Many policy experts acknowledge that the levy has helped increase employers' awareness of, and engagement in, apprenticeships and skills more broadly. Nevertheless, the impact of the levy on the behaviour of some employers has been far from encouraging. First and foremost, when introducing the levy, ministers offered no clear aims and objectives for what it was supposed to achieve, save for occasional mentions of vague aspirations such as "raising our nation's productivity" and making apprenticeship funding more 'sustainable'. In any case, such aspirations have been constantly undermined by the levy's own funding mechanism that encourages employers to think about their own interests and priorities when accessing the levy funds rather than approaching skills and training in a collaborative or strategic manner.

The way in which some employers have chosen to spend the levy funds has also raised concerns about its effectiveness as a tool to increase employers' investment in skills. Previous research by EDSK found that more than 50 per cent of apprenticeships could in fact be 'fake apprenticeships', with employers rebadging and relabelling other existing types of training as an 'apprenticeship' to gain access to funding from the levy. Examples include low-skill roles such as working in a coffee shop or on a shop checkout through to Master's level programmes and even Master's degrees – none of which meet any established definition of an 'apprenticeship'. Another concern with the levy system is the significant amount of deadweight (i.e. the large volume of training courses being funded by the levy that would have happened anyway even without the levy), as more and more existing training has simply been moved across to the levy system without adding any new provision. These problems have also contributed to the worryingly poor value for money that the levy has generated. For instance, a popular yet controversial Level 7 Leadership and Management course is available as an 'apprenticeship' and is eligible for £14,000 of funding from the levy, even though the same qualification is available outside of an apprenticeship for just £4,000.

The pattern of winners and losers also warrants attention, as some groups have benefitted from the levy at the expense of others. One salient issue is the increasing emphasis on more experienced and older workers, with more than half of 'apprentices' now aged 25 or over, and 55 per cent of apprentices having worked for their employer for at least three months before their 'apprenticeship' began. There has also been an increase in higher level apprenticeships, with courses at Level 4 (equivalent to the first year of a university degree) and above having grown from 7.4 per cent of starts before the levy was introduced to 25.6 per cent. Furthermore, the levy system restricts SMEs to recruiting no more than 10 apprentices even when they have the desire and capacity to take on more trainees. This compounds the overly bureaucratic and time-consuming procedures that SMEs must now navigate to offer an apprenticeship.

Government investment in skills and training

Alongside the employer-funded apprenticeship levy the Government also invests in skills and training, albeit with little coordination. Introduced in 2021, the National Skills Fund (NSF) aims to invest in programmes that help adults gain sought-after skills and improve their job prospects. One of the main NSF programmes is 'Skills Bootcamps', which offer free and flexible courses lasting up to 16 weeks to provide sector-specific training (e.g. construction, digital) based on local employer demand. 54 per cent of early attendees started a new or better job following their participation in a Bootcamp, suggesting that this top-down national approach has only had a moderate impact on reskilling. The NSF also funds a 'full Level 3 qualification offer' for adults who do not currently have A-levels or equivalent qualifications, or are unemployed or on a low wage. With only 19,720 adults taking up a free Level 3 course between April 2021 and April 2022, it appears that this centralised initiative is not delivering the type and scale of upskilling that employers and local communities need.

In fairness, some areas of government investment have recognised the benefits of passing responsibility for skills and training to local bodies. The Adult Education Budget (AEB), which provides funding for adults to gain the entry-level skills needed for work, apprenticeships and other types of learning, is devolved in ten areas to Mayoral Combined Authorities and the Mayor of London. The Department for Education is also consulting on a new 'Skills Fund', which will simplify the funding provision for basic skills by combining many elements of the NSF and AEB. Although the finer details have yet to be finalised, the Government has thus set the direction of travel towards a simpler and more unified adult skills system where money is allocated to, and distributed by, local areas wherever possible.

Individuals investing in their own skills

While employers and government have plenty of scope to invest in skills, individual employees are far more restricted when it comes to getting access to training. Advanced Learner Loans (ALL) for Further Education courses (similar to the student loan system for Higher Education) only attracted 86,200 learners last year across the whole country. In future, learners should have access to more loan funding to improve their skills through the 'Lifelong Loan Entitlement' (LLE), which will provide individuals with a loan entitlement equivalent to four years of post-18 education to use over their lifetime. The LLE is due to begin operating in 2025 and should allow learners to study individual modules rather than being restricted to full qualifications. While many stakeholders support its overall goals, it is unclear whether the LLE will have a noticeable impact on individuals' investment in skills and training.

Another meagre offer to UK employees comes in the form of their legal right to ask employers for time off to train or study, but this right does not extend to being paid during their time off – making it worthless to any employee who cannot afford to go unpaid. In contrast, many countries across Europe offer paid training leave – typically 4-5 days a year – with employees generally entitled to their full salary while away from work. Wage reimbursements are often available to employers to cover the cost of their absent employees. Some countries are more generous by offering paid leave that can last up to a year (e.g. France and Austria), although this does not typically provide employees with their full wage. Regardless, the offer of paid training leave gives employees a powerful mechanism to drive investment in training.

Other countries are also more advanced in their thinking around integrating 'social partners' such as employer representatives and trade unions into their training system to increase employer investment in skills. Social partners offer several benefits such as anticipating future training needs, establishing joint priorities at a local and national level and promoting learning to employees. The UK is one of just four countries in the OECD that does not give social partners a formal role in the governance of their education and training system – another example of how this country falls short when stimulating investment in skills.

Conclusion

The UK's persistent underinvestment in skills and training cannot be solved quickly yet, as the National Audit Office has noted, "there is a risk that, despite government's greater activity and good intent, its [current] approach may be no more successful than previous interventions in supporting workforce skills development." This report from EDSK concludes that to avoid simply repeating the mistakes of the past, three major shifts are now required.

First, the apprenticeship levy and the wider skills system need to switch from being 'employer-led' to being 'employer-responsive'. The singular focus on 'what employers want' in recent years has meant that the views of other stakeholders – employees, government and localities – have too often been ignored, to the detriment of all concerned. Employers are a critical piece of the skills puzzle, but others have equally important views, perspectives and feedback to share. The levy and the skills system must both reflect this simple truth.

Second, employers must switch from being passive consumers of skills and training to being active co-producers. For too long, some employers have just waited for the next government scheme or programme to come along offering various subsidies and freebies (the levy is merely the latest in a long line of such offerings), yet this rarely results in sustainable and tangible improvements to workforce development. Given the worsening state of the public finances, employers cannot and should not passively look to government for support with reskilling and upskilling their workforce. Instead, they should be expected to actively engage with the publicly funded training system if they wish to access any subsidies or schemes.

Third, the apprenticeship levy has created a situation in which funding is only available for training labelled as an 'apprenticeship', even if the training is nothing of the sort and employers would prefer to deliver something else. This has undermined the apprenticeship brand and wasted a considerable amount of time, money and effort. By moving away from only funding 'apprenticeships' and large qualifications to instead supporting more flexible (and often shorter) forms of training such as non-qualification courses and individual units of qualifications, employers, employees and government can all expect better value for money and larger returns on their respective investments.

Recommendations

Creating a new culture around employer investment in skills will not be easy, particularly when there are many factors beyond funding streams and government programmes that influence when and why employers train their staff. Nevertheless, generating this new culture and attitude towards skills and training is crucial to boosting the productivity and growth of

UK plc both now and in future. On that basis, this report proposes a package of reforms that set out how the apprenticeship levy and wider skills funding system should evolve once the cost-of-living and inflation crisis has subsided. These reforms are designed to build on the strengths of the existing system while addressing the weaknesses identified in this report. The new approach to skills and apprenticeships will therefore need to achieve the following goals:

- Delivers adequate and accessible funding to support employers to invest with certainty in training their current and future workforce
- Sets clear aims and objectives to ensure clarity and agreement among stakeholders about what the available funding is intended to achieve and what it can be spent on
- Promotes value for money to ensure available funds are utilised in a cost-effective way
- Encourages more collaboration between employers and social partners
- Involves all stakeholders in influencing how the available funding is invested
- Prioritises investment for individuals and organisations who require the most support

A new funding infrastructure for apprenticeships and skills

- **RECOMMENDATION 1**: The Government should convert the apprenticeship levy into a new 'Apprenticeships and Skills Levy' (ASL). All UK employers with at least 10 employees will contribute 0.4 per cent of their annual payroll costs towards the ASL, raising approximately £3.8 billion a year.

- **RECOMMENDATION 2**: The new ASL will be distributed to employers through two funding streams:
    - A **National Apprenticeship Fund** to deliver world-class apprenticeships that will help learners of all ages enter skilled occupations
    - A **National Skills Fund** to drive economic growth and productivity through strategic investments in skills and training

Clear objectives and responsibilities for investing in skills

- **RECOMMENDATION 3**: The National Apprenticeship Fund will be a single national funding stream available to all employers in England that has the following objectives:
    - Investing in world-class apprenticeships up to Level 6 to help learners enter a skilled occupation or trade
    - Preparing learners to progress and develop their skills through pre-apprenticeship training such as traineeships
    - Encouraging employers to offer more apprenticeship and pre-apprenticeship opportunities through financial incentives

- **RECOMMENDATION 4:** The National Skills Fund will fund non-apprenticeship provision through a bidding process. It will also be devolved to Mayors / Mayoral Combined Authorities where applicable. The NSF will have the following objectives:
    - Reskilling and upskilling the existing workforce in response to local and regional skills shortages and wider economic conditions
    - Promoting collaboration by funding projects that deliver skills and training across multiple employers
    - Improving the quality of leadership and management skills in employers of all sizes

- **RECOMMENDATION 5:** The Government should combine the Adult Education Budget and the free Level 3 qualification offer into a single devolved 'Local Skills Fund' that aims to help all low-skilled adults gain the skills, confidence and motivation they need to participate in our economy and society. The Local Skills Fund will have the following objectives:
    - Support all adults to gain basic literacy, numeracy and digital skills
    - Help low-skilled adults build their confidence and employability skills
    - Upskill as many adults as possible to be qualified at Level 3

Putting individuals at the heart of the skills system

- **RECOMMENDATION 6**: The Government should introduce a new 'Right to Paid Training Leave' that gives employees the legal right to five days of paid leave a year to undertake a skills or training course. Employers will be reimbursed by government for the wage costs of any employee on training leave at a flat rate of £20 an hour to ensure that smaller employers and those employing lower-skilled workers receive the most support.

- **RECOMMENDATION 7**: The Government should work with social partners such as employer groups and trade unions to enhance the visibility and impact of the new skills investment infrastructure, particularly the National Skills Fund and the Right to Paid Training Leave.

1. Introduction

"Funding is ***the*** *major lever the Government has to drive change in apprenticeships. Establishing a funding system which incentivises quality, actively encourages expansion of apprenticeship opportunities, and drives efficient use of both Government and private investment, is an essential underpinning of everything else recommended in this report."*[1]

When Doug Richard published his government-commissioned review of apprenticeships in England (the 'Richard Review') in 2012, he was in no doubt about the significant role that apprenticeship funding would play in realising his vision. The Review claimed that the funding system at the time was "too provider-driven and not sufficiently responsive to employers, and which does not promote efficiency or adequately incentivise quality."[2] To counteract this, the Review was adamant that "the purchasing power for training must lie firmly in the hands of employers [as] employers are best placed to judge the quality and relevance of training and demand the highest possible standards from training organisations." In addition, "to become real consumers of training, employers should have control of Government funding and, also, contribute themselves to the cost of training."[3]

The Richard Review was clear that training which is "firm specific - for example training to understand internal systems or processes – should be fully funded by the employer [because] such activities do not, in general, add to the individual's marketability in the labour market, and are largely not reflected in higher wages – the employer is the main beneficiary in terms of enhanced productivity."[4] The Review was particularly alive to the need to "guard against creating a system with significant 'deadweight', whereby Government fund's activities that employers would have funded anyway."[5] Instead, the funding should be targeted at "training that is dedicated to getting the apprentice to the apprenticeship 'standard'" as "this training will be relevant to the individual's job, but also has wider applicability within the sector". Furthermore, "without Government funding, employers are likely to under-invest in this sort of training."[6]

The Richard Review was clear that, whatever funding system was eventually chosen, it "should be kept simple and accessible to the small employer",[7] not least because these firms "take on a greater proportionate risk in employing an apprentice […and] may also be more cash constrained."[8] The Department for Education (DfE) subsequently embarked on not one, but two consultations as well as trialling different funding models with willing employers[9] – all of which failed to produce a consensus on what the future funding model should look like.

A policy paper titled 'Fixing a Broken Training System' by Professor Alison Wolf in 2015 highlighted many of the same concerns as the Richard Review. Professor Wolf lamented the fact that the existing volume-based funding system for training providers had incentivised them to "engage in a 'drive to the bottom' where large numbers of short, low level and often low quality apprenticeships are favoured over more rigorous, longer, high quality apprenticeships." Although the paper supported the ambition of the Richard Review to improve the quality of apprenticeships and focus on greater skill acquisition, it felt that there was "not enough funding from government or businesses to deliver the high skill apprenticeships required to increase UK productivity and meet labour market demand". Meanwhile, "employers have been slashing their own spending on and commitment to training at the same time as government budgets have been squeezed."[10]

The paper accepted that "clearly, any apprenticeship subsidy is likely to be in part deadweight: but if government subsidies are not adding to total employer expenditure, their value is very unclear."[11] Professor Wolf agreed with the Richard Review that "contemporary successful apprenticeship systems are under employer control" but also observed that "to secure widespread employer participation […] these systems mandate payments by employers. We need to do the same."[12] To that end, the paper outlined a "national apprenticeship fund, financed by a small tax (levy) on payroll, with its own administrators."[13] Every employer would pay into the fund and any employer of an apprentice would then choose which training provider received the funding for their apprentice's training. In Professor Wolf's view, this approach would create "a secure long-term funding source, not bits of cash patched together by fiddling with departmental budgets", adding that "a separate hypothecated fund is the only way to do this."[14] The paper concluded that "an apprenticeship fund is a simple, practical way to kick-start the revival of English apprenticeship now: to transform incentives, to restore the employer-apprentice contract as the core of the system, and the mechanism which triggers payments, and to fund apprenticeship growth and improvement."[15] Thus, the concept of the apprenticeship levy was born.

In the Summer 2015 Budget, the Conservative Government confirmed that it would "introduce a levy on large UK employers to fund the new Apprenticeships. …The levy will support all post-16 Apprenticeships in England […and] the funding will be directly controlled by employers".[16] Following yet another consultation, the 2015 Autumn Statement explained how the levy would operate:

> *"The Apprenticeship levy on larger employers announced in the Summer Budget will be introduced in April 2017. It will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million and that less than 2% of UK employers will pay it. The levy will be paid through Pay As You Earn. By 2019-20, the levy will raise £3 billion in the UK."* [17]

The objective of 'employer control' – as described by the Richard Review and Professor Wolf – was clearly evident in these plans. By requiring employers to fund the apprenticeship system and then allowing employers to direct the funding towards their chosen source of training provision, the previous provider-led system would cease to exist. There was also an explicit intention to use this new source of funding for apprenticeships rather than other forms of training – something that the Richard Review and Professor Wolf would have endorsed.

Levy-based funding systems are nothing new. France has had some form of 'apprenticeship tax' since 1925, and over 60 countries have a levy in operation (including the UK).[18] However, there are several elements of the UK Government's apprenticeship levy that made it highly unusual from the outset. For instance, it only applies to employers with annual wage bills of over £3 million. According to the OECD, levy schemes are generally either universal (i.e. apply to all employers) or vary by industry sector or geographical region.[19] By restricting the apprenticeship levy to large employers, it becomes a less potent tool for increasing the overall quantity of training as well as potentially creating confusion about its purpose. Professor Wolf's 2015 paper emphasised that it should be something "every employer would pay".[20] When questioned by a parliamentary committee in June 2016, she said it was "very odd" that the levy would only be paid by large employers, adding that:

> *"…we created another problem for ourselves by saying there is only going to be limited number of employers who are involved in this, and there's going to have to be a completely separate system for small businesses. …Nobody in government has given me an explanation, and why would they? I suspect it was one of these things that was decided the night before."* [21]

On a related note, it is rare for a government to be solely in charge of the money generated by levy schemes. Usually there are funds set up to manage levy finances (often on a sectoral or regional basis) to determine training strategies and priorities as well as oversee the collection and disbursement of funds. The boards of such funds are normally comprised of employer, trade union and government representatives.[22] In contrast, the apprenticeship levy passes employer contributions directly to government with no arms-length body or agency to coordinate how the funding is used. The OECD has previously stated that:

> *"…if funds are gathered by government, there is a risk that the proceeds might be diverted to different purposes. Hence, independence from public budgets seems important."* [23]

All these questionable design decisions in the early stages of the apprenticeship levy were an ominous sign for a such a significant policy intervention that would overhaul the entire apprenticeship funding system. Having got off to an awkward start, it is perhaps no surprise that the levy has been a constant source of debate and disagreement since 2017.

In the 2022 Spring Statement – almost exactly five years after the levy commenced operation – then Chancellor Rishi Sunak claimed that the levy "has created hypothecated funds to support employer investment in the high-quality training an apprenticeship can deliver",[24] although it is debatable whether the levy truly represents the hypothecated apprenticeship tax envisaged by Professor Wolf. He added that "the largest UK employers pay for the cost of apprenticeship training in the smallest employers, so that the largest employers contribute the most to the cost of training the UK's workforce"[25] – further illustrating how respective visions in the Richard Review and Professor Wolf have not been implemented. Leaving aside these technical debates, the Spring Statement asserted that:

> *"The government's ambition is to encourage greater levels of private sector investment in employee training, both for apprentices and for employees more generally. The UK corporation tax system already allows companies to deduct any costs of staff training fully from taxable profits, where this is relevant to their business. However, even though the UK tax system provides the same level of reward as in most other countries, the amount UK companies spend on training their employees remains relatively low. The government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training."* [26]

A recent report from the National Audit Office (NAO) suggests that Treasury is right to be concerned about employer investment in training. The NAO found that even before the pandemic, 39 per cent of employers had provided no training to their staff in the previous 12 months.[27] Of the employers who had provided training, 45 per cent reported that they would have liked to offer more, "with the main barriers being an inability to spare more staff time and a lack of funds."[28] The same survey found that 24 per cent of the reported vacancies in 2019 were due to a lack of required skills, qualifications or experience among applicants.[29] Moreover, these existing skills shortages are set to worsen due to the reduced supply of workers from member states as a result of Brexit (particularly in sectors such as hospitality, transport and storage, manufacturing and construction) as well as the requirement to achieve 'Net Zero' greenhouse gas emissions by 2050, which will have a significant effect on the workforce.[30]

The Learning and Work Institute (L&WI) reported earlier this year that training spend per employee has fallen 28 per cent in real terms since 2005, from £2,139 to £1,530 per year, which is less than half the EU average.[31] Furthermore, if England were to match the average training spend per employee in EU countries as well as narrow training inequalities between groups of workers, there would be an extra one million people getting training at work and employers would be investing an additional £6.5 billion in training every year.[32] Alongside the decline of skills investment in recent years, the L&WI highlighted that employees with the lowest level of qualifications are the most likely to miss out on training. They found that employees with degree-level qualifications are three times more likely to receive training at work compared to those with no qualifications.[33]

Against this backdrop of falling employer investment in training despite the introduction of the apprenticeship levy, this report from EDSK will explore the design and implementation of the levy alongside other elements of our training system to understand why so little progress has been made in encouraging employers to invest in skills. Following this analysis, the report will propose a package of reforms that aim to deliver the Government's ambition of greater private sector investment in training at a local and national level.

2. How the apprenticeship levy works

The apprenticeship levy came into force on 6th April 2017. Operating much like a payroll tax, all employers with an annual pay bill of over £3 million (approximately 2-3 per cent of all UK employers) are required to report and pay a levy at a rate of 0.5 per cent of their pay bill over the £3 million threshold to HMRC. The levy contribution applies to employers with an eligible pay bill across all sectors, including the public sector and charities.

All employers, regardless of their annual pay bill, must register for a 'digital account' with HMRC to recruit an apprentice. For levy-paying employers, this account displays their levy contributions, which are updated every month, and contains a 10 per cent top-up provided by the Government.[34] Accumulated funds in a levy-paying employer's digital account remain there for up to two years before they expire and are passed over to the Treasury. The Government is then able to 'recycle' those unused funds to pay for apprenticeships in non-levy paying employers.[35]

There are several steps involved for any employer taking on an apprentice through their digital accounts:[36]

1. **Select an apprenticeship type:** employers must choose which approved apprenticeship standard (i.e. training course) they want their apprentice to work towards, as well as selecting an 'end point assessment organisation' to carry out the final assessment at the end of the apprenticeship.
2. **Choose a training provider:** employers must select a 'training provider' from a list of organisations approved by the Education and Skills Funding Agency (ESFA)
3. **Agree the cost:** employer and training providers need to agree a price for each apprentice that covers the cost of both training and assessment.
4. **Use the apprenticeship service funds:** funds from levy-paying employers are drawn down from their digital account and paid to their chosen training provider. For non-levy paying employers, funds must first be 'reserved' by reporting their intention to take on apprentice on a specific standard, and the month their training will start. Once the provider and apprentice are approved, funding is paid directly from the government to the training provider[37]

Each apprenticeship standard is placed into one of 30 funding bands, which were introduced by government because "setting an upper limit on the amount spent on an individual apprenticeship ensures that public money is spent in an appropriate way and achieves maximum value for the taxpayer."[38] The upper limit of those bands currently ranges from

£1,500 to £27,000.[39] The government pays the main provider of the apprenticeship 80 per cent of the negotiated price in equal monthly instalments according to the duration of the apprenticeship.[40] The remaining balance of the negotiated price is paid to the main provider "when the apprentice has undertaken all the activity relevant to the apprenticeship, including completing all elements of the end-point assessment."[41]

Non-levy paying employers are also expected to share the costs of training and assessing their apprentices with the government through 'co-investment'. For any apprenticeship that started after 1st April 2019, employers are required to pay a 'co-payment' of 5 per cent while the government covers the remaining amount (95 per cent) up to the maximum limit of the relevant funding band. This co-payment rate also applies to any levy-paying employer that has already used up all the funds in their digital account with HMRC. [42] That said, employers with fewer than 50 employees are not required to make a co-payment when training 16 to 18-year-old apprentices or those aged 19 to 24 who have previously been in care or have a Local Authority Education, Health and Care (EHC) plan.[43] As well as not being required to co-invest in these apprentices, employers and training providers are also entitled to receive a £1,000 payment for taking them on.[44]

A relatively recent innovation with the apprenticeship levy is the option for levy-paying employers to transfer up to 25 per cent of their levy contributions each year to other businesses to pay for their apprenticeship training and assessment.[45] This means that levy-paying employers can choose the recipients of their levy transfer funds and the specific apprenticeship standards within the recipient organisation. Any business with an apprenticeship service account can receive a transfer of levy funds – both levy-payers and non-levy payers – so that the levy transfer function acts as "a way of supporting other businesses by deciding which sectors, skills or local areas you'd like to fund".[46] Transferred funds are only permitted for paying for the training and assessment of new apprenticeships, and the transfer must be agreed and put in place before an apprentice starts their training.[47]

3. The impact of the apprenticeship levy

The introduction of the levy in 2017 has undoubtedly changed the behaviour of some employers. Many of our interviewees drew attention to several benefits observed since the introduction of the levy. For example, some interviewees commented on the growth of available funding compared to the previous funding system:

> *"…introducing the levy, I think, as a way of funding and expanding the system was a good decision"*
>
> *Interviewee D*

Several interviewees also noted that the levy had increased employer awareness of, and engagement in, apprenticeships and skills more broadly:

> *"I think for me it has created a wider understanding of the value of apprenticeships with some employers, particularly those who hadn't necessarily been involved in apprenticeships"*
>
> *Interviewee K*

> *"I do think there's something quite powerful around how the reforms to the apprenticeship system in 2017 got employers more engaged in thinking about [and] talking about skills"*
>
> *Interviewee I*

It was also felt by some interviewees that the levy has encouraged employers to change their wider recruitment practices as well:

> *"…large employers now have apprenticeships on their radar as part of their workforce strategy, where previously perhaps those larger employers or [those] who are now in scope for the levy, were quite… blinkered. Or kind of very focused on graduate recruitment and some of those very kind of traditional models of recruitment"*
>
> *Interviewee B*

Furthermore, it was reported that the levy had potentially led to a change in conversations about pathways from lower to higher level apprenticeships:

> *"…we have to acknowledge that [the levy] livened things up. I do think that we were stuck pre levy in a world where what we did was we tried to get kids to level 2 at 16, and then level 3 at 18, or potentially to enter vocation level 2 at 18 again. And we weren't accelerating as many people on the vocational path through level 3 to level 4. And I think the levy has certainly seeded a bigger level of interest in those higher level apprenticeship standards."*
>
> *Interviewee E*

Despite there being plenty of agreement among interviewees about the positive impact that the apprenticeship levy has had in some respects, they went on to raise numerous concerns about the design and implementation of the levy as well as its effects on learners, employers and government.

Unclear aims and objectives

> *"There's never really been clarity about what are the key aims of the levy?"*
>
> *Interviewee H*

During the 2015 Summer Budget speech that launched the levy, then Chancellor George Osborne announced that the Government was "going to take a radical, and frankly long overdue approach"[48] by introducing an apprenticeship levy. This decision was justified by the fact that "while many firms do a brilliant job training their workforces; there are too many large companies who leave the training to others and take a free ride on the system."[49] The accompanying Budget document emphasised that "the most successful and productive economies in the world are committed to developing vocational skills" and therefore the Government were committed to significantly increase both the quantity and quality of apprenticeships, "putting control of funding in the hands of employers"[50] - in line with the Richard Review. The levy was introduced to fund these new apprenticeships, and "reverse the long-term trend of employer underinvestment in training",[51] which echoed the wishes of Professor Wolf. Later that year, the Autumn Spending Review noted that the levy would "put control of apprenticeship funding in the hands of employers and…encourage employers to invest in their apprentices and take on more."[52]

At the end of 2015, the Department for Business, Innovation and Skills (BIS) published '*English Apprenticeships: Our 2020 Vision*'. This document made reference to "raising our nation's productivity" being a "top priority" that required "a truly national effort".[53] Apprenticeships were to be a key part of this plan to increase productivity and the levy would "place the funding of apprenticeships on sustainable footing."[54] Moreover, the levy was intended to "shift incentives so that it is far more in employers' interest to take on apprenticeships",[55] which would help to make apprenticeships "a robust and credible training programme for the long-term."[56] BIS also stated that "once the levy is introduced, we want to make sure that employers are still encouraged to take on 16-18 year old apprentices, recognising the additional costs of training and managing younger apprentices."[57]

During his 2017 Spring Budget speech, then Chancellor Philip Hammond made little reference to the earlier aims and objectives of the levy. He mentioned that England was "near the bottom of the international league tables for technical education", pointing out that "to compete in a fast moving global economy, you have to link skills to jobs."[58] He then went on to say that he was "pleased to report… that our apprenticeship route is now, finally delivering that ambition here, with 2.4 million apprenticeship starts in the last Parliament, and the launch of the Apprenticeship Levy in April supporting a further 3 million apprenticeships by 2020."[59] The Spring Budget also stated that the devolution deal for London would lead the Government "to explore options for devolving greater powers and flexibilities ….to ensure that employers can take advantage of the opportunities offered by the apprenticeship levy".[60]

> *"…everyone kind of says the levy is succeeding or failing on the basis of what they think it should be doing."*
>
> *Interviewee F*

In short, the goals for the levy were vague from the outset, and even where ministers did express an aspiration for the levy, there were little or no details on how it would be achieved. Moreover, the Government did not offer any indication of how they intended to measure the 'success' of the levy beyond their repeated emphasis on the political ambition of delivering 3 million apprenticeships by 2020.

Rebadging and relabelling training courses as 'apprenticeships'

The only significant source of central funding available to employers for training is now the apprenticeship levy, yet the levy will only pay for training that has been badged as an 'apprenticeship standard'. In effect, this means that 'apprenticeships' are the only source of external funding for many employers. When EDSK conducted a major investigation in 2020 into the impact of the levy in its first two years, problems were already emerging due to the continued absence of a rigorous definition of an 'apprenticeship'. Remarkably, the government left it up to employers to decide what could be labelled as an 'apprenticeship' despite several recognised international definitions being freely available. Some employers have exploited this weakness by inappropriately labelling training courses as ‘apprenticeships’ (to access the levy funding) when they are nothing of the sort.

> *“...those large employers are kind of treating [their levy contributions] like their training budget now. And so things get shoehorned into apprenticeships...”*
>
> Interviewee F

This behaviour had become so prevalent that EDSK’s research in 2020 showed that 50 per cent of all ‘apprenticeships’ were in fact ***fake apprenticeships*** that fell into one of three categories:[61]

1. **Low-skill and generic roles:** working on a shop checkout, basic office administration, serving drinks in a bar and being part of an airline cabin crew are all now permissible as ‘apprenticeships’, even though outside of the apprenticeship system these roles are advertised as offering minimal training and low wages. As a result, they do not meet any established definition of an apprenticeship in this country or abroad.
2. **Management training and professional development:** short training courses aimed at providing some new skills to existing employees (e.g. ‘Team Leader’) have also been rebadged as ‘apprenticeships’ despite never being described as such before the advent of the levy. Similar rebadged ‘apprenticeships’ include ‘Retail Manager’, ‘Senior Insurance Professional’, ‘Marketing Manager’ and ‘HR Consultant’.
3. **Bachelor’s and Master’s-level programmes: s**ince the levy was introduced some graduate training schemes in large employers have been rebadged as ‘apprenticeships’, draining hundreds of millions of pounds out of the levy system. This includes training for management consultants, tax analysts and business advisors among other roles. In addition, universities are relabelling their Master’s degrees as ‘apprenticeships’ to access the available levy funding. Even university academics (who typically need a PhD before starting work) are being relabelled as ‘apprentices’ to help universities draw down their own levy contributions.

> *“...In my opinion, [employers have] been trying to apprentice-ise existing programmes to displace learning and development costs that [they] may have incurred from other programmes. So we’ve seen that with Leadership and Management, but I think we’ve seen it across all areas of businesses, where perhaps the default model is, can we fund this through an apprenticeship programme in some way?”*
>
> Interviewee B

Not only is this behaviour highly questionable from a policy perspective, it also illustrates how little *additional* training is likely to have taken place since the levy came into force. Previous training programmes and their associated budgets have in many cases simply been displaced by levy-funded training, meaning that the amount of training being delivered is likely to have remained largely (if not entirely) static – otherwise known as 'deadweight'.

Deadweight costs

In the context of the levy, 'deadweight' refers to the extent to which the levy funding generates outcomes that are not additional to what would have occurred in the absence of the levy. With the immense scale of rebadging and relabelling of training as 'apprenticeships', there is good reason to believe the levy system has significant deadweight. Even in the early stages of the levy it was apparent that many employers had no intention of offering additional training, with a survey of more than 1,000 organisations finding that 45 per cent of levy-paying employers thought the levy would just encourage their organisation to rebadge current training activities to claim back their contributions. What's more, 40 per cent of respondents said it would make little or no different to the amount of training they offer, while 26 per cent said their organisation would reduce investment in other areas of training and development.[62]

In 2016, the NAO highlighted the risk that employers would take the opportunity to "artificially route other forms of training into apprenticeships".[63] By the time the NAO returned in 2019, the predicted displacement of existing training programmes had already become a reality:

> *"… these new types of apprenticeship raise questions about whether public money is being used to pay for training that already existed in other forms. Some levy-paying employers are replacing their professional development programmes – for example, graduate training schemes in accountancy or advanced courses in management – with apprenticeships. In such cases, there is a risk that the additional value of the apprenticeship to the economy may not be proportionate to the amount of government funding."* [64]

The NAO's 2019 report even noted that the Government "recognises that some employers use apprenticeships as a substitute for training and development that they would offer without public funding",[65] yet ministers did nothing at the time to prevent it. Furthermore, Ofsted has warned about such practices, recently stating that "we have seen examples where existing graduate schemes are in essence being rebadged as apprenticeships [and] this might meet the rules of the levy policy, but it falls well short of its spirit."[66]

Research by the Learning and Work Institute (L&WI) has shown that these trends continue to this day, as many levy-paying employers "focus on maximising their use of the levy and for many it had displaced their training budgets."[67] This meant that previous training courses "were being replaced by apprenticeship standards which included the qualifications within these or provided similar learning".[68] These findings built on earlier research from the L&WI, which reported that "some employers and providers described the levy as being used to fund training that would have been funded by the employer anyway."[69] Moreover, employers were perfectly content "to justify the replacement of training programmes as an appropriate and effective way to spend the levy".[70] As a result, employers were "replicating their previous patterns of training investment, not increasing overall investment in training".[71]

"…I would argue that the levy money has completely failed to catalyse further investment by the private sector. And that should be the aim of public investment in vocational skills. It should be about encouraging the private sector to spend more and I think the design of the levy in a number of critical ways, actually encourages businesses to spend less "

Interviewee E

Several policy experts have expressed their concerns about this situation. Tom Bewick, CEO of the Federation of Awarding Bodies, has publicly argued that overall skills investment by employers has in fact declined since the levy was introduced as employers just use the levy "to pay for what used to be covered by general training costs".[72] A former senior civil servant has also acknowledged that "deadweight costs are high – government money is being used to fund training that employers would have provided anyway", adding that "the remaining money from the levy is then free money for employers – they might as well spend it on only marginally useful training rather than lose it."[73] Indeed, some private training providers employ slogans such as "*the apprenticeship levy is available: use it or lose it*" when advertising their courses to employers.[74] Needless to say, the levy funding cannot completely replace all existing training as some sectors will require specific qualifications or accreditations that are not available through an apprenticeship standard. Nevertheless, the pattern over the last five years is clear enough: deadweight costs are a major feature of the apprenticeship levy.

Value for money

Before the levy was introduced, employers and government split the cost of training apprentices aged 19 and over at 50 per cent each, while apprentices aged under 19 attracted a subsidy of 100 per cent.[75] However, the switch to the new levy 'co-investment' model means that government now contributes 95 per cent of the training costs for apprentices aged 19 and over, compared to only 50 per cent before the levy. This significant reduction in the co-investment required for older apprentices means that employers now have little incentive to negotiate down the cost of training with their chosen training provider(s) because they only pay 5 per cent of the total price (up to the maximum allowed within each funding band). The advent of employer / provider price negotiations was one of the key pillars of the Richard Review, but it is unclear how much (or whether) these negotiations are taking place and there is no evidence of any negotiations having a material benefit for government from a VFM perspective.

The absence of an incentive to negotiate on training costs is compounded by the setting of the funding bands for each standard. Given that the levy is a finite pot of funding allocated on a first-come-first-served basis, employers and training providers alike are essentially encouraged to push government to place their preferred standards into the highest possible funding band. Higher bands mean that levy-paying employers drawn down more of their own levy contributions while non-levy employers get access to even larger subsidies for only a small increase in their 5 per cent contribution. At the same time, higher funding bands lead to more funding going to training providers even if the funding band does not accurately reflect the cost of the training being delivered.

> *"…we're over fixated with apprenticeships as the single solution to all training needs. And it's a very costly way of doing it…most adults who have been in the labour market for a while don't need to do an apprenticeship. They need to do training, you know, the training can be a lot cheaper, more flexible and it can be more bespoke than a full apprenticeship.…So we've got the wrong product."*
>
> *Interviewee L*

A good illustration of how such questionable incentives can undermine VFM is found in management and leadership qualifications that are now packaged up as apprenticeship standards. For example, the Chartered Management Institute (CMI) offer a Level 7 (Master's degree level) 'Strategic Management & Leadership Practice' qualification, which is also available through the popular yet controversial Level 7 'Senior Leader's Master's Degree Apprenticeship'.[76] If this CMI qualification is studied through the 'Senior Leader apprenticeship', training providers can draw down up to £14,000 of levy funding.[77] However, if a learner took this qualification outside of the apprenticeship system, it costs just £4,000 for an 'Extended Diploma' (the largest of the four versions of this qualification). The Extended Diploma lasts for around 30-36 weeks (less than the minimum 12-month duration of an apprenticeship) and it includes six hours a week of training – comparable to the minimum requirement for one day of off-the-job training per week on an apprenticeship.[78] Meanwhile, the 'Diploma' version of this qualification (the second largest) costs just £2,500 and is delivered through three hours a week of in-person training plus some independent study time.[79] Online versions of both versions of this qualification are even cheaper.

Another example of dubious VFM is the 'Team Leader or Supervisor' Level 3 apprenticeship, which is eligible for a maximum funding of £4,500 from the levy.[80] However, as with the previous example, the CMI already offer a Level 3 Diploma in 'Principles of Management and Leadership' which is specifically designed for "practising or aspiring managers who supervise or manage team" and provides "an overview of the roles and responsibilities required for managers and develop the skills required to succeed".[81] This qualification is available for £1,300 for a part time, 12-month course requiring learners to attend college one evening per week for three hours[82] - yet more evidence that the apprenticeship levy is being charged almost triple what these courses genuinely cost to deliver. In short, the current situation is neither sustainable nor desirable.

> *"…by all means, try and work out a scheme to improve management in the UK but…not via [the apprenticeship levy]"*
>
> *Interviewee D*

An increase in higher level apprenticeships

Only 26.2 per cent of apprenticeship starts are now at Level 2 (equivalent to GCSEs) – down from 52.7 per cent in 2016/17 before the levy was introduced – while apprenticeships at Level 4 (equivalent to the first year of a university degree) and above have increased from 7.4 per cent of starts in 2016/17 to 25.6 per cent.[83]

> *"…there's the sort of moral dimension to that from a public policy point of view, you know, do you want to have a system that effectively just gives even more training and more support to people that have already had quite a lot of it?"*
>
> *Interviewee H*

The Government has appeared relaxed about this development, merely noting that "higher-level apprenticeships give employers the opportunity to strengthen and expand their training in a way they may not have done previously."[84] However, sector leaders are often less inclined to ignore this noticeable shift in employer behaviour. Earlier this year, the London Progression Collaboration (LPC) – an initiative to boost apprenticeship starts in the capital – claimed that because of the dramatic fall in entry-level opportunities in recent years, there is "a serious concern that this leaves those out of work, on zero-hour contracts, in in-work poverty or on the bottom rung of their career ladder less able to access apprenticeships."[85] The Social Mobility Commission – a government-funded agency – has also warned that this decline in lower-level apprenticeships "reduces opportunities for learners from low socio-economic backgrounds". The Commission added that COVID-19 compounded this problem because younger apprentices from lower socio-economic backgrounds were more likely to have been in sectors that saw apprenticeship numbers decline, such as hospitality.[86]

The two-year timeframe for levy-paying employers to use up their own levy contributions has incentivised them to take on apprentices at higher levels because these courses are more expensive to deliver and thus consume more of their levy contributions. For example, selecting costly management training and professional development courses aimed at existing staff is a more effective strategy for using up levy contributions than offering cheaper lower-level apprenticeships aimed at new and younger recruits. Meanwhile, non-levy employers have been given access to 95 per cent subsidies for the same management and professional development 'apprenticeships' as well as other higher-level courses, so it is no surprise to see them taking advantage of this generosity.

> *"…employers have perhaps been driven to find strategies that spend as much of their levy as possible and that tends to be the higher end… the higher funded apprenticeships, which are typically at higher levels as well. Therefore we've seen a move away from some level 2, level 3 stepping stone opportunities into the workforce and through apprenticeships"*
>
> *Interviewee B*

A changing age profile

Another consequence of the levy has been an increasing focus on more experienced and older employees. Over half of all apprentices are now aged 25 or over, and 55 per cent of all apprentices have been working for their employer for at least three months before their 'apprenticeship' began.[87]

> *"I think we have to address the fact that actually, the position of young people has gone backwards since the start of the levy."*
>
> *Interviewee E*

As noted in the previous section, this is a rational response from employers to the two-year timeframe for levy-paying employers to use up their levy contributions, as training for more experienced workers tends to be more expensive. However, several analysts have highlighted the risks posed by the increasing dominance of older workers. Kathleen Henehan, then a research and policy analyst at the Resolution Foundation, said that apprenticeships are seen traditionally as an alternative route into work for young people yet the system "has really failed to offer that for quite some time… we're now almost moving in a different direction… young people are still kind of left nowhere."[88] Similarly, the National Foundation for Educational Research (NFER) has warned that the notion of apprenticeships as a high-value route for young people into work is "at-risk of being crowded out by the design of the apprenticeship funding system, which is trading-off apprenticeships for young people against higher apprenticeships (which are typically undertaken by older employees)."[89]

There have been several proposals put forward to undo the shift towards older apprentices, with a popular suggestion being that a certain amount of levy funding should be required to be spent specifically on young people. A recent report from the House of Lords suggested that two thirds of the levy funding should be ringfenced for investment in young people,[90] while the L&WI has suggested that half of the levy should be ringfenced for spending on younger apprentices.[91] While there is a clear policy justification for these changes, it is less clear how they could be delivered within the current levy infrastructure that gives levy-paying employers total discretion over how their contributions are used. This suggests that more significant changes would be required to achieve this policy goal in a sustainable manner.

SMEs being squeezed out of the system

Despite the Richard Review specifying that "the funding system should be kept simple and accessible to the small employers", many smaller organisations report that they are being squeezed out of the system. As previously described, the levy recycles spare funding from levy-paying employers to fund apprenticeships for non-levy employers. The Government must therefore make assumptions about how much money they can give to non-levy payers without restricting apprentice recruitment in levy-paying employers.

> *"...it is worth highlighting that [the levy] is a mechanism that has worked well for larger employers, and worked less well for smaller employers."*
>
> *Interviewee I*

In recent years, there have been repeated warnings that this funding dynamic can cause problems for SMEs. In early 2019, the non-levy funding was "running dry[92]" with some training providers having to turn apprentices away as the Government was unable to recycle more funding. The Association of Employment and Learning Providers (AELP) advised its members to be "very careful in calculating the risk" of going forward with new starts, as ministers were "still no nearer resolving the medium- and longer-term issue of how SME apprenticeships will be funded as the levy gets consumed by the levy-paying employers."[93]

David Hughes, Chief Executive of the Association of Colleges, described the situation as "a market failure for SMEs and young people".[94]

To keep some control over how much funding is consumed by non-levy employers, the Government has a cap of 10 apprenticeship starts in place for SMEs. As a result, some SMEs are being forced to turn down new apprentices despite their desire and capacity to recruit them. What's more, this cap is reset sporadically rather than periodically, making it difficult for employers to plan ahead as they are unable to anticipate when they will be permitted to take on additional apprentices. The cap was most recently in place for over a year from April 1st 2021 until it was reset on June 1st 2022.[95] It is unclear when the cap will next be reset. As the NFER has noted, "an unintended consequence of the current funding system is that it currently prioritises starts for levy paying employers …over non-levy paying SME employers".[96]

> *"It has never been simple but the offer to small businesses was simpler before the levy came in. And I think it's a challenge in terms of information, particularly for microbusinesses where people just don't have time to engage in the complexities"*
>
> *Interviewee G*

A number of SMEs have spoken out about the difficulties they have faced, including one small employer reporting that the system "feels backhanded when government is trying to grow the number of SMEs in apprenticeships but when employers try to step up, it all of a sudden comes to a halt."[97] Jane Hickie, Chief Executive of the AELP, commented that "there are employers ready to take on more apprentices and providers that are happy to deliver high-quality training, yet inaction on the cap of ten is blocking them from doing so."[98] Alongside these funding issues, many small businesses struggle with the bureaucracy of the system and "often cite the complexity of navigating the apprenticeship system, as well as the cost, as key barriers to taking on apprentices."[99]

Promoting individual rather than collective action on skills

As it stands, the levy encourages both levy-paying and non-levy employers to think about their own interests and priorities when it comes to drawing down the available funding. This individualistic mindset contributes to some of the aforementioned issues such as rebadging and relabelling existing courses because employers are understandably focused on what will benefit their own organisation specifically, rather than thinking about the needs of their industry sector or local community as a whole, or even about their own future skills needs.

The OECD has highlighted the benefits of employers working collaboratively to solve current and future skills shortages such as risk-pooling, information-sharing and economies of scale that "should not only encourage more training by employers, but also make that training more labour market relevant."[100] Moreover, the OECD emphasises that collaboration between employers can be particularly beneficial for smaller firms, with the potential to help them access training they would otherwise not have access to while also promoting higher-quality training that can be tailored to their needs.[101]

> *"…I'm aware of lots of organisations that are saying the skills system doesn't quite meet our requirements. And so we've built informal coalition's in order to build our own training programmes. And it typically works in industry clusters, whether those clusters are geographic, or kind of around a sector or around a supply chain. There is something around how do you get a skills system to support those kinds of initiatives?"*
>
> *Interviewee I*

One approach to encouraging collaboration between employers is to make access to subsidies for training conditional on joint action.[102] For example, a government could offer to cover a percentage of training costs to deliver skills that a large number of employers have said are needed (e.g. Portugal)[103] or covering training costs so long as a minimum number of firms are involved (e.g. Flanders, Belgium).[104] Another approach is through a government setting up specific bodies that provide a range of training solutions and related services to a group of employers organised by sector or industry. This includes funding 'training networks', particularly for SMEs, that allow for economies of scale and for the creation of a critical mass in the demand for education and training (including the analysis of skill gaps), thus lowering the per-worker cost of training. These networks, which can support employers with training programmes, exchanging information and developing new ideas, often come with caveats.[105] For example, 'Impulse Training Networks' in Austria help companies co-operate to provide cost-efficient and work-relevant training. Although the networks are publicly funded, they must be made up of at least three companies – half of which must be SMEs.[106] Another example is 'Skillnet' - the business support agency funded by the government in Ireland. Skillnet trained more than 56,000 individuals in 2018 and has close to 16,500 member companies – 95 per cent of which are SMEs and 56 per cent are micro-enterprises with less than 10 employees.[107]

From 2012 to 2017, the Employer Ownership of Skills Pilots (EOP) in England provided £350 million for employers to test whether having direct access to public funds, co-invested with their own, increased their investment in skills or allowed them to demonstrate more effective ways of improving the skills of their workforce.[108] These partnership projects aimed to use EOP funding to "galvanise the input and resources of competing employers towards a shared goal".[109] Seven of the 36 pilots were formed through partnerships of employers from the same sector.[110] The reported impacts of the pilot varied and there was no strong evidence of a change in employers' attitudes towards training, although this was partly due to the high levels of training already undertaken by EOP employers and the positive attitudes they already held towards training beforehand.[111]

Despite these apparently lacklustre findings, "employers said that developing a collaborative approach to a skills gap with other employers in their sector was a positive aspect of their involvement in EOP", while "issues of rivalry or competition were not raised by employers."[112] This led the evaluation of the pilot to conclude that "within some projects EOP has seemed to have successfully provided a forum for businesses to cooperate towards a shared goal."[113] What's more, around half of learners reported that the training they undertook had enabled them to advance in their career or in their company, with a third of learners changing role or moving to a new employer (around half of whom stated that this was for a promotion). Over half of those who had received a promotion or had moved into work (from unemployment) believed that their training through EOP had contributed to them gaining this role.[114]

> *"DfE has passed [the EOP] to DfE mythology as a disaster, they weren't actually a disaster. I mean they weren't good either. But they were at least a process by which you could start to engage with"*
>
> *Interviewee A*

In recent years there has been tentative progress towards more collaboration in England's skills system. For example, between August 2021 and May 2022 there were 6,320 levy transfers from levy-paying employers – 37 per cent of which went to other levy-paying organisations and 63 per cent to non-levy organisations.[115] That said, the bureaucracy of the transfer scheme has caused issues for those on both sides of the transaction, and the transfers merely highlight how inflexible the rest of the levy funding system has become for employers of all sizes.

> *"Levy transfer isn't necessarily working. So although on paper the system is there and in place, I think lots of levy paying employers that we speak to and lots of levy transfer receivers that we are in contact with are taking this offline and don't want to have to do it through a government system because it's not meeting their needs."*
>
> *Interviewee B*

Alongside the formal levy transfer scheme, some organisations are trying to take the model further. The West Midlands Combined Authority (WMCA) set up their own agreement whereby unspent levy funds in the region are transferred via a partnership with the WMCA to fund apprenticeships at smaller local firms. With an array of companies involved including HSBC, National Express and the University of Birmingham, £37.5 million has been pledged to expand apprenticeship opportunities through the WMCA partnership. As a result, nearly 800 SMEs in the West Midlands have helped 2,500 apprentices start work across the region in the last three years.[116] The desire to 'pool' levy contributions was also highlighted by the Construction Leadership Council last year, who said it would allow them to "strategically address industry skills needs".[117] Although the introduction of the levy transfer facility may have help stimulate such conversations about collaborative action on skills, the current funding system means that opportunities to bring employers together remain limited in scope.

4. The role of individuals, government and social partners in skills investment

How individuals can boost investment in skills

Training leave allows employees to be absent from work for education or training purposes, without losing their right to return to work later or any benefits connected to their current employer. In the UK, most employees have the legal right to ask for time off for training or studying, with the following eligibility criteria:

- Staff must be classed as an employee
- They must have worked for their employer for at least 26 weeks
- Training must help staff do their job better
- At least 250 people must work in the organisation

However, even if this time off is granted, it is usually unpaid unless the employer agrees to pay for it.[118]

> *"…one of the biggest barriers to training is allowing people the time to be away from work. I mean, you know, look at the pushback on the day a week for apprentices off the job. British employers have basically intensified work and cut staffing levels to the point where their workplaces quite often cannot function, unless the entire staff complement is there. So there's no slack for people to be off the job for any length of time"*
>
> *Interviewee A*

There has been recent political pressure to expand the offer of training leave in this country. The Labour Party's 2019 General Election manifesto stated that if elected, they would look to give workers "the right to accrue paid time off for education and training".[119] Around the same time, the Conservative Party expressed their desire to establish the 'Right to Retrain', stating "it is our ultimate ambition to empower millions of people in the future with the skills to achieve their potential, keep pace with technological change and embrace lifelong learning."[120] The statement that accompanied this announcement added that they would "establish a new National Skills Fund as the first step towards a 'Right to Retrain'."[121] That said, the subsequent Conservative Party election manifesto only made a brief reference to the 'Right to Retrain' element of the National Skills Fund, noting that "we will invest far more in helping workers train and retrain for the jobs and industries of the future."[122]

The UK's current approach is relatively meagre compared to many other European countries, where paid training leave is a common provision. The specifics of training leave vary depending on the individual country's preferred approach:[123]

- **The number of hours / days training permitted**: The amount of time an employee can take off varies significantly, although it typically ranges from 20 hours per year (Spain) up to 250 hours over three years (Italy). Austria is more generous as it offers from 2 to 12 months of paid leave within a period of four years, while France also offers a maximum of 365 days.
- **The type of training that is eligible**: Most countries only allow time off for training that will lead to a formal qualification, accredited training or training that directly relates to company activities. Some countries are more flexible. For example, France allows training that leads to a change of occupation, and Austria allows time off for any type of education / training.
- **Whether an employer can veto a training leave request**: Commonly, employers can refuse training leave if they deem the training unsuitable or if the employee is indispensable at that point in time (as is the case in Denmark, Austria and Spain). However, employers in France are unable to refuse training leave requests, although they can postpone it for up to nine months.
- **Whether an employee is entitled to receive their full wage**: In most countries employees continue to receive their full wage while training (e.g. Germany, Italy, Spain and Belgium). Countries that permit employees to take a longer period off for training generally have constraints on the wage an employee can receive. For example, France will only cover full wages up to €2,915 per month, while Austria offers employees a wage replacement of up to 55 per cent.
- **Whether employers can recoup the costs**: employers are often eligible for government compensation for the cost of training / wages, although in some cases the compensation depends on the size of the company. However, in some countries the employer must bear the full costs without any compensation (e.g. Germany and Italy).
- **Targeting specific groups**: Occasionally, certain groups are prioritised for training leave, such as adults with low qualifications,[124] and workers from SMEs (e.g. Spain and Denmark).[125] In such cases, prioritised groups are entitled to more hours of training leave than the non-priority groups.[126]
- **How long an employee must be at a company to qualify for training leave**: Generally, employees must have been with their employer for at least 6-12 months before they are eligible for paid training leave.

Getting a precise figure on how much is spent on training leave across Europe is difficult as the schemes vary in their size, scale and generosity as well as being supported by different government agencies and funding streams. Previous research has found that £163 million was spent by Austria in 2014, covering around 20,000 workers.[127] This works out at about £8,000 per worker (adjusted for inflation). In France, another country with a generous training leave offer, roughly £300 million was spent on training leave in 2013, covering around 40,000 workers.[128] This equates to about £8,300 per worker (adjusted for inflation).

Beside the existing right to training leave in the UK, there are other mechanisms that give individuals an opportunity to invest in their own skills. For example, Advanced Learner Loans (ALLs) allow adults aged 19 and above to cover the cost of an approved qualification from Level 3 to 6 at a Further Education college or training provider in England - similar to the student loan system for Higher Education courses.[129] The latest figures (relating to the 2020/21 academic year) showed that just 86,200 learners were participating on a course through an ALL, with the vast majority (76,900) studying at Level 3. In terms of the most common age groups, 31 per cent of the learners were aged 31-40, 28 per cent were aged 24-30 and 21 per cent were 19-23. Of the 62,900 new ALL applications received during that year, 55,300 were approved – meaning that the total value for approved ALLs was £166.9 million. The highest number of applications received were in health, public services and care (19,500) and retail and commercial enterprise (10,500).[130] The Government has allocated £226 million for ALLs in the 2021/22 academic year,[131] but this investment is unlikely to overcome the continued lack of awareness surrounding these loans.

The notion of giving learners the opportunity to access loan funding to improve their skills is also evident in the upcoming plans for a 'Lifelong Loan Entitlement' (LLE), which is also part of the Lifetime Skills Guarantee discussed earlier. The LLE is intended to "allow adults and young people to space out their study across their lifetimes and take high-quality courses in both further education colleges and universities."[132] Having been announced by then Prime Minister Boris Johnson in September 2020, the LLE is due to begin operating in 2025. It will provide individuals with a loan entitlement equivalent to four years of post-18 education to use over their lifetime. One of the key elements of the LLE is that it will enable learners to study individual modules instead of being restricted to studying whole qualifications (as is currently the case). The LLE will also support both modular and full-time study at higher technical and degree levels (Levels 4 to 6), regardless of whether they are provided in colleges or universities.[133] The DfE recently ran a consultation that sought views on their ambition, objectives and coverage of the proposed LLE as well as specific aspects such as flexible learning, credit transfer and possible funding restrictions based on previous study levels.[134] Although the final design of the LLE is likely to change over the coming months, many stakeholders already support the overall aspiration of this initiative.

New government programmes to improve skills

The National Skills Fund (NSF) was first described in the 2019 Conversative Party election manifesto as "the centrepiece"[135] in their plan to reform investment in education and skills that would "enable people to fulfil their potential".[136] They pledged that the NSF would "provide matching funding for individuals and SMEs for high-quality education and training", with a proportion being reserved "for further strategic investment in skills".[137] Following its introduction in April 2021, the NSF aims to invest in programmes that "will help adults to gain the skills that are sought by employers… [and] help them improve their job prospects"[138] through an investment of £1.6 billion over three years.

One of the main programmes financed by the NSF is 'Skills Bootcamps' – a set of free and flexible training courses of up to 16 weeks for those aged 19 and over that are designed to build up sector-specific skills based on local employer demand. The Government has invested £43 million in Skills Bootcamps for 2021/22[139] and recently committed a further injection of £60 million from the NSF.[140] The Bootcamps primarily deliver training at levels 3-5 (medium to higher level technical skills) and are co-designed with employers to respond to their skills shortages. Adults who are either in work, self-employed, unemployed or returning to work after a break are all eligible for the training. Employers who wish to upskill employees through the Bootcamps are entitled to a 70 per cent discount through the NSF, with employers paying the remaining 30 per cent.[141]

Skills Bootcamps are available in several areas including digital courses (such as digital marketing or coding), technical training (in sectors such as construction), logistics (HGV driving) and engineering and green skills (e.g. solar energy or agriculture technology).[142] The goal of the Bootcamps is to teach participants the skills that will put them "in a strong position to get a better job with more stability and a higher salary in the area [they] have chosen."[143] Outcome measures from the first wave of bootcamps (covering September 2020 to March 2021) found that of those who completed their course, 54 per cent achieved a new or better job, whilst 46 per cent reported no positive outcome (around 21 per cent of those who were initially enrolled dropped out at some point).[144]

Another programme within the NSF is the 'Lifetime Skills Guarantee'. A core part of this programme is the offer of a full Level 3 qualification (equivalent to an advanced technical certificate or diploma, or 2 A-levels) to all adults who do not currently have one,[145] or those who earn less than the National Living Wage annually (£18,525) or who are unemployed (regardless of prior qualification level).[146] The Government has put an initial £95 million of funding for 2021/22 into these qualifications.[147] There are currently over 400 free qualifications available across areas such as engineering, social care and accounting.[148]

> *"It's great to see, through National Skills and Bootcamps, further investment in adult skills. I do wish they'd just put some more money in a single pot rather than lots of different programmes…Getting providers and places and poor individuals and employers to think about all those different funding streams is a nightmare"*
>
> *Interviewee M*

Between April 2021 and April 2022, only 19,720 adults took up a free level 3 course,[149] yet this unsatisfactory result was predictable in many respects. The Level 3 qualification offer is designed and run centrally with minimal flexibility for local areas to meet the needs of their local employers and learners. This includes the list of free qualifications, which is largely based on historical earnings data for the qualifications – an approach that offers little guidance as to which skills and qualifications will be more valuable in future or in any given location. In short, the desire to upskill learners is entirely correct, but the design of this offer means that it is unlikely to deliver this ambition in all areas and industry sectors.

Reforming existing government funding for skills

The Adult Education Budget (AEB) provides funding for adult learners (those aged 19 or above) to gain the skills needed for work, an apprenticeship or other learning. The AEB offers four legal entitlements to fully-funded support:

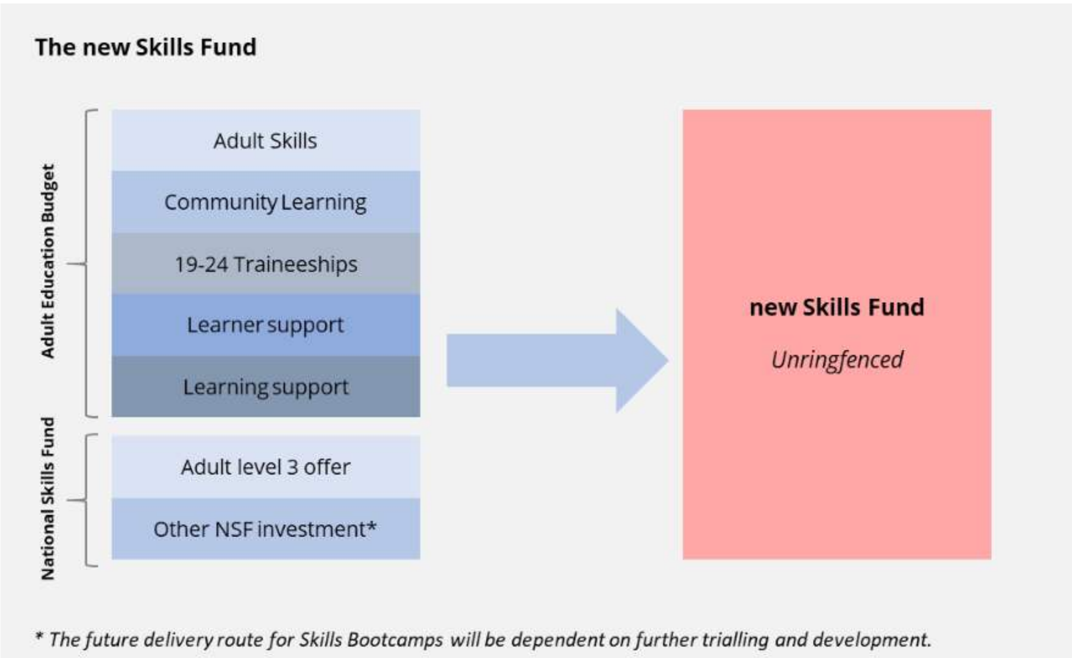
- English and maths, up to and including level 2, for individuals aged 19 and over, who have not previously attained a GCSE grade 4 (C), or higher, and/or
- First full qualifications at level 2 for individuals aged 19 to 23, and/or
- First full qualifications at level 3 for individuals aged 19 to 23
- Essential digital skills qualifications, up to and including level 1, for individuals aged 19 and over, who have digital skills assessed at below level 1[150]

If adults wish to access courses that go beyond these entitlements (e.g. a learner aged 24+ who wishes to study their first full level 2 qualification; a learner aged 19-23 who wants to study a second full level 3 qualification) then they typically have to co-fund the course. The new free Level 3 qualification offer described in the previous section comes in addition to these existing legal entitlements. The AEB has been allocated £635 million for 2021/22,[151] which covers adult skills, 'Community Learning', 19-24 traineeships, 'Learner support' and 'Learning support'. In ten areas of the country, the AEB has been devolved to Mayoral Combined Authorities (MCAs)[152] and the Mayor of London to create a "clear democratically accountable body with devolved responsibility for certain adult education and skills functions".[153] This body is responsible for funding learners in their areas and for the approach to funding providers.[154]

> *"…there are a few problems with the [adult] education budget. One is that no one has ever described what it's for. So there's never been a document that adequately says what this delivers other than lots of warm words and rhetoric around [it] which is kind of that it delivers everything for everyone, and it delivers on things like the level 2 entitlement and basic skills entitlement. But that's not priorities, that's just saying it delivers anything."*
>
> *Interviewee L*

A recent consultation by the DfE stated that the current funding system needs to be reformed due to concerns about it being "complex with confusing funding and eligibility rules that hamper providers' ability to respond effectively to changing skills needs" as well as the annual allocation of overall budgets making it "difficult for colleges to plan provision strategically".[155] The NAO found that this complexity creates additional burdens for providers, contributing to financial pressures and creating challenges in managing budgets with certainty.[156] In response, the DfE has outlined their intention to simplify the funding system by bringing together "all adult skills funding which is provided directly (rather than supported through the Apprenticeships or loan system) by the Department to colleges into a single Skills Fund".[157] They have proposed that this new 'Skills Fund' would incorporate all aspects of the existing AEB (see diagram below from a recent government consultation).

Figure 1: The Department for Education's proposed new 'Skills Fund' [158]

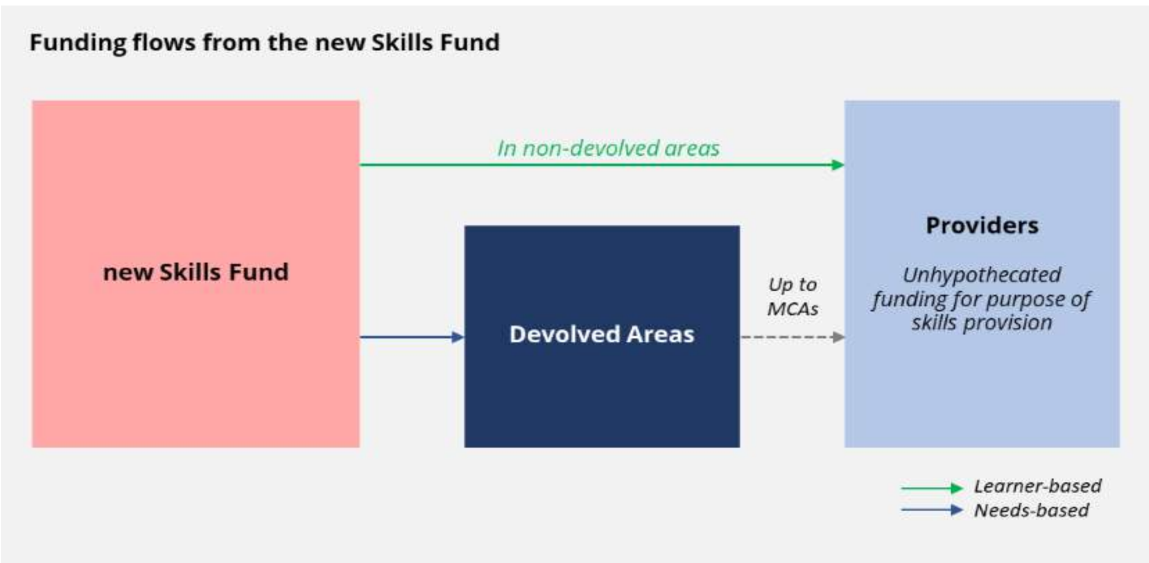


The purpose of the Skills Fund will be to fund provision "that supports individuals to gain skills which will lead them to meaningful, sustained and relevant employment, or enable them to progress to further learning which will deliver that outcome."[159] The DfE anticipates that such provision will consist of both "qualification-based provision and non-qualification (non-regulated) provision",[160] which will enable individuals to develop their skills in a specific area rather than having to complete a full qualification.

The future design of the Skills Fund will strive to give "more freedom to colleges to meet local needs in a way they see fit" including "shifting provision towards helping people retrain and move into sustainable and productive employment", whilst ensuring that taxpayer money supports the delivery of the DfE's agenda.[161] Furthermore, the Government have stated that they "remain committed to introducing a multi-year funding regime" to ensure that colleges can "take a more strategic approach to planning their provision".[162]

The DfE is still consulting on details on exactly how the Skills Fund will operate. They are considering issues such as the type of qualifications and non-qualifications that it should fund, and how the fund should operate in devolved authorities. The government has already stated that devolved authorities will remain responsible for how they use their funding to meet the needs of the area, although several options for how to calculate the 'needs' of each MCA when allocating future funding shares are still under consideration (e.g. the size of the authority area, area characteristics such as the number of adults with low qualifications or the proportion of adults who are unemployed).[163] Colleges in non-devolved areas will continue to be funded directly by the DfE, albeit in a potentially simpler system in future.[164] While important details are evidently yet to be finalised, it is clear that the Government has already set the direction of travel towards a more unified adult learner funding system.

Figure 2: proposed operation of the new Skills fund [165]



Leaving aside the AEB, other funding sources support the delivery of skills programmes to adults. Before the UK left the European Union, the European Social Fund (ESF) funded programmes to increase labour market participation, promote social inclusion and develop the skills of the potential and future workforce.[166] The ESF was superseded by the UK Shared Prosperity Fund (UKSPF) in April 2022. The UKSPF aims to reduce inequalities in opportunity between communities and includes a strand that will focus on 'people and skills'.[167] £2.6 billion has been allocated to the UKSPF, although funding for 'people and skills' in England will only receive a portion of this and will not be available until 2024/25.[168]

The Government have committed that the first priority of the UKSPF will be their 'Multiply' numeracy programme, with up to £559 million in funding available.[169] Multiply's overall objective is "to increase the level of functional numeracy in the adult population across the UK".[170] Available to adults who do not already have a GCSE grade C/4 or higher in Maths or equivalent, and need to improve their numeracy,[171] the programme will offer a range of options such as "free personal tutoring, digital training and flexible courses that fit around people's lives and are tailored to specific needs, circumstances, sectors and industries.[172] The Government have identified three success measures for the programme at a national level: more adults achieving maths qualifications courses and an increase in participation in numeracy courses, improved labour market outcomes and increased adult numeracy across the population.[173] Provision for Multiply is set to commence in the 2022-23 academic year.[174]

Social partners

Rather than having learners and employers operating in isolation from one another, many countries bring 'social partners' (i.e. employer representatives and trade unions) together with policymakers within various bodies and structures to help increase employer investment in skills. A recent report by the OECD highlighted numerous benefits that social partnerships can offer in the context of improving adult skills:[175]

- **Anticipating training needs**: employer organisations are involved in this activity in 69 per cent of OECD countries, with trade unions involved in 59 per cent. 'Skills councils', which are found in about half of OECD countries, also bring together social partners to anticipate changing skill needs and discuss how to address those needs.
- **Establishing joint priorities**: different stakeholders do not always see themselves as part of a cohesive skills system, so creating an overarching framework through social partnerships can help get buy-in by jointly developing skills strategies.
- **Negotiating collective agreements**: long-term collective commitments and agreements between employer organisations and trade unions can increase each partner's sense of ownership in providing more learning opportunities. Moreover,

agreements on training rights and duties send a strong message about the value of lifelong learning, which can motivate people to seek training.

- **Promoting a positive learning culture**: attitudes and habits around learning are often deeply engrained and need whole-company support to induce some positive changes. Initiatives such as peer-learning activities, training individuals who can promote a learning culture and creating incentives for learning (e.g. through performance management systems) can help build a learning culture across an organisation.
- **Using the capacity of all partners to deliver training**: employers are best placed to deliver training, as they understand the skills that are needed in the labour market to stay productive and competitive. On the other hand, trade unions understand employees' longer-term needs and are best positioned to develop and deliver training that also includes transferable skills.
- **Making quality assurance a joint responsibility**: information on the outcomes of training participation is an important indicator of training quality. Social partners play a key role in this context as discussions about quality always contain value judgements about what learning is trying to achieve, which is why including social partners in this process ensures that their views are appropriately represented.

> *"… in a lot of those other countries, again, who polices this, who is there standing behind an individual employee saying 'well employer you better pay attention'? Of course it's a trade union. And we don't have that sort of tripartite, we don't have that kind of model in our system anymore. But I think that's a real problem."*
>
> *Interviewee A*

To reflect these benefits, many countries give social partners a formal role in the governance of their skills and training system. For example, social partners are sometimes given responsibility for defining and managing the system (e.g. Austria, the Netherlands, Denmark, Germany), although in other countries they contribute more loosely to the training system (e.g. Belgium, Switzerland, Norway, France) or act in a consulting capacity (e.g. Ireland, New Zealand, Spain). However, despite the benefits of social partnerships listed above, the UK is one of just four countries in the OECD where social partners have no formally defined role in helping to govern the skills system.[176] This suggests that there is considerable room for improvement when it comes to encouraging UK employers to work with trade unions to increase investment in workforce skills and training, particularly if this is considered alongside other ways in which this country remains an international outlier (e.g. the absence of paid training leave).

5. Recommendations

This report has set out a range of issues with the apprenticeship levy and the wider skills system in which the levy is situated. Consequently, the recommendations described in this chapter will set out a new approach that aims to directly address these issues by reforming the apprenticeships and skills system in such a way that it delivers the following goals:

- **Deliver adequate and accessible funding:** a high-performing system must be underpinned by a sufficient and sustainable funding model that supports all employers to invest with certainty in training their current and future workforce.
- **Set clear aims and objectives**: there must be clarity and agreement among all stakeholders about what the available funding is intended to achieve and what it can therefore be spent on.
- **Promote value for money**: all stakeholders should be encouraged to seek a reasonable price for whatever training is required to ensure that the available funds are utilised in a cost-effective manner at a local, regional and national level.
- **Encourage more collaboration**: to tackle skills shortages across industry sectors and geographical areas, a greater emphasis is needed on employers and social partners working together instead of concentrating on their own interests.
- **Involve all stakeholders**: employers are a critical component of the system, but other stakeholders – particularly employees and government – should also be able to influence how the available funding is invested.
- **Prioritise those most in need**: the individuals and organisations who require the most support (e.g. younger learners, low-skilled workers and smaller employers) should be prioritised when directing investment in skills and training.

A new funding infrastructure for apprenticeships and skills

RECOMMENDATION 1
The Government should convert the apprenticeship levy into a new 'Apprenticeships and Skills Levy' (ASL). All UK employers with at least 10 employees will contribute 0.4 per cent of their annual payroll costs towards the ASL, raising approximately £3.8 billion a year.

Although the apprenticeship levy has made some progress in generating more interest in the skills agenda, this report has repeatedly shown how little new investment in skills the levy appears to have generated. On that basis, the levy must now evolve if it is to command the confidence of policymakers. To ensure that investment in skills and training is at the forefront of employers' minds, this report proposes that the existing levy should be broadened in scope so that almost all employers make contributions instead of relying solely on large employers. In doing so, the new levy – the 'Apprenticeships and Skills Levy' (ASL) – will be more in line with Professor Wolf's original vision for the apprenticeship levy, in which "every employer would pay in via a small levy on payroll".[177] That said, it is proposed that micro-employers (less than 10 employees) should be exempt from paying the levy as they are the most likely to face significant barriers in training their staff, particularly around a lack of capacity and information.

The ASL will be set at a rate of 0.4 per cent of total annual payroll contributions (based on the previous tax year). This represents a reduction from the 0.5 per cent of payroll costs that large employers currently contribute under the existing levy. However, by including all employers other than micro-businesses, the number of employers paying the ASL is predicted to increase from around 23,000[178] under the current levy to 278,000. As a result, it is estimated that the ASL will raise £3.8 billion a year[179] – approximately £1.1 billion more than the current apprenticeship levy will raise by 2024.[180] Not only will this new approach secure an adequate source of funding, it will also negate the need to artificially separate levy-paying employers from non-levy employers because all employers that are in scope for the ASL will now be subject to the same contribution rate. This will dramatically simplify the funding architecture and will allow policymakers to focus on driving up skills investment across the economy without being held back by arbitrary distinctions (and the associated administration costs) or needing to have separate discussions with two separate groups of employers.

By moving away from the focus on large employers and instead bringing more SMEs into the funding system, it is conceivable that there may be some resistance to asking smaller employers to contribute alongside larger organisations. However, this position should be rejected for three reasons. First, Professor Wolf's vision stated that every employer should pay the levy because there was a need to generate sufficient money to support future training needs, but also because every employer needed to have a stake in the training system. Second, 0.4 per cent of payroll costs for smaller employers is likely to represent a relatively minor investment. This report estimates that, on average, organisations with between 10 and 49 employees would only contribute £1,700-£4,200 every year through the new ASL. Third, other elements of the new skills and training system described in this chapter will be more generous to smaller employers than the current levy, particularly in relation to the support available for offering apprenticeships (see Recommendation 3). On that basis, even though these smaller organisations are now being asked to contribute to the ASL, they will be able to access financial support for apprenticeships and other forms of training that far exceeds their nominal contribution through the ASL.

RECOMMENDATION 2

The new ASL will be distributed to employers through two funding streams:

- A National Apprenticeship Fund to deliver world-class apprenticeships that will help learners of all ages enter skilled occupations
- A National Skills Fund to drive economic growth and productivity through strategic investments in skills and training

One of the most concerning aspects of the apprenticeship levy is that it has created a situation in which almost the only way a training course can attract subsidies from government is by calling it an 'apprenticeship' even if it is nothing of the sort. Meanwhile, other potentially more valuable and cost-effective forms of training are ignored by policymakers. If the goal is to increase employer investment in skills and training across the economy, this rigid approach must come to an end. That said, it would be wrong to allow employers to spend the available subsidies on whatever training they choose.

The main justification for public subsidies for training is that the ensuing benefits extend beyond an individual employer. For example, an apprenticeship benefits the employer but also the employee (through delivering an industry-wide training programme) and the government (through higher wages and productivity). In contrast, if an employer wishes to spend money on skills and training that only benefits their organisation, there is little or no case for public subsidies. As the Richard Review noted, firm-specific training should be fully funded by the employer because the employer is the main beneficiary. Thus, the new approach in this report must deliver on two fronts: making the available subsidies support both apprenticeship and non-apprenticeship provision, while also ensuring that the subsidies deliver training which offers benefits that go beyond a single employer.

To this end, the revenues generated by the new ASL should be split into two separate pots: a **National Apprenticeship Fund (NAF)** to deliver world-class apprenticeships that will help learners of all ages enter skilled occupations; and a **National Skills Fund (NSF)** to drive economic growth and productivity through strategic investments in skills and training. This approach will reserve funds specifically for genuine apprenticeships at the same time as creating a new pot that supports broader and more strategic employer investment in skills. For example, the Treasury could maintain funding for apprenticeships at roughly the same level as the current apprenticeship levy within the NAF (£2.7 billion) and then put the remaining funds raised by the ASL towards the new NSF (£1.1 billion). Alternatively, removing large numbers of 'fake apprenticeships' from the future apprenticeship system (see Recommendation 3) will potentially reduce spending on 'apprenticeships' relative to current levels, which would allow additional funding to be moved to the NSF to support the same kinds of training in a more cost-effective manner e.g. management and leadership courses.

It is envisaged that the Treasury will allocate money to each fund on an annual basis and, crucially, it will move money between the funds to reflect employer demand. For example, in an economic downturn, apprenticeship opportunities may decrease due to a lack of employer capacity, which would result in excess funds within the NAF. Under this new system, an underspend in the NAF would free up funding to be moved into the NSF to invest in reskilling and retraining the workforce in response to changing economic conditions. Another crucial component of this new funding architecture is that any surplus money in either fund is simply rolled over in perpetuity – thereby creating a sustainable funding source that overcomes the uncertain and sometimes antagonistic atmosphere created by the existing levy that sees levy contributions taken away from some employers if they do not use them quickly enough.

As with the current levy, the ASL will be underpinned by contributions from employers across the UK including the devolved nations. To mirror the existing arrangements, it is proposed that Scotland, Wales and Northern Ireland will receive funding from the ASL as a lump sum based on the Barnett Formula, with the NAF and NSF applying to England only. The devolved nations will be able to spend their lump sum allocations as they see fit.

Clearer objectives and responsibilities for investing in skills

RECOMMENDATION 3

The National Apprenticeship Fund will be a single national funding stream available to all employers in England that has the following objectives:

- Investing in world-class apprenticeships up to Level 6 to help learners enter a skilled occupation or trade
- Preparing learners to progress and develop their skills through pre-apprenticeship training such as traineeships
- Encouraging employers to offer more apprenticeship and pre-apprenticeship opportunities through financial incentives

The failure to appropriately define 'apprenticeships' in the current system has resulted in large quantities of levy funding being consumed by higher-level training for existing employees, such as leadership and management courses that have been wrongly rebadged as 'apprenticeships'. Although it is reasonable to suggest that employers have behaved rationally in this regard, the potential damage to the apprenticeship brand as well as the lack of clarity around what apprenticeships are supposed to achieve has put the whole skills system in an untenable position.

The new NAF must therefore have clear objectives that set out for all stakeholders what the available funding seeks to deliver:

- **Investing in world-class apprenticeships up to Level 6 to help learners enter a skilled occupation or trade:** in this new system, 'apprenticeships' will refer to an education and training programme up to Level 6 that combines vocational education with work-based learning to help learners enter a new skilled occupation or trade. All apprenticeships will follow a high-quality systematic programme that utilises both on- and off-the-job training. This definition excludes all training at Level 7 and above as well as generic courses such as 'leadership' that do not relate to a specific occupation.
- **Preparing learners to progress and develop their skills through pre-apprenticeship training such as traineeships:** many learners require additional training and support before they can embark on an apprenticeship. To support the growth of apprenticeships, the NAF should fund high-quality pre-apprenticeship training such as traineeships. 19-24 Traineeships are currently funded via the AEB, but this report argues that the most logical way to fund traineeships in future is through the NAF as this approach will help build clearer pathways and opportunities into apprenticeships.
- **Encouraging employers, particularly SMEs, to offer more apprenticeship and pre-apprenticeship opportunities through financial incentives:** Incentive payments for apprenticeships and traineeships were available to employers during the earlier stages of the COVID-19 pandemic, including £3,000 per apprentice and £1,000 for hosting a traineeship work placement. These incentives have since been withdrawn by the government despite their popularity with employers and providers. The recent report by EDSK on how to prevent young people from becoming 'NEET' called for the introduction of permanent financial incentives for recruiting learners aged 16-24 to help employers build their capacity and expertise in relation to apprenticeships and traineeships. These incentives would range from £500 to £5,000 depending on the size of the company, the age of the recruit and the length of training required (e.g. a small employer recruiting a 16 to 18-year-old apprentice would be eligible for a £5,000 incentive, whereas a large employer recruiting a 19 to 24-year-old apprentice would be eligible for £2,000).

Unlike now, employers who deliver apprenticeships through the NAF will not be required to make 'co-payments' towards the cost of training as they are already making a significant investment in their apprentices through providing a high-quality training programme as well as paying their wages. SMEs are particularly badly affected by the current co-payment requirements, given the existing demands that recruiting, training and supporting apprentices already place on these smaller organisations. On that basis, it is proposed that the NAF fully subsidises the cost of training apprentices in future. This would represent a saving of hundreds of pounds for every apprentice that an SME recruits.

Aside from apprenticeship training itself, the current apprenticeship levy also funds English and maths courses for apprentices as well as the 'top-up' of 10 per cent made by the Treasury into the HMRC accounts of levy-paying employers. EDSK has previously called for the 10 per cent 'top up' to be scrapped on the grounds that it does not represent value for money and does not have any empirical justification.[181] English and maths support could theoretically continue to be funded by the NAF in future, although the DfE should arguably fund basic skills training in literacy and numeracy up to Level 3 through their central budget (as they would do for young people still in full-time education).

RECOMMENDATION 4

The National Skills Fund will fund non-apprenticeship provision through a bidding process. It will also be devolved to Mayors / Mayoral Combined Authorities where applicable. The NSF will have the following objectives:

- Reskilling and upskilling the existing workforce in response to local and regional skills shortages and wider economic conditions
- Promoting collaboration by funding projects that deliver skills and training across multiple employers
- Improving the quality of leadership and management skills in employers of all sizes

Now that the new NAF will be reserved exclusively for apprenticeship provision, the NSF can focus its resources on making strategic investments in skills and training that are likely to increase productivity and economic growth across geographical areas, sectors and groups of employers. This approach will offer greater flexibility in the types of training that can be supported while also overcoming the existing problem of employers having to funnel all their training needs through an 'apprenticeship'. However, this flexibility should not extend as far as allowing employers to spend the available funds on training that they would have provided anyway. Instead, the NSF will have the following objectives:

- **Reskilling and upskilling the existing workforce in response to local and regional skills shortages and wider economic conditions:** the NSF will give employers access to funding for reskilling and upskilling projects that their employees may require to meet labour market needs. These would cover both qualification and non-qualification training, as well as individual units of full qualifications.
- **Promoting collaboration by funding projects that deliver skills and training across multiple employers:** the current levy encourages employers to think about what benefits their own business. To overcome this mindset, the NSF will fund collaborative projects in which employers in the same area or sector come together to highlight and

subsequently address the skills shortages or related training issues that they are collectively facing.

- **Improving the quality of leadership and management skills in employers of all sizes:** rather than allowing employers to incorrectly rebadge and relabel these courses as 'apprenticeships' to access subsidies, the NSF will directly support employers to invest in more suitable, less time consuming and more cost-effective leadership and management training for their employees at all levels.

To ensure that the NSF delivers the greatest benefits to local communities and employers, it will be devolved to the Mayor of London and MCAs and would be allocated to each mayoral authority based on whichever factors the Government felt were most appropriate (e.g. the size of the population; economic need; cost of provision). This will allow decisions about how to invest, and what to invest in, to be made as close as possible to the potential beneficiaries. For non-devolved areas, the funding would be held centrally but would still support the same types of activities. By devolving the spending decisions to a more local level, MCAs will also be able to match their funding priorities to any 'Local Skills Improvement Plans' or local industrial strategies that are developed either now or in future.

In terms of how the money is accessed by employers, this report proposes that a competitive bidding process should be run (by the relevant MCA or by central government for non-devolved areas) to decide which employers, collaborations and projects are best placed to help deliver better productivity and economic growth. The bids can cover both qualifications (or units of qualifications) and non-qualification provision (e.g. bootcamp-style courses) to ensure that the needs of a wide variety of employers can be met through the NSF. The bidding process itself would operate on a regular or potentially rolling basis so that funding is always being distributed based on current strategic priorities.

Although devolving the decision-making process will help deliver better outcomes in general, there is a strong case for central government to set out a framework for allocating funds through the NSF. This framework would strive to protect the system against potential abuse by employers who try to shift the burden of their existing training onto the NSF. The best way to avoid this is to set a clear goal of ensuring that the provision funded by the NSF will be **new and additional**. Several safeguards could be implemented to help achieve this ambition:

- **Minimum employer co-payment rates**: this report recommends that there should be national minimum co-payment rates (e.g. 0 per cent for micro-businesses with less than 10 employees, 10 per cent for small employers, 30 per cent for medium-sized employers and 50 per cent for large employers). By introducing standardised co-payments, employers will be encouraged to identify skills and training programmes that demonstrate good value for money, which will reduce deadweight in the NSF.

- **Minimum requirements for employer collaboration**: there is a case for central government to apply rules around employer collaboration projects so that any proposed collaborations between employers are genuine and sufficiently broad in scope (e.g. at least three employers need to be involved in a bid to fund a collaborative project, with at least one being a small or micro-business).
- **Available qualifications**: ministers could work with MCAs to determine the qualifications / units of qualifications and the types of non-qualification provision that can be funded by the NSF. This approach would apply to leadership and management courses as well as technical qualifications.

Whatever rules are put in place would apply to devolved areas and the centrally operated NSF for non-devolved areas. Within this broad framework, employers can put forward the best solutions to meet their particular skills and training needs through high-value and aspirational projects across the economy.

RECOMMENDATION 5

The Government should combine the Adult Education Budget and the free Level 3 qualification offer into a single devolved 'Local Skills Fund' that aims to help all low-skilled adults gain the skills, confidence and motivation they need to participate in our economy and society. The Local Skills Fund will have the following objectives:

- Support all adults to gain basic literacy, numeracy and digital skills
- Help low-skilled adults build their confidence and employability skills
- Upskill as many adults as possible to be qualified at Level 3

The AEB provides vital support to some of the least privileged members of society who may need a mixture of short-term and long-term support to engage (and re-engage) with learning and employment, particularly if they have been out of work for months, possibly years. Unfortunately, the current approach to funding adult skills is obscured by the multitude of funding streams that each come with their own goals, target audience, eligibility rules and much more besides. This stems, at least in part, from a lack of a clear overall objective for the AEB despite the existence of various legal entitlements described in the previous chapter.

In line with the Government's current plans to simplify the skills funding system, this report proposes that the Government should combine the AEB and the current free Level 3 qualification offer (funded by the National Skills Fund at present) into a single 'Local Skills Fund' (LSF). This will create a single funding stream for providing all adults with the training and qualifications they need to progress from entry-level skills up to Level 3. As with the AEB, the LSF will be devolved wherever there are devolution agreements in place. However, a crucial difference between the AEB and the LSF will be that the LSF is devolved as a single funding pot for local areas to use as they see fit to deliver the following objectives:

- Support all adults to gain basic literacy, numeracy and digital skills
- Help low-skilled adults build their confidence and employability skills
- Upskill as many adults as possible to be qualified at Level 3

In line with the new NSF, the Government will still operate a central funding pot for non-devolved areas that will use the existing legal entitlements to distribute funding to adult learners, but devolved areas will be given the full freedom to shape their own provision so long as it meets the two objectives listed above. This will include providing an equivalent to the existing 'Learner Support', 'Learning Support' and 'Community Learning' delivered within the AEB, but again the devolved areas can choose what form this takes and who is eligible to receive it. Devolved areas will also be able to adjust any co-funding requirements to match their local needs and priorities as part of managing their new LSF. Even after the introduction of the LSF, learners will retain access to ALLs (and, in future, the LLE) if they wish to go beyond their locally determined entitlements so that there is no cap on their ability to invest in their own learning.

Perhaps the only notable change in terms of funded provision in the LSF will be that 19-24 traineeships are now funded through the new NAF described earlier in this chapter (they are currently supported through the AEB). This reflects the need to formally support pre-apprenticeship training through the apprenticeship system, although traineeships will remain accessible to any learner who do not wish to pursue an apprenticeship later. By moving traineeships to an employer-funded part of the skills system, it will also free up resources to be spent on provision for low-skilled adults to help them fully participate in the economy and in society as a whole.

Overleaf is an illustration of how these three new funds – the NAF, NSF and LSF – relate to one another in terms of which stakeholders they bring together. For the NAF, the relationship between learners and employers is always at the heart of apprenticeship and pre-apprenticeship provision. For the NSF, it is employers and government (or, in some cases, combined authorities) that must come together to identify the best way forward. For the LSF, government will directly work with adult learners to develop their skills and confidence so that they can play a meaningful part in their local economy and community. In the middle of the illustration is a new element of the training system that will require input from all three stakeholders to promote greater investment in skills: a new 'Right to Paid Training Leave' (see next recommendation).

Figure 3: an illustration of the proposed new apprenticeships and skills funding infrastructure

NATIONAL APPRENTICESHIP FUND

FUNDING FOR HIGH-QUALITY APPRENTICESHIPS

- Investing in apprenticeships up to Level 6 to help learners enter a skilled occupation
- Pre-apprenticeship schemes (e.g. traineeships)
- Employer and provider incentive payments

Learners

Employers

Government

NEW 'RIGHT TO PAID TRAINING LEAVE'

(5 DAYS A YEAR FOR EVERY EMPLOYEE)

LOCAL SKILLS FUND

DEVOLVED FUNDING POT TO HELP ADULTS BUILD THEIR SKILLS AND MOTIVATION

- Supporting all adults to gain basic literacy, numeracy and digital skills
- Help low-skilled adults build their confidence and employability skills
- Upskilling as many adults as possible to be qualified at Level 3

NATIONAL SKILLS FUND

DEVOLVED FUNDING POT TO INVEST IN STRATEGIC PRIORITIES FOR GROWTH AND PRODUCTIVITY

- Reskilling and upskilling the existing workforce in response to local and regional skills needs
- Promoting collaboration by funding projects that deliver new skills and training across multiple employers
- Improving the quality of leadership and management skills in employers of all sizes

Putting individuals at the heart of the skills system

RECOMMENDATION 6
The Government should introduce a new 'Right to Paid Training Leave' that gives employees the legal right to five days of paid leave a year to undertake a skills or training course. Employers will be reimbursed by government for the wage costs of any employee on training leave at a flat rate of £20 an hour to ensure that smaller employers and those employing lower-skilled workers receive the most support.

At present, it is hard for individual employees to control investment in skills and training. What's more, the existing right to request time off for training offer is inadequate – principally due to the lack of pay for employees on a training course. The evidence presented in this report has shown the importance of ensuring that all stakeholders have their interests recognised, at least to some degree, in the way that the available funding is used. On that basis, it is proposed that the right to request time off for training should evolve into something more substantial and meaningful from the perspective of employees, and the most logical way to deliver this ambition is by converting this existing right into a 'Right to Paid Training Leave' (RPTL).

Based on similar schemes available in many developed countries, the new RPTL will entitle employees to the legal right to five days of paid leave a year to attend a skills or training course. This right covers the provision of qualifications (or units of qualifications) as well as non-qualification courses. In line with international best practice, a set of eligibility rules will need to be put in place for employees to be able to request time off for paid training leave. It is suggested that these are initially based on the rules related to the existing right to request time off for training:

- **Staff must be classed as an employee**: this will exclude some individuals such as independent contractors, agency workers and students on work placements
- **They must have worked for their employer for at least one year**: this will help ensure that leave requests are genuine and do not unduly disrupt an employee's work
- **The training or course must help staff do their job better**: the training chosen by the employee must be relevant to the employer, and employers will retain the right to reject a leave request that does not relate to their operations.

Employers will be able to draw down funding from the NSF to pay for any courses or training as this funding stream is designed to support productivity and economic growth. The process of applying for funding will require further consideration as there are several different models that may be suitable (e.g. training providers drawing down funding on the employers' behalf, or employers directly applying to the devolved authorities in charge of the NSF allocations for their area). Regardless, employers will have access to an established source of funding. That said, because the cost of the training will be covered by the NSF, it is envisaged that this will still require minimum co-payments from the employer (see Recommendation 4).

Another core component of the RPTL will be the wage reimbursements available to employers. This is already a feature of training leave schemes in several countries as it provides crucial financial support to employers who temporarily lose an employee during working hours. Although some countries offer very generous wage reimbursements, this could result in the available funding being mostly directed towards employees with the highest wages rather than those with the lowest skills and least workplace experience. This can cause what is often referred to as the 'Matthew Effect',[182] where workers who are already highly paid or skilled are the most likely to receive additional skills and training.

Consequently, this report recommends that employers can receive a wage reimbursement from the NSF at a flat rate of £20 per hour for all paid training leave undertaken by their employees. This is intended to direct the most support towards smaller businesses and those training lower-qualified staff by helping to cover employee absences and pay for temporary staff cover where necessary. For minimum wage workers, £20 an hour would be enough for employers to pay for an extra worker as well as covering the entire wage cost of the employee on leave. Similarly, small businesses who rely on lower-paid staff will stand to benefit from this wage reimbursement whereas a larger employer with highly paid staff will see much less benefit from being compensated at £20 an hour for an absent employee.

It is difficult to estimate the precise cost of the new RPTL because it depends largely on the popularity of the scheme with employees, which will in turn be determined by a range of factors such as how effectively the government and employers communicate this new legal right and how many days employees use from their annual allowance of five days. Even so, capping wage reimbursements at £20 an hour will significantly reduce the overall cost of the RPTL, and there would also be the option of restricting the availability of wage reimbursements to specific firms (e.g. those with less than 250 employees) to target the wage support at those firms who face the greatest barriers to investing in skills and training.

On the other hand, one would still need to consider the cost of the training courses that employees attend by using the RPTL, which employers can subsidise through the NSF after making the necessary co-payments to access whatever provision meets their needs. Another related question would be the extent to which self-employed workers are allowed to access wage reimbursements and training subsidies through the NSF. These individuals will find it especially hard to invest in skills and training when they are constantly striving to build and maintain income streams through their work and may find it hard to step away from their source of employment unless there is financial support available to them.

RECOMMENDATION 7
The Government should work with social partners such as employer groups and trade unions to enhance the visibility and impact of the new skills investment infrastructure, particularly the National Skills Fund and the Right to Paid Training Leave.

As discussed in the previous chapter, the UK is unusual by international standards in how little it brings social partners such as trade unions into the conversations around employer investment in skills. Although this report recognises the important role that employers play in shaping skills and training provision, the evidence suggests that high-performing systems in other countries reflect a broad range of interests and perspectives – including employer organisations and employee representatives.

As this report has set the goal of involving all stakeholders in its proposals for boosting employer investment in skills, it is necessary to incorporate social partners into the recommendations outlined in this chapter so that their voice is heard too. There are a variety of ways in which this could be delivered in practice:

- Employer and employee representatives distributing information about the new RPTL to employees at all levels along with information about any free qualification entitlements for employees available through the new LSF;
- Employee representatives being given a formal role in helping to enforce the new RPTL after it is enacted, including reporting breaches of employers' legal duties or informing employees about how to raise complaints;
- Where they have not already done so, employer and employee representatives could be invited by MCAs to join the decision-making structures that will determine how they distribute their new NSF allocations at a local and regional level, including identifying skills shortages and high-growth sectors and locations;
- Employer representatives taking the lead in building a pipeline of new employer collaboration opportunities that can feed into the NSF, while employee representatives could be required to sign off employers' bid for collaborative projects before they are submitted or even be involved in judging the bids received by MCAs from employers.

Regardless of precisely what form their involvement takes, it is essential that social partners have a stake in the outcomes produced by the new skills investment system outlined throughout this chapter. Conversely, if social partners continue to be marginalised then policymakers in this country will have to accept that employers' investment in skills will remain suboptimal in both the short and longer term.

Conclusion

> *"…the skills challenge that government is facing has grown significantly, with key indicators going in the wrong direction. Employers' investment in workforce training has declined, as have participation in government-funded skills programmes and the programmes' impact on productivity. In addition, wider changes in the labour market are intensifying the challenge. Government therefore needs to be much more effective than it has in the past at helping to provide the skills the country needs. DfE is staking its success on a more employer-led system but, from the evidence we have seen, it is unclear whether the conditions are in place for this to be implemented successfully, in particular whether employers are ready to engage to the extent that will be needed to achieve a step-change in performance. As a result, there is a risk that, despite government's greater activity and good intent, its approach may be no more successful than previous interventions in supporting workforce skills development."* [183]

There have been many attempts to stimulate employer investment in skills over the years but with little to show for it, as the above quote from the recent NAO report illustrates. Seven years after Professor Alison Wolf published her vision for a 'levy' on all employers to pay for apprenticeships, her concern that "employers have been slashing their own spending on and commitment to training at the same time as government budgets have been squeezed"[184] is just as pertinent now as it was in 2015. Despite the introduction of the apprenticeship levy, a constant stream of independent reports have highlighted the lack of progress being made in encouraging employers to invest in skills. This has left the UK lagging behind our European counterparts in terms of the expenditure on training employees (and by some margin). This paucity of investment has several implications, including prominent and persistent skills gaps that may yet worsen in light of Brexit and the quest to reach 'Net Zero' – all of which could result in missed opportunities to improve productivity and growth. Furthermore, this report is being published shortly after the Bank of England warned that this country is heading for another recession,[185] which could place an even greater strain on our faltering skills system.

Although Professor Wolf, the Richard Review and the current government are all correct to state that employers need to be at the heart of the skills and training agenda, the time has come to replace the existing mantra of an 'employer-led' system with an 'employer-responsive' system that offers benefits to other stakeholders as well – namely employees, local communities and the government itself – rather than fixating on 'employer needs' in isolation. This change in emphasis is embodied by the proposed 'Apprenticeship and Skills Levy', which would simultaneously grant employers more flexibility to shape the skills and training system while also introducing checks and balances that ensure the funds raised by the new

Levy are spent in a way that serves the interests of all stakeholders. Furthermore, employers need to change from being **passive consumers** of government training programmes to being **active co-producers** who invest in skills and training alongside government and other stakeholders to upskill and reskill entire localities and sectors. Moreover, the new 'Right to Paid Training Leave' will also empower individual employees to drive employer investment in skills in a way that is simply not possible through the current system.

As the OECD has noted, there are many other factors beyond funding streams and government programmes that are known to influence when and why employers choose to invest in skills and training. These include the administrative burdens faced by employers, the ease of access to clear information and guidance for employers and individuals and the support available to middle and senior managers in relation to how to address skills shortages.[186] Moreover, aligning employer investment in training with R&D funding, capital spending, Further Education and Higher Education provision and support for individuals who are unemployed or economically inactive are all critical components of boosting economic growth and productivity, particularly in more deprived areas, yet the Government rarely talks about the vital links between them. Although such policy considerations are beyond the scope of this report, action on all these fronts will be needed to generate sustainable improvements in how much employers invest in skills and training.

Furthermore, the needs of the UK economy are constantly changing and the skills system may need to adapt to these changing needs even if the recommendations in this report are implemented. For example, a more generous offer for paid training leave could be rolled out if it proves to be a successful mechanism for promoting participation in training. Other countries are also continually reassessing how they can increase employer investment in skills. For example, Ireland has raised the rate of their 'National Training Fund' levy on employers from 0.7 per cent in 2017 to 1 per cent in 2020, such is their desire to upskill and reskill workers and facilitate lifelong learning.[187] With other countries constantly testing new ideas and approaches, the proposals in this report – despite being new innovations by UK standards – may need to keep evolving in future.

Nevertheless, this report's recommendations have the potential to encourage far more employers to "offer the high-quality employee training the UK needs",[188] as the Treasury hopes. By creating a sustainable funding source with clear objectives that will support employers and employees to invest more in training (and retraining), it is hoped that these recommendations will have a positive and lasting impact on the productivity and growth of UK plc. In light of the ever-growing skills challenges facing this country, this extra investment cannot come soon enough.

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