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Centre for Degree  
Apprenticeships

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*Options for the Future of the  
Apprenticeship Levy or New  
Growth and Skills Levy*

*Recommendations*

**A UVAC White Paper**

## ***Contents.***

### **1. Summary.**

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### **2. Background.**

---

### **3. The Apprenticeship Levy, Labour's 'Growth and Skills Levy' and Apprenticeship Funding – Do the Figures Stack Up?**

---

### **4. The Apprenticeship/Growth and Skills Levy – What Should its Purpose and Policy Priorities Be?**

---

### **5. What should Government Fund through an Apprenticeship/Skills and Growth Levy and what Training should Government, Employers and Individuals Fund?**

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### **6. Why is the Conversation Not About Increasing Employer and Individual Spend on/Investment in Training and Development?**

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### **7. Potential Controls and Restrictions on Apprenticeship Spending – What are the Options and their Implications?**

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### **8. Increasing Levy Revenues and the Size of the 'Levy Pot' – What Would Be Gained?**

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### **9. Use of a 'Growth and Skills Levy' to Fund Approved Training Programmes – What are the Arguments For and Against?**

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### **10. Conclusions.**

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### **11. UVAC Recommendations.**

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# *A UVAC White Paper.*

## **1. Summary**

UVAC would ask all political parties to consider:

- I. Funding apprenticeships for 16 – 19 year-olds, for what is essentially compulsory education – like A Levels and T Levels – from general taxation.
- II. Incentivising apprenticeship in key areas – for the net zero agenda and for key public sector occupations e.g. nurses, allied health professionals and teachers and for employers to provide higher and degree apprenticeships for individuals who have completed level 3 (Advanced) apprenticeships.
- III. Introducing tax breaks and incentives to encourage employers and individuals to invest in training programmes that increase productivity in the private and public sectors.
- IV. Consulting with employers and stakeholders to determine if greater flexibility in the ability of employers to spend levy funds requires more revenue to be raised through a skills levy. In particular would changes in the levy rate and threshold be accepted by employers subject to the following developments:
  - a. Firstly greater investment by government in apprenticeships and training.
  - b. Secondly the introduction of measure to support greater flexibility in how employers could use levy funds.
  - c. Thirdly government funds raised through general taxation over and above the levy, to fund more apprenticeships and IF appropriate, approved training programmes.
- V. Ensuring, if a Growth and Skills Levy was introduced:
  - a. Sufficient funds to support apprenticeship provision for SMEs given the provider cost of supporting engagement and allow for a weighted allocation uplift in the funding model.
  - b. That ‘approved training programmes’ focused on the priority programmes needed by the economy and the public sector.
  - c. That, as such, ‘approved training programmes’ would encompass training at ALL SKILL LEVELS (level 2 to level 7) and for individuals of ALL AGES.

## 2. Background

The future of the Apprenticeship Levy has, in recent years, attracted considerable political and press attention. Employers and their representative organisations have outlined their frustrations with the current operation of the Apprenticeship Levy. Levy paying employers argue that it is very difficult to spend their levy payments on the training programmes their organisations need and complain about their levy payments being ‘wasted’. Both levy paying employers and smaller employers, that do not pay the Apprenticeship Levy, complain about the bureaucracy associated with the apprenticeship funding system and the difficulty of recruiting and training apprentices. Indeed, some influential employers<sup>1</sup> have deemed the Apprenticeship Levy to be a failure.

The criticism of the Apprenticeship Levy has frequently drowned out what are the undoubted successes of apprenticeships and indeed the Apprenticeship Levy itself. Organisations can use apprenticeships developed by employers under the auspices of the Institute for Apprenticeship and Technical Education (IfATE), for 695 occupations<sup>2</sup> from level 2 (GCSE level) to level 7 (master’s degree level). Apprenticeships are available for data specialists, technicians, engineers, construction occupations, scientists, managers and key public sector occupations, nurses, police constables, teachers and social workers. Increasingly, apprenticeship delivery relates to the occupations needed in the economy and apprenticeships are being used to tackle major skills shortages. Even when the Apprenticeship Levy is criticised, employers<sup>3</sup> frequently highlight the value of apprenticeships themselves.

***Substantially more funding is available and is actually spent on apprenticeship delivery than was available before the Apprenticeship Levy was introduced in 2017.***

In 2010/11, the government’s budget for apprenticeships was £1,200 million<sup>4</sup>. In the 2023/24 financial year the Apprenticeship budget was £2,585 million. Inflation between 2011 and 2024 amounted to 41%<sup>5</sup>. Substantially more funding is available for apprenticeship in real terms. Some commentators will point to the decline in apprenticeship numbers. This is certainly true. Prior to the introduction of the Apprenticeship Levy in 2016/17 there were 495,000 apprenticeship starts<sup>6</sup>, in contrast to the academic year 2022/23 when there were 337,000 starts<sup>7</sup>. Apprenticeships have, however, changed. Employers are using apprenticeships for more expensive higher level programmes than were used prior to the Apprenticeship Levy’s introduction. Comparisons of apprenticeship starts in 2016/17 and 2022/23 is not comparing like for like.

Undoubtedly, there are issues concerning the apprenticeship system that need tackling. In 2022/23 the overall completion rate for apprenticeships was 54%, significantly below the government’s 67% target achievement rate<sup>8</sup>. However, the completion rate for level 6 apprenticeships was 66% and for level 7 apprenticeships was 58%<sup>9</sup>.

The perception of apprenticeships has significantly changed from ‘a good programme for other people’s children’, to a highly aspirational programme. Entry to many apprenticeships available with major companies, some of which are delivered by world-class universities, are highly competitive.

<sup>1</sup> Leo Quinn, Chief Executive of Balfour Beatty and founder of The 5% Club, The Sunday Telegraph, 12 February 2023

<sup>2</sup> IfATE website (accessed 30 April 2024)

<sup>3</sup> See Anthony Impey, Chair of the Industry and Skills Board, “Employers like apprenticeships because they are a great way to recruit and train talented people.” Quoted in City & Guilds, Only 4% of employers are spending their full apprenticeship levy funding, 2 February 2023

<sup>4</sup> Robert Halfon, Keep the Apprenticeship Levy for apprenticeships, The New Statesman, 6 February 2024

<sup>5</sup> Based on Bank of England Inflation Calculator

<sup>6</sup> Niamh Foley, Apprenticeship Statistics, Briefing Paper, House of Commons Library, 30 March 2021

<sup>7</sup> Apprenticeship statistics for England, House of Commons Library, 23 January 2024

<sup>8</sup> National apprenticeship achievement rate rises to 54%, Billy Camden and Shane Chohan, FE Week, 21 March 2024

<sup>9</sup> Ibid

Apprenticeship has also become a pathway into many aspirational public sector roles, police constable, teacher, social worker and registered nurse.

Different views exist and the operation of the Apprenticeship Levy could be improved, but the Apprenticeship Levy cannot simply be dismissed as a failure. Indeed, there are good reasons, with caveats, to regard it as a policy success.

***Prior to implementing any radical changes, a detailed and objective assessment of the Apprenticeship Levy and performance of the apprenticeship programme is needed.***

Labour has proposed a new Growth and Skills Levy<sup>10</sup> which, while ring fencing 50% of levy funds for apprenticeship, would allow levy paying employers to spend up to 50% of their levy payments on other approved training programmes. The Conservatives<sup>11</sup> have responded that Labour's plans would substantially reduce the funding available for the apprenticeship programme in England and the number of apprenticeships the levy was able to fund would decline substantially.

The debate on the Apprenticeship Levy and apprenticeship and skills provision will no doubt intensify in the run up to the forthcoming General Election. This paper outlines key issues that need to be considered, analyses monies raised and spent from the Apprenticeship Levy, the options facing policy makers and the implications of different policy options.

***UVAC addresses the issues outlined in this paper to potential policy makers, employers and key stakeholders.***

### ***3. The Apprenticeship Levy, Labour's 'Growth and Skills Levy' and Apprenticeship Funding – Do the Figures Stack Up?***

In the 2023/24 financial year the apprenticeship budget was £2,585 million and monies spent on apprenticeship amounted to £2,525 million<sup>12</sup>. The apprenticeship budget was under-spent by £60m, representing 2% of the budget. This is a tiny difference. Politicians can claim that the apprenticeship budget was almost fully spent; to be precise 98% was spent.

***This is not, however the real story, as there is a real money problem.***

The Office for Budget Responsibility (OBR) forecast that in 2023/24, £3,900 million<sup>13</sup> was raised UK wide through the Apprenticeship Levy. Funds distributed through the Barnett formula to the devolved nations need to be subtracted from this UK figure. Here there is little transparency in government figures, but UVAC believes that around £550 million to £650 million transferred to the devolved nations would not be an unreasonable estimate. Take £650 million off the OBR figure of £3,900 million and a figure of £3,250 million raised through the Apprenticeship Levy 'in England' emerges. The difference between £3,250 million and the apprenticeship budget of £2,585 million is £665 million. This means in 2023/24 approximately £665 million or 20% of funds raised through the Apprenticeship Levy 'in England' were retained by the Treasury. This figure and percentage could be slightly different if less funding was actually transferred to the devolved governments.

***What we can say with certainty is that employers were indeed short-changed by the Treasury in 2023/24, but not by as much as the 50% or more some employers and some politicians sometimes imply.***

<sup>10</sup> Breaking Down Barriers to Opportunity, Labour

<sup>11</sup> Labour's Levy plan would limit apprenticeship to 140,000 a year, government claims, Billy Camden, FE Week, 14 November 2023

<sup>12</sup> Figures largely based on work by Billy Camden, DfE set to surrender £60m apprenticeship cash in 2023 – 2024, FE Week, 1 March 2024

<sup>13</sup> Ibid 10

***Transparency is needed from any incoming Government on funds raised and spent through the Apprenticeship Levy.***

Clarity is also needed on the status of the Apprenticeship Levy. Is it a hypothecated tax levied on employers to fund apprenticeships? Alternatively, is the Apprenticeship Levy a form of general taxation, not dissimilar to say corporate tax to be spent on general government expenditure?

When introduced in 2017, the Apprenticeship Levy was very much presented by the Conservative Government as a hypothecated tax where employers could spend their levy payments on the apprenticeship, they believed their organisations needed. Payment of employers' levy payments into their Digital Apprenticeship Service accounts reinforces this notion.

The Treasury however, seems to treat the Apprenticeship Levy as a form of general taxation akin to corporate tax. here is for example, no apparent connection (or no connection is made by government) between the amount of money raised from the Apprenticeship Levy and the size of the Department for Education (DfE) apprenticeship budget. The confusion as to whether the Apprenticeship Levy is a hypothecated tax and how it funds apprenticeships for smaller employers who do not pay the levy has undermined confidence in the system.

***To regain employer confidence, any incoming government should confirm that the levy is a hypothecated tax and that all monies raised through the levy will be available for employers to spend on apprenticeships (and approved training programmes - as appropriate) they believe their organisations need. The Treasury must not treat levy funds as general taxation.***

**Labour's Growth and Skills Levy** - If the total funds raised from the Apprenticeship Levy 'from England' were used for a new Growth and Skills Levy and levy payers (as Labour would allow) spent 50% of their payments on other approved training programmes, then £1,625 million<sup>14</sup> would be available for apprenticeships. The current apprenticeship budget is £2,585 million with an actual spend of £2,525 million, **so this would mean a reduction in funds spent on apprenticeships of £900 million equating to a 36% reduction in funds spent on apprenticeship training.** This of course is a worst-case scenario and assumes that all employers spend 50% of their levy payments on other approved training programmes.

**Labour's Problem with the Growth and Skills Levy** – In summary, Labour's calculations regarding apprenticeships and the Growth and Skills Levy do not currently add up. A reduction of up to £900 million in apprenticeship funding would mean that Labour would need to introduce significant controls and restrictions on employer use of apprenticeships (see section 5). This would substantially increase the bureaucracy employers would encounter with the apprenticeship system but also more significantly, have profound and damaging implications for the apprenticeship provision currently delivered.

Labour could plug the shortfall in apprenticeship funding by other means, through general taxation or by changing the parameters of the levy. Answers are needed on how Labour will ensure that the Growth and Skills Levy sums add up. Understandably, organisations providing apprenticeships have raised significant concerns regarding Labour's plans and how apprenticeship provision will be funded.

**Wasted Levy – Myth or Reality?** – Numerous articles have appeared in the press outlining complaints from levy paying employers that they are unable to spend their Apprenticeship Levy and that the under-spend is just 'wasted' and returned to the Treasury<sup>15</sup>.

<sup>14</sup> Based on UVAC estimate that £3,250 is raised from the Apprenticeship Levy for England

<sup>15</sup> Apprenticeship funds 'wasted', Isabella Fish, Retail Editor, The Times, 6 February 2023 – summarises arguments from The Co-operative Group, British Retail Consortium, UK Hospitality, techUK and the Recruitment and Employment Confederation. A similar argument is outlined in Reform the apprentices levy now urges M&S, Richard Tyler and Isabella Fish, The Times, 5 February 2024.

Research from City & Guilds<sup>16</sup> and the 5% Club found that employers spent on average 55.5% of their Apprenticeship Levy funding in the last five years and suggest nearly half of the generated funding has not been used by Levy paying employers and risks *going to waste*. Additionally, the research found that only 4% of employers were spending their Apprenticeship Levy payments in full and that 96% of UK businesses want changes to the levy.

From a national budgetary perspective there is a degree of truth in these ‘wasted’ levy claims. In 2022/23, approximately £3,250 million (UVAC estimate) was raised from the Apprenticeship Levy in England and £2,525 million was spent on apprenticeship. The difference of £725 million or 22% of funds raised is a significant sum. It is, however, nothing like the 50% plus of ‘wasted’ levy some claim.

What is often ignored when analysis of levy paying employers spend on apprenticeship is considered, is that the Apprenticeship Levy was introduced to fund apprenticeships for both levy paying employers and smaller non-levy paying employers. The system lacks transparency and its operation is not fully explained. **The apprenticeship system (if we assume the levy is a hypothecated tax) however, relies on levy paying employers not using all of their levy payments so that apprenticeships for smaller non-levy paying employers can be funded.** A significant proportion of Apprenticeship Levy funds paid by employers are not ‘wasted’, but instead used to fund apprenticeships for smaller employers.

Employers complaining about ‘wasted’ levy funds do however, have a point when the use of Apprenticeship Levy funds is considered over time. Since the introduction of the Apprenticeship Levy in 2017, FE Week calculated that £2.494 million<sup>17</sup> has been retained or returned to the Treasury. Such funds are not however, sitting in and available for use in some bank account, they have instead been used to fund other government expenditure. This again reinforces the need for transparency in levy funds raised and how levy funds are spent.

***In future any government needs to be transparent as to how levy funds are raised, managed and spent.***

#### ***4. The Apprenticeship/Growth and Skills Levy – What Should its Purpose and Policy Priorities Be?***

A first point any incoming government needs to consider is the purpose of an Apprenticeship/Growth and Skills Levy. At a practical level the Apprenticeship Levy was introduced in 2017 to fund the government’s flagship skills programme - Apprenticeship. A Growth and Skills Levy would be introduced to fund apprenticeships and approved training programmes. Since 2017 however, as has been outlined in our earlier analysis, the Apprenticeship Levy appears to have been treated by the Treasury as general taxation rather than a hypothecated tax levied to fund apprenticeship. Indeed, FE Week<sup>18</sup> described the Apprenticeship Levy as a Treasury ‘Cash Cow’.

UVAC has argued and continues to argue that productivity should be the starting point for any incoming government approach to apprenticeship and skills. Average output per worker for G7 nations (excluding the UK and Japan) was 16% above the UK level in 2021<sup>19</sup>. The consultation on the Advanced British Standard (ABS)<sup>20</sup> noted that: “A third of our national productivity growth over the last two decades is explained by improvements in skills levels across the workforce.” These are important statistics.

***Increasing UK productivity must be a key, if not the top priority for any incoming government.***

Higher productivity means that employers can pay higher wages thereby increasing the standard of living. Higher wages and profits mean a greater tax take for government and more opportunity to spend on

<sup>16</sup> Only 4% of employers are spending their full apprenticeship levy funding, City & Guilds, 2 February, 2023

<sup>17</sup> Apprenticeship Levy turns into Treasury ‘cash cow’ Billy Camden, FE Week, 29 September 2023

<sup>18</sup> Ibid 17

<sup>19</sup> International Comparisons of UK Productivity Final Estimates 2021, ONS

<sup>20</sup> Skills and UK Productivity Research Report (publishing.service.gov.uk) quoted in, A world-class education system: The Advanced British Standard, Department for Education, December 2023

public sector services and/or reduce the tax burden on individuals and business. Higher productivity in the public sector means better and more efficient delivery of public services and the ability to pay higher wages.

Policy makers need to consider what policy objectives a government intends to deliver through apprenticeships (or approved training programmes). We would suggest the following:

**Productivity Objective** - *Supporting employers to recruit and train individuals for the occupations they need, in order to raise business performance and productivity.*

While productivity should be the key policy driver, other objectives (all related to productivity) for an Apprenticeship or Growth and Skills Levy could include:

- *Providing an entry-level work-based programme through which young people could secure their first job and train to be occupationally competent*
- *Recruiting and training individuals for key public sector roles; teachers, police constables, nurses, social workers etc., including reducing the reliance on overseas workers e.g. nurses*
- *Recruiting and training individuals for the key green occupations needed for the net zero agenda*
- *Delivering on the social mobility agenda and opening up new pathways to technical level occupations and the professions*

Not all of the above objectives are mutually compatible. Prioritising spending on entry-level job roles for young people would mean less funding to deliver the other potential objectives identified. Focusing on public sector occupations (in health, education and policing) could mean less priority was given to the net zero agenda.

***Funds raised through a levy are finite and an incoming government will need to determine its priorities in respect of levy funds.***

Extending the levy to encompass approved training programmes, as Labour has proposed, would mean that government needed to be even clearer about its policy objectives and how they translated into the type of programmes supported. Would approved training programmes encompass CPD, booster courses and short courses? Should a priority be given to funding training programmes to tackle skills gaps and shortages or prioritising provision for individuals to secure lower level roles that were important from a social justice perspective?

## ***5. What should Government Fund through an Apprenticeship/Skills and Growth Levy and what Training should Government, Employers and Individuals Fund?***

Significant anomalies are apparent in who funds specific types of training programmes in England. A key issue is that there is no agreement or policy on what individuals, employers and the state are expected to fund. When should an individual use their Lifelong Learning Entitlement (LLE) (a government backed loan) or their own funds to enhance their skills? What should employers fund using their own money? When should an employer fund such provision from their own funds and when would the use of a potential Growth and Skills Levy fund be appropriate? What training should government fund from general taxation and what should employers/government fund through the Apprenticeship Levy? Prior to any government introducing a Growth and Skills Levy, consideration is needed of these issues.

An incoming government will also need to consider the role of general taxation in funding training programmes and how tax breaks and incentives (personal and business) could support individuals and employers spend more of their own funds on training and development.



***A key policy priority of any incoming government should be to increase employers' spending on training and development to match or exceed the spend by employers in our OECD competitors.***

The college and independent training provider (ITP) sector has frequently advocated for a level based approach to determine what government, employers and individual's fund. Colleges and ITPs typically argue that government funding, including Apprenticeship Levy income should be used to fund programmes at level 2 and level 3. They also argue that individuals and employers should fund programmes at level 4 and above through student loans/LLE and their own funds. Some also argue that government funding for training programmes should be prioritised for younger people, particularly those aged 24 and under. There are however, significant problems with these arguments.

The key problem is that level 2 and level 3 skills and occupations are frequently not where key skills shortages exist. In the public sector key occupations include; registered nurse (level 6), social worker (level 6), teacher (level 6) and police constable (level 6). Apprenticeships have been developed for all these occupations and will, based on current policy, be widely used in coming years. A major focus is needed on green jobs, if the country is to deliver the net zero economy; key occupations here will frequently be at level 4 and above. A focus is needed on higher-level occupations, if the country is to develop as a high skills, high productivity and high income economy. Similarly, if the focus is on improving productivity, government must have a major focus on the adult workforce, those aged over 24, who comprise the vast majority of the working population.

From a social mobility perspective, any incoming government will also want a focus on opening up progression routes to the professions and to higher paid occupations. Supporting individuals from disadvantaged backgrounds and under-served communities into entry-level roles can help with social mobility but it is a first step. Government should be far more ambitious and will need a focus on social mobility and progression into technical level roles, the professions and higher paid occupations.

## ***6. Why is The Conversation Not About Increasing Employer and Individual Spend on/Investment in Training and Development?***

One issue on which all political parties will agree is that **UK employers need to spend more on the training and development of their employees.** In March 2024 the New Economics Foundation<sup>21</sup> reported that **employers' spending on employee training was a fifth less than a decade ago.**

Any incoming government will need to analyse the impact of any proposed changes to the Apprenticeship Levy on potential employer spending on training and development. Analysis will also be needed on employer spending on training and the Apprenticeship Levy if policies such as training tax breaks and incentives are introduced. Government will also want to consider how it encourages individuals to invest in their own training and development.

One criticism of Labour's Growth and Skills Levy is that employers will simply use levy funds on training provision that they would have purchased without the levy. This is known as the 'deadweight' argument. With the Apprenticeship Levy, employers could only spend their levy payments on apprenticeships. A 'good' employer that already invests in and trains its employees, should not however, be penalised by the levy. The key issue is the extent to which employers who do not train their employees or who spend little on training will increase their spending through the imposition of the levy.

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<sup>21</sup> New Economics Foundation Press Release 19 March 2024

## 7. *Potential Controls and Restrictions on Apprenticeship Spending – What are the Options and their Implications?*

UVAC, like many economists, argues that government and/or employers should spend more, not less, on apprenticeships and training. Increasing spend on training is a proven way of increasing employee performance and productivity. Increased productivity increases business profits and the ability to pay employees more, thereby also increasing the government tax take. Investing more in training in the public sector increases productivity and results in better public service delivery for monies invested by government.

There have, however, been calls<sup>22</sup> to restrict the ability of employers to spend levy funds on certain types of apprenticeship. Such calls have been based on a desire to prioritise certain types of apprenticeship and/or apprenticeships for certain types of individuals. Arguments focus on the need to prioritise apprenticeships for young people and lower-level entry roles. The basis for such arguments are typically twofold. Firstly philosophical, as an apprenticeship has historically been a programme for young people entering their first job and an alternative to university. Secondly the social justice perspective; that apprenticeships and their funding should be focused on the ‘have-nots’ and those who, for example, do not benefit from higher education provision. An alternative argument would be to prioritise apprenticeships that had the largest impact on improving productivity, improving public sector services or delivering the net zero agenda.

*An incoming government, facing a funding shortfall, could restrict employer spend on certain types of apprenticeship and apprenticeships for certain categories of employee. Restrictions could involve making some difficult decisions with far reaching and very damaging consequences.*

Potential restrictions could include:

**A Graduate Ban** – This would involve making individuals with a first degree ineligible for an apprenticeship funded through the Apprenticeship Levy. Such a policy would make most apprenticeships at level 7 (master’s degree level), where a first degree is an entry requirement or is usual, ineligible for levy fund support and effectively undeliverable. We would note that apprenticeships at level 7 include, Artificial Intelligence (AI), data specialist, architect, district nurse, game programmer and process automation engineer. Some other key apprenticeships at level 6 would also be affected. Take an NHS Trust, seeking to train a thirty year-old as a new registered nurse through an apprenticeship, using its levy funds. If the individual had completed a history degree at twenty-one the NHS Trust would not be allowed to use its levy payments to train the prospective nurse.

**A Starting Salary Ceiling** – This would involve making individuals with a starting salary above a specific level ineligible for an apprenticeship funded through the Apprenticeship Levy. For government, the first issue would be the level at which to impose the ceiling. Set the ceiling too high and there would be little impact on the apprenticeship budget. Set the ceiling too low and apprenticeships would cease to be available for some key sectors. The starting salary for a police constable in the Metropolitan Police which offers the Police Constable Degree Apprenticeship is £36,775<sup>23</sup>. Set the salary ceiling to low and the Police Constable Degree Apprenticeship would become undeliverable in all or certain locations. Overtime payments would also provide an additional complication.

**Restricting Apprenticeships for those Aged over 24** – There have, over the years, been calls to restrict the ability of employers to use apprenticeships for older workers, for example those aged over 24. The problem here is that older workers need training too. Indeed, in order to raise productivity, employers

<sup>22</sup> Treasury plans Apprenticeship Levy restrictions, Billy Camden, FE Week, 16 November 2023. See also Top-end apprenticeships, should no longer be levy funded to stop the levy going into the red, AELP, FE News, 20 March 2019 and Pre-apprenticeship salary cap ‘palatable’ to limit demand says skills minister, Billy Camden, FE Week, 25 June, 2019.

<sup>23</sup> Metropolitan Police, Police Constable, Benefits and Rewards, Metropolitan Police, Website (accessed 30 April 2024)

need to focus most of their activities on the existing workforce. An older worker may also be the best candidate to train for a specific occupation through an apprenticeship. Age restrictions would undermine key progression routes. Take a thirty-year old healthcare assistant using an apprenticeship to train as a nursing associate or a thirty-five year old nursing associate training as a registered nurse. Apprenticeships for older employees support social mobility for individuals who did not have or who missed opportunities at a younger age.

**Restricting the use of Apprenticeships for Existing Employees** – To some, starts on apprenticeships by existing employees are inappropriate. The argument advanced is that apprenticeships should be used for individuals newly recruited by an employer and young people entering the workforce. Restricting apprenticeships for existing employees would however, undermine the concept of an apprenticeship progression route and, for example, the ability of those completing level 3 (Advanced Apprenticeship) to start an apprenticeship at level 4, 5 or 6 (Higher and Degree Apprenticeships). Developing work-based progression routes from level 3 (Advanced Apprenticeship) through apprenticeship at level 4 to level 7 should be a priority for the Apprenticeship programme.

**Restricting the Use of Management Apprenticeships** – Management apprenticeships have, for some stakeholders, been the most controversial of apprenticeships. Many argue that it is inappropriate for employers to use apprenticeships to train managers for relatively well-paid roles. The NHS is the employer that makes most use of leadership and management apprenticeships. The following analysis outlines why management apprenticeships should be funded. The NHS needs the best managers and the best management training, if it is to deliver for the British people. In 2022/23 the NHS spent £171.8 billion<sup>24</sup> and the NHS waiting list stands at 7.7 million<sup>25</sup>. A key objective of any manager is to raise organisational and employee performance and maximise the effective use of resources. Accordingly, management practice is key to overall organisational performance. The CMI<sup>26</sup> reported that: *“One study found that 43% of hospitals scoring above average in management practices achieved “high quality” outcomes, compared to 14% of those below average.”*

**Restricting Apprenticeship Starts at Level 6 and 7 (Degree Apprenticeships)** – Since the introduction of the Apprenticeship Levy in 2017 there have been frequent calls to prioritise apprenticeships at level 2 and level 3 and restrict, or even end the use of levy funding for programmes at level 6 and level 7. Five of the top ten most used Degree Apprenticeships/level 6 and level 7 apprenticeships, are for specific public sector occupations. These occupations are; social worker, teacher, advanced clinical practitioner, registered nurse and police constable. **Any incoming government would not want to reduce the number of teachers, nurses or police constables trained by restricting the use of levy funds for such apprenticeships.** It is however, worth noting that the level 6 and 7 apprenticeship with by far the highest take-up is the Accountancy or Tax Professional.

**Restricting Apprenticeships for SMEs** – Any new government needs to consider how apprenticeships for non-levy paying employers i.e. SMEs will be funded. Although not at all transparent, the under-spend of levy payments by levy paying employers has been seen as funding apprenticeships for smaller non-levy paying employers. If Labour’s Growth and Skills Levy, which would allow employers to spend up to 50% of their levy payments on approved training programmes is implemented, it is unclear how apprenticeships for non-levy paying employers would be funded. SMEs are an engine of economic growth. SMEs do however, need support and encouragement to train. SMEs are also major users of apprenticeships, particularly for young people.

**Introducing Different Levy Contributions for Different Types of Apprenticeships** – government could decide to require employers to pay a contribution to the cost of an apprenticeship. Levy funds could for example, fund 75% of the cost with an employer being required to fund 25%. This would be resisted by employers and have a detrimental impact on the take-up of apprenticeships

<sup>24</sup> The NHS Budget and how it has changed, The King’s Fund, 20 September 2023

<sup>25</sup> The NHS Waiting list: When will it peak, The Health Foundation, 24 October 2023

<sup>26</sup> Daisy Hooper, Head of Policy and Innovation, CMI data, email to UVAC 10 November 2023

**Restricting the Use of Level 2 Apprenticeships** – Level 2 (Intermediate Apprenticeships) tend to have the lowest return on investment for government, employers and individual apprentices. Arguably the least economic damage would be incurred by restricting the use of level 2 apprenticeships (rather than apprenticeships at level 3 to level 7), particularly if craft and STEM level 2 apprenticeships were prioritised. Level 2 apprenticeships do however, provide a potential route into work for many young people and are of significant value from this social justice perspective.

*All of the above measures would restrict employer and individual choice and introduce additional layers of bureaucracy. Employers already describe the apprenticeship system as overly bureaucratic. Any incoming government would not want to increase this bureaucratic burden.*

**Ring fence Public Sector Apprenticeship Levy Payments** – There have been calls to ring fence public sector Apprenticeship Levy payments. Few would argue that the NHS needs all the help it can get in order to meet the challenges it faces and deliver on its Long Term Workforce Plan. Police forces and the school's sector would be likely to attract similar support. Public sector employers should be allowed to spend their levy payments on the doctors, nurses, police officers, teachers, managers etc. they need, even if restrictions were introduced for other employers.

### ***8. Increasing Levy Revenues and the Size of the 'Levy Pot' – What Would Be Gained?***

An alternative to restricting spend on apprenticeships, would be to increase funds raised through the Apprenticeship or Growth and Skills Levy and thereby increase the size of the 'levy pot'. An incoming government would have two main ways of doing this. It could increase the amount levy paying employers pay, by increasing the levy rate from 0.5% of payroll. It could alternatively or additionally, widen the scope of the levy by reducing the threshold at which employers start paying the levy, currently set at a payroll of £3 million.

Such action would undoubtedly be opposed by the vast majority of employers. It would be seen as (and would actually be) a tax rise and if the levy threshold was reduced, as increasing the bureaucratic burden on small employers. There are however, strong arguments as to why increasing levy revenues would be justified.

***UK Employer Spend on Training has Declined Over the Last Decade*** – Additionally, UK employers spend significantly less on training their employees than their OECD competitors. To increase the UK's notoriously low productivity, employers need to raise the performance of their employees. Increasing the scope of and revenue raised from the levy could be seen as government action to correct market failure.

***Increased Flexibility in the Use of the Levy*** – One of the major complaints from employers concerning the Apprenticeship Levy, is its perceived inflexibility. Employers complain that they typically cannot spend and therefore lose a significant proportion of their levy payments. Introducing flexibility on what employers could spend levy payments on would increase the opportunity for employers to recover and use their levy payments.

***Using Revenue from General Taxation to Fund Apprenticeships*** – When the Apprenticeship Levy was introduced in 2017 government shifted the cost of funding apprenticeships from the state to employers. More accurately government transferred the cost of providing apprenticeships to larger employers with a payroll of over £3 million per annum. Since the introduction of the Apprenticeship Levy, levy paying employers have not only paid for the apprenticeships for their own staff, but they have also funded apprenticeships for SMEs who do not pay the Apprenticeship Levy. As has been outlined in section 1, since the introduction of the Apprenticeship Levy in 2017 government has also collected substantially more in levy payments from employers than it has spent on apprenticeships.

## ***9. Use of a ‘Growth and Skills Levy’ to Fund Approved Training Programmes – What are the Arguments For and Against?***

There is a strong argument<sup>27</sup> that funds raised from the Apprenticeship Levy should be used solely to fund apprenticeships. If, however, the parameters of the existing Apprenticeship Levy were changed to increase revenue or additional government funding was invested so that existing expenditure on apprenticeships was protected, a case could be made for funding other priority training programmes. If such a policy was adopted, an incoming government would need to:

- I. Determine how the current/future apprenticeship budget would be protected
- II. Agree the principles for a training system, what government, employers and individuals were expected to fund/contribute towards training provision
- III. Determine how the levy related to other key policies e.g. the Lifelong Learning Entitlement (LLE)
- IV. Determine the scope and coverage of ‘approved’ training programmes
- V. Determine if employers should be required to make a financial contribution to the delivery costs of ‘approved’ training programmes.

***The scope and coverage of ‘approved’ training programmes/courses*** – Training programmes/courses that attract levy support must be approved on the basis of appropriate criteria. **Criteria should be developed on approving programmes/courses on the basis of the contribution they make to raising performance and productivity, delivering public sector services and the net zero economy.** This would mean programmes at level 2 to level 7 could be approved training programmes. Additionally individuals of all ages would need to be eligible for approved training programmes.

It would seem inappropriate to fund basic skills programmes or apprenticeships for 16 and 17 year-olds from a levy imposed on employers. Basic skills should be delivered through compulsory education funded by general taxation. If employees lack basic skills, this is a failure of or task for the education system and not of employers. Employers’ responsibility should be focused on training individuals for a job/occupation and updating skills to meet the challenges of the economy and public sector service delivery. Apprenticeships for 16 and 17 year-olds are part of the compulsory education offer and should be funded from general taxation, like A levels and T levels.

Any incoming government will find it hard to determine what training programmes/courses it (or an appointed agency) approves, in addition to apprenticeships, for levy funding. Good arguments will be advanced by employers, training providers and stakeholders for levy funding for a range of different programmes. What is certain is that the costs of funding the range of programmes proposed will be far greater than the funds raised from any skills levy.

## ***10. Conclusions***

In the run up to the forthcoming UK Parliamentary general election there is a need for significant debate about apprenticeships, skills and the Apprenticeship Levy. The debate needs to focus on the skills the economy, public sector, employers and individuals need to raise productivity, deliver public sector services and the net zero economy. As such, skills needs at all levels up to and including levels 6, 7 and 8 (bachelors, masters and doctoral level) need to be considered in any debate.

Employers, further education colleges, independent training providers and universities, professional, statutory and regulatory bodies (PSRBs), other stakeholders and individual learners must ALL be involved in this debate. Political leaders and stakeholders at regional and local levels must similarly be engaged.

Mistakes of the past must be avoided. Too often there has been a failure to consider higher level skills and the role of universities in the development and delivery of skills policy. If skills policy is focused on

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<sup>27</sup> Ibid

supporting the UK to develop as a high productivity economy, a focus is needed on higher level skills and the UK's world-class university sector must be fully engaged.

## ***11. UVAC Recommendations***

In order for an informed debate to happen we need:

- Transparency in data, particularly the amount raised through the Apprenticeship Levy for England. Transparency is also needed regarding the cost of proposals advanced by different political parties and how proposals would be funded
- An assessment of the implications of any proposals on current apprenticeship and skills provision including provision for non-levy paying employers.

UVAC believes that there is a proven economic case for Westminster Government to invest more in apprenticeships and skills provision through general taxation. Investment in apprenticeship and skills raises productivity and thereby the government's tax take. Employers and individuals also need to invest more in skills and training programmes.

*UVAC is one of the most authoritative voices in the sector on education and training in higher education (HE) and the leading expert on all aspects of the policy and operational requirements of higher and degree apprenticeships. UVAC currently has members of all types and sizes and from all university mission groups and a growing number of valued corporate supporters. UVAC is celebrating its 25th anniversary in 2024; two and half decades of championing higher technical and professional learning and actively supporting progression routes into HE through our advocacy, representation and research work.*

*And what a remarkable 25 years we have experienced in apprenticeships. In fact, UVAC has seen a seismic shift in the development and policy design of apprenticeships in England. Where once we had apprenticeships that were just the domain of traditional industries with little engagement with or appeal to, HE providers, we now have apprenticeship opportunities in England that stretch from the crafts and trades through to technical, associate professional, managerial and professional job roles and we have the foremost universities in the world involved in their delivery alongside colleges, training providers and employers. Degree Apprenticeships have become a significant entry-route to professions from architecture and engineering to nursing and social work, providing a means for young people and adults in work to enter traditionally graduate occupations in the private sector and contribute to modernising and diversifying our public services.*



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