Resolution Foundation
BRIEFING

Trading up or trading off?

Understanding recent changes to England's apprenticeships system

Kathleen Henehan
August 2019

info@resolutionfoundation.org +44 (0)203 372 2960 @resfoundation resolutionfoundation.org

Summary

Since 2017, apprenticeships in England have undergone something of an overhaul, with changes to the way that they are both funded and delivered. On funding, from April of that year all firms with a wage bill of £3 million or more were required to allocate 0.5 per cent of that bill to an apprenticeship levy, which they could (only) use to pay for apprentices' training. On delivery, new regulations to raise standards included requirements that apprentices spend at a fifth of their time doing off-the-job training, that their programmes last a minimum of 12 months and that they undergo an end-point assessment upon completion.

These reforms generated a fair amount of attention, with the funding element receiving the lion's share. The prospect of placing a levy on firms generated headlines, especially given the prevailing assumption that many levy-paying businesses had little, if any, engagement with apprentices to begin with. Many fears were expressed, including that the levy would cause a rebalancing of apprenticeships away from the regions and towards London and the South East (where a large proportion of big employers are headquartered) or that the levy would be underspent because firms would simply treat it as a tax and avoid engaging with the apprenticeship system at all.

Soon after the reforms were in place, concerns became heightened when apprenticeship starts started falling – the total number of apprenticeships started in the final quarter of the 2016/17 academic year was 59 per cent lower than a year previously. At the same time, there was a rise in the number of people starting apprenticeships in higher-level, and often surprising, areas, such as degree-level accounting and Master's-level business management.

Higher standards and this shift towards higher-level programmes have put pressure on the apprenticeships budget, which is now expected to come up short within the next two years. Many levy payers and skills-sector insiders cited these different developments as reasons for rolling back or amending reforms. Suggested changes included placing funding restrictions on higher-level programmes, loosening training requirements, converting the levy into a generalised training fund, or scrapping the levy altogether. However, there are least three reasons for why many of these calls for policy change, alongside several of the firm predictions about problems with the levy made prior to its introduction, looked like a rush to judgment.

First, some of the developments that caused such consternation reflected the hiccups and volatility that tend to occur when a new policy 'beds in'. Second, calls for loosening regulations around training time simply reflect the ever present tension between the shorter-term interests of firms and providers and the longer-term collective interests of apprentices in high-quality, well-regarded qualifications. Finally, recent reforms have taken place against the backdrop of systemic constraints around funding and the quality of provision that have long plagued the further education sector.

Now, however, does seem a good time to take stock. Two years on from the reforms, we have a growing body of evidence that allows for a more measured assessment of what's changed in the system, what hasn't, and why. And far from the predicted ongoing

levy underspends, overspends now look much more likely to be the norm, making this assessment a growing necessity.

So what has happened? As mentioned above, there have been fundamental shifts in terms of overall numbers and levels of study. There were 25 per cent (124,000) fewer apprenticeship starts in 2017/18 than there were in 2014/15. This fall was primarily driven by a reduction in starts at lower levels (i.e. GCSE-equivalent) of study, which nearly halved (from 298,000 to 161,000). Though the reduction in overall numbers caused an outcry, a plurality of these lower-level programmes were in sectors like health and care, retail, and business administration and customer service. Many of these offered poor value: apprentices in these areas spent less time on formal training and were more likely to be unaware of their status as an apprentice.

The fall in lower-level starts was partially offset by a rise in starts at higher levels of study: overall, the number of apprenticeship starts at Levels 4 and above (higher-education equivalent) grew from 20,000 in 2014/15 to 48,000 in 2017/18. Within that Level 4+ category, the number of people on degree- (Level 6) and Master's-level (Level 7) programmes grew from just 100 in 2014/15 to 11,000 in 2017/18, and to more than 19,000 in just the first three quarters of 2018/19.

This rebalancing by sector and level underpins changes across regions, the sexes, and disadvantaged groups and areas. An expected shift to London and the South East was the dog that didn't bark: the geographical redistribution of apprenticeships has so far failed to materialise. Elsewhere the composition of apprentices hasn't shifted that much either, although falls have been greatest for those groups – like women and those living in the most deprived areas – for whom lower-level apprenticeships in lower-paying roles were more common.

Many think of apprenticeships as something people do at the beginning of their careers, but those aged 25 and over have long dominated the group. In 2014/15, those aged 25+ comprised 44 per cent of all starts, 19-24 year olds formed 30 per cent and those under 19 just 26 per cent. This age composition has not shifted at all in the past four years, but big shifts within these age groups have occurred. The fall in lower-level programmes has been largest for 25+ year olds, and at the same time they account for the great majority (59 per cent) of the increase in starts at Level 4 and above. Much less 'upgrading' is evident for those under the age of 25.

Many of the predicted problems with the reformed apprenticeship landscape have not materialised or are misplaced. But as policy makers consider the current pressures on the apprenticeship budget it is crucial to recognise that the apprenticeship system is still not performing well enough against its core objective: providing young people and new starters a route to the skills required for a good career.

In order to design policies which advance that core objective, we need to better understand the relative effects of the funding changes and the regulatory reforms in leading us to where we are today. Critics of the levy are quick to blame it for the fall in starts, but this briefing note casts doubt on that assumption: levy-paying firms are just as likely as non-levy payers to invest in the types of lower-level programmes that have experienced substantial reductions in starts.

Instead, it looks as though regulatory reforms, which required more training (and more money), are a more convincing explanation for the reduction in numbers. This is no bad thing: those programmes which have experienced the largest falls were the programmes that offered the fewest hours of training and the ones in which at least 30 per cent of apprentices were unaware that they were – in fact – an apprentice.

While there's little evidence to suggest that the levy was responsible for the decline in lower-level programmes, there is evidence that it encouraged growth in higher-level starts in higher-paying sectors: on average, levy payers were more likely than non-levy payers to invest in these areas.

So what have the recent reforms taught us about how to build a system that provides a clear, quality route to the skills required for a good career? First, regulatory reforms – and in particular more stringent training requirements – do appear effective in driving out lower-quality provision. Second, firms' engagement with the levy tells us that many will respond to incentives to invest in training. However, the fact that this investment appears to have been in higher-level programmes for older (and often, incumbent) staff suggests that they will take the path of least resistance, rather than open up new routes for young people and new starters.

This means that policy makers should proceed on two fronts. First, they should prioritise genuine high-quality skills development by keeping the 2017 regulatory reforms firmly in place and ensuring there are monitoring mechanisms that support proper enforcement of them. Second, they should alter funding rules so that firms are more strongly incentivised to open up routes for young people and new starters. We recommend policy makers require levy payers to dedicate at least half of their levy expenditure to new starters within the firm and at least half to young people (apprentices under the age of 30).

Such an approach won't go unchallenged. Many will complain that tougher requirements – be they regulatory or funding-related – will lead to a smaller system, and one that falls short of the old objective of achieving 3 million additional starts between 2015 and 2020. And yet, there is little justification for a system that is big on numbers but low on training, progression and even awareness.

The right route to higher numbers is to build a system that both apprentices and employers want to be part of. Others will complain that policy makers should have no view on the age or previous work of potential apprentices, a view that fails to recognise our disgraceful decades-long failure to provide high-quality routes for young people to make the transition from education into the world of work. The government should push ahead, maintaining a laser-like focus on apprenticeships' core objective: providing a clear route to the skills required for a good career.

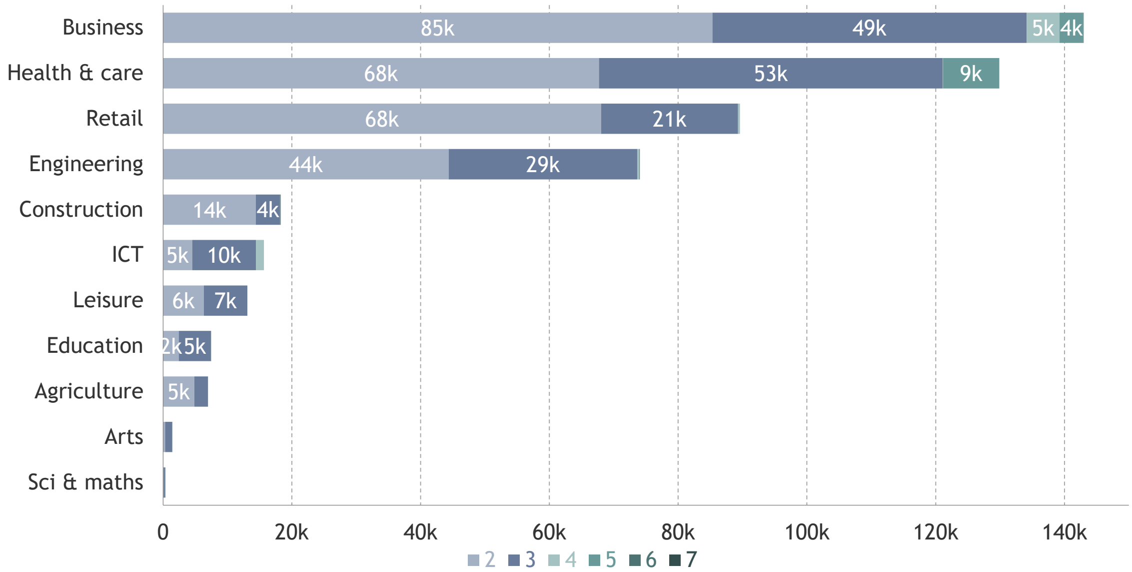
Apprenticeships in England have long required improvement

Apprenticeships have long been idealised as a route into a highly skilled craft or trade. Whether in baking, plumbing or nuclear engineering, a young person would commit themselves to a lengthy period of intensive study and practice, in return for a skilled and reasonably remunerated career. Their employer would provide years of rigorous instruction and a chance to train to the highest levels of practice, ensuring for themselves a supply of adept, and dedicated, employees.

For several years, most apprenticeships in England have fallen wide of that mark. Some of the difference between expectation and reality has been down to apprentices' characteristics and the sectors in which they work: Figure 1 shows that in 2014/15, three-in-four apprenticeship starts were in retail, business and administration, and health and care. More than four-in-ten apprentices were over the age of 25, and over half were already working for their employer at the time they began their apprenticeship.[1]

Figure 1: Apprenticeships have long been concentrated in lower-paid sectors like health and care, business administration and retail

Apprenticeship starts by level and sector: England, 2014/15



Source: RF analysis of DfE, *Apprenticeships and traineeships*

Much of the difference between expectation and reality has been down to the requirements and content that structure an apprenticeship programme. Half of apprenticeships lasted fewer than 12 months, four-in-ten apprentices reported receiving less than five hours of training per week, and one-in-five said that they had received no formal training at all.[2]

[1] Figures from the Department for Education's 2017 survey of apprentices found that in 2015, 42 per cent of all Level 2 and 3 apprentices were existing employees when they began their programme, as were 60 per cent of Level 4 and 5 apprentices. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017
[2] Department for Education, *Apprenticeships evaluation, 2015: learners*, October 2016

Progressing to higher levels of training was the exception rather than the norm.[3] In sharp contrast to the Germanic traditions of 'journeymen', who often dress themselves in a distinctive uniform upon completion of their apprenticeship, one-third of English apprentices were unaware that they were, in fact, an apprentice. More than half of those older than 25 were unaware of their status.[4]

Recent policy changes have pulled the system in a different direction…

These disappointing conditions didn't go unnoticed: in 2012, the Richard review of apprenticeships led to a series of regulatory and funding reforms in England. On the regulatory side, it was mandated that the old system of apprenticeship 'frameworks' (the content and guidelines around a particular programme) would be phased out and replaced with a system of apprenticeship 'standards'. Standards would be employer-designed, last a minimum of 12 months, require an apprentice to spend 20 per cent of their time doing off-the-job training, and include an externally run end-point assessment.

Although the regulatory reforms implied a step-change for apprentices, training providers and employers alike, it was the funding reforms that generated the most attention. The 2015 Summer Budget announced that from April 2017, all firms with a wage bill in excess of £3 million would be required to pay 0.5 per cent of their total wage bill into an 'apprenticeship levy', which they could only spend on apprentice training. The government would give levy payers a 10 per cent 'top-up', and any unspent levy funds would be recouped by the Treasury within 24 months.

Government promised to fund 90 per cent (now 95 per cent) of the cost of apprentice training for the mostly smaller employers who did not pay into the apprenticeship levy. However, in practice, the process of allocating training funds for non-levy-paying employers has been marred by inefficiencies and administrative hiccups – with many training providers who cater to small employers having lost out.[5]

The funding reforms garnered a substantial amount of press, both outside of and within the skills sector. Many anticipated that the levy would bring a major shift in the apprenticeship system's 'customer base'. Were the firms that would pay into the levy, and thus be incentivised to hire an apprentice, the same types of firms that have traditionally employed apprentices? And if not, would they invest in similar subject areas, at similar levels, for similarly aged people at a similar rate? The answer wasn't clear. While the Department for Education (DfE) published information on the number of firms expected to pay the levy according to the sectors that they were in,[6] there was (and is) no publicly available administrative data to indicate the proportion of levy payers that had an apprentice in the past.

---

[3] Only 22 per cent of Level 2 apprentices completing their programme in 2015/16 progressed to Level 3 within a year. See: Department for Education, *Further education: outcome-based success measures: 2015 to 2016*, October 2018
[4] The survey was conducted in from February-April 2017 but only sampled apprentices who had completed their programme between June 2015 and January 2016. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017
[5] B Camden, 'Providers turning apprentices away as non-levy cash dries up', *FE Week*, 8 February 2019
[6] Department for Education, *Information on apprenticeship levy Data broken down by size and sector and the total apprenticeship budget*, August 2016

The drop in starts that occurred so soon after implementation of the levy and reforms caused substantial concern. However since spring 2017 this drop has stabilised. The system as a whole is smaller than it was before, but the number of starts is no longer falling quarter-on-quarter. Although smaller, the system is more expensive for two key reasons: first, apprenticeship standards which last longer, and require more training and an end-point assessment are, on average, priced higher than the frameworks that they replaced.[7] Second, higher-level programmes – the only area of apprenticeships that has grown in absolute terms since 2017 – are costly: they can last in excess of four years and often require university-based tuition.[8]

…and big choices about the way forward now need to be made

The combined effect is a smaller system that, according to the National Audit Office (NAO) is more expensive than the DfE had anticipated when they set the apprenticeships budget in 2015.[9] The DfE estimate that the budget could be overspent by £72 million in the next academic year (2019/20), and by as much as £1.5bn by 2021.[10]

Because the apprenticeships budget is fixed, policy makers are considering how to prevent an overspend, while stakeholders wrangle for position. Proposals run the gamut from restricting the total number of apprenticeship starts, to barring levy-funding from degree- and Master's-level apprenticeships, loosening training requirements, and converting the levy into a generalised training fund.[11] Many of these suggestions were made before we were able to take a rounded view of what reforms to the system have done, or were able to distinguish teething problems and push-back from those firms and training providers that profited from the old system, from genuine priorities for further reform.

We now have sufficient data to take a more balanced view, and the looming funding pressure makes now a particularly important time to do so. As such, this briefing note puts current debates into context. We take stock of how the apprenticeship system has changed, compare the effects of regulatory and funding changes on starts, and discuss where apprenticeship policy should go next.

[7] For each apprenticeship and standard on offer, the Institute for Apprenticeships (IfATE) sets a cap on the amount of public funding (which includes levy funding) that can be spent. In practice, providers charge the maximum amount allowed. See: National Audit Office, *The apprenticeships programme*, March 2019. The IfATE is in the process of reviewing funding bands, under the suspicion that some funding bands were set too high. See: J Belgutay, 'DfE cuts funding for 21 apprenticeship standards', TES FE, 6 December 2018
[8] National Audit Office, *The apprenticeships programme*, March 2019
[9] For instance, a recent report by the NAO stated: "The Department has calculated that the average cost of completing an apprenticeship on a new standard was around £9,000 at the end of 2017-18, approximately double the cost allowed for when the programme's budgets were set in 2015. Employers are developing and choosing a greater proportion of higher-cost apprenticeships than the Department expected." The NAO also noted that the apprenticeships budget forms part of the DfE's 'departmental expenditure limit' (DEL) and is therefore fixed, rather than being treated an 'annually managed expenditure' (AME) like most other demand-led programmes. See: National Audit Office, *The apprenticeships programme*, March 2019
[10] N Linford, 'The IFATE may regret rejecting the IFATE's levy budget concerns', *FE Week*, 14 December 2018
[11] See: J Burke, '20% off-the-job rule divides opinion again', *FE Week,* 23 March 2018; CIPD, *Addressing employer underinvestment in training,* August 2018; F Whieldon, 'Stop levy funding for all level 6 and 7 apprenticeships, demands training providers', *FE Week*, 20 March 2019

Our grounding principle is that we should judge the system we have and any reforms to it against one goal in particular: providing a clear route to the skills required for a good career, in particular for young people and sector entrants. This is certainly not the only objective attached to the apprenticeship system over the years, as Box 1 discusses. But given that programmestend to be stretched thin when they are asked to achieve too many ends at the same time, we think it is the key one policy makers should be targeting.

i Box 1: To what end? The multiple objectives attached to apprenticeships policy

The apprenticeship system is often viewed as a 'jack of all trades'. For instance, the 2015 Conservative Party election manifesto, which pledged the creation of 3 million new apprenticeships, argued that the system would both fill employers' skill gaps and skill shortages, and reduce the number of young people not in education, employment or training (NEET).[12] The former Skills minister, Robert Halfon, argued that apprenticeships could "boost social justice, economic productivity, and our country's skills base."[13]

It is difficult for the apprenticeship system to simultaneously achieve all of these goals; in fact they can pull the system in different directions. For instance, productivity-boosting programmes (typically labelled as higher-level programmes in the science, technology, engineering and mathematics sectors) are unlikely to be offered to young people who have recently been outside of employment, education and training – in part down to their low level of prior qualifications. An apprenticeships system focused on helping employers fill skill gaps and progress staff may encourage firms to invest in the workforce that they already have, rather than bring additional people into the labour market.

This note argues for a more pared down objective: apprenticeships should offer a clear route to the skills required for a good career. They should be focused primarily on young people but also new starters - those who are looking to return to labour market or who need a change in career. There are several reasons for a system to primarily focus on young people. First, while much of the narrative around post-16 education has focused on rising university entrance rates, the rate of qualifications attainment has slowed.[14] Higher-level options outside the higher education system for the more than half of 18 year olds who do not enter university at 18 are complex and often patchy.[15]

Moreover, the transition for non-graduates into paid employment has become longer and more difficult

[12] Conservative Party, *2015 General Election Manifesto*, May 2017
[13] R Halfon, *'Quality and sustainable apprenticeships'*, Department for Education blog, 20 September 2016
[14] K Henehan, *Pick up the pace: The slowdown in educational attainment growth and its widespread effects*, Resolution Foundation, March 2019
[15] K Henehan & A Vignoles, *Technical fault: Options for promoting human capital growth*, Resolution Foundation, April 2018

in recent years.[16] Once in work, the picture is bleaker for younger people today than it was in the past: young people are more likely to work in lower-paid occupations,[17] and they are struggling to progress at a similar rate as their predecessors did when the same age. Once in work, they receive lower rates of work-related training than young people had – in those same roles – in the past.[18]

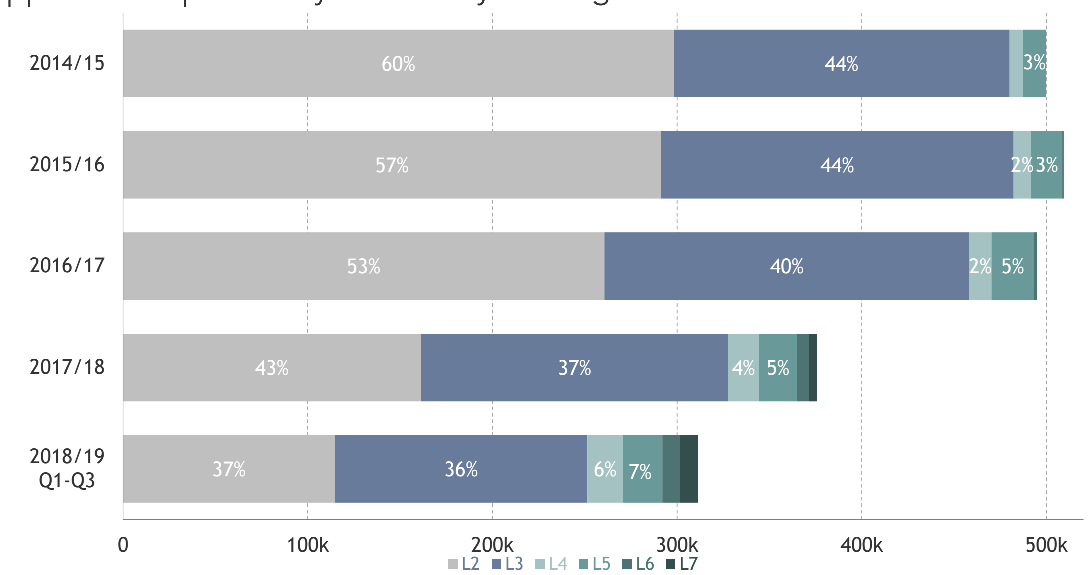
For these reasons, the apprenticeship system should offer young people and returners a clear path to the skills that will allow them to have a good career. As such, apprenticeships should be based on high-quality, intensive training – not on programmes that provide a one-off bout of training without offering a clear route.

Apprenticeships at lower levels of study have fallen markedly; those at higher levels of study have been on the rise

The first round of post-reform apprenticeship figures, published in October 2017, caused something of a rattle in the skills sector: the number of apprenticeships started during the final three months of the 2016/17 academic year (the first quarter in which the levy and reforms had been in operation) was 59 per cent (75,000) lower than the number of starts a year earlier.[19] The fall in starts captured a host of newspaper headlines, and the blame for it was placed almost entirely on the levy.

Figure 2: Apprenticeships are increasingly started at higher levels of study

Apprenticeship starts by level and year: England



Notes: Figures for 2018/19 only reflect the first three quarters of data.
Source: RF analysis of DfE, *Apprenticeships and traineeships*

[16] Forthcoming: Resolution Foundation
[17] S Clarke & N Cominetti, Setting the record straight: How record employment has changed the UK, Resolution Foundation, January 2019
[18] Resolution Foundation, A new intergenerational contract: The final report of the intergenerational commission, May 2018
[19] K Henehan, 'Is the big fall in Apprenticeship starts a blip, or a sign of things to come?', *Resolution Foundation blog*, 12 October 2017

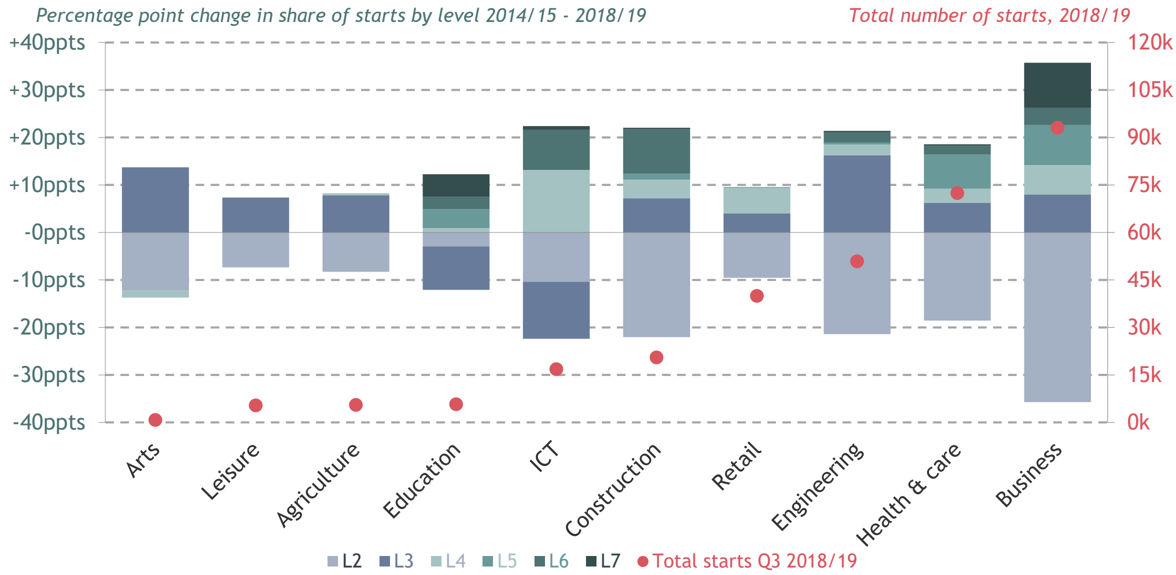
There were, however, some striking trends just beneath the surface. Notably, the number of starts at lower and higher levels of study began to move in opposite directions, with lower-level starts falling and higher-level starts rising. In other words, the system became smaller, but focused on higher levels. Figure 2 sets out this change.

During 2014/15, 60 per cent of all starts (298,000) were at Level 2, with just 4 per cent (20,000) at Levels 4 and above, including 100 starts at Level 6 and none at Level 7. By the end of 2017/18, the proportion of starts at Level 2 fell to 43 per cent (161,000) while the share at Levels 4+ doubled to 8 per cent (48,000), including 3 per cent at Levels 6 (6,000) and 7 (5,000) combined. By the third quarter of 2018/19, the proportion of starts at Level 2 continued to fall, now at 37 per cent. The share at Levels 4+ rose to 19 per cent, including 6 per cent at Levels 6 and 7 combined.

This shift in levels occurred across all sectors. Figure 3 shows that between 2014/15 and the third quarter of 2018/19, the proportion of construction starts that were at Level 2 fell by 22 percentage points while the share at Levels 3 and 4+ rose by 7 and 15 points, respectively. Of course, changes that occurred within the largest apprenticeship sectors – business, health and care, engineering and retail – have had the biggest effect on the system's overall shape. In business, administration and law – which accounted for 30 per cent of all apprenticeship starts during the first three quarters of 2018/19 – the proportion of starts at Level 2 fell by 36 points, while the shares at Level 6 and 7 rose by 4 and 10 points, respectively.

Figure 3: The shift away from lower-level programmes has occurred across all sector subject areas, including large sectors like business and health and care

Change in proportion of apprenticeship starts by level within sector, and total starts by sector: England, 2014/15-Q3 2018/19



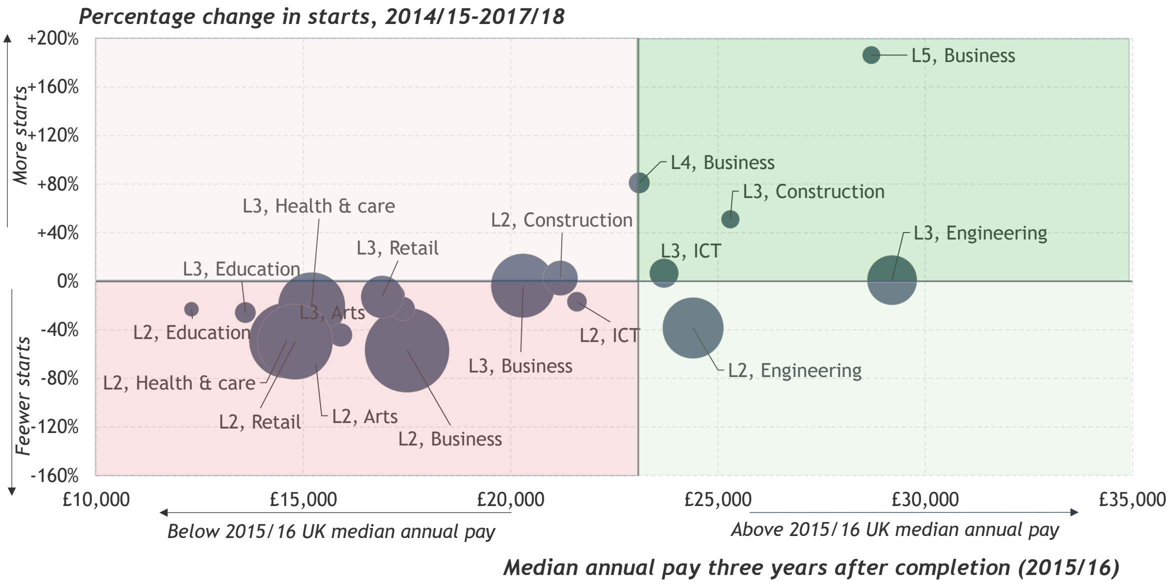
Notes: Figures for 2018/19 only reflect the first three quarters of data. Science and mathematics apprenticeships are excluded because the subject area experienced, from a very low base, a change in share of apprenticeship levels that overwhelmed the scale of change in other sectors. Between 2014/15 and Q3 2018/19, the proportion of science and mathematics starts at Level 3 fell by 71 percentage points (270 starts – 71 per cent of starts - in 2014/15 to 0 in the first three quarters of 2018/19) while the share at Level 6 grew by 75 percentage points (from 0 starts in 2014/15 to 90 (75 per cent) starts in the first three quarters of 2018/19).
Source: RF analysis of DfE, *Apprenticeships and traineeships*

The system is now smaller but focused on programmes that are at higher levels of study, and associated with higher levels of pay

The programmes which have recently grown the most tend to be those that are at higher levels and result in higher-level pay. Figure 4 illustrates changes in the number of apprenticeship starts by level and sector, according to median annual pay after completion.

Figure 4: The apprenticeship system is moving towards higher-level programmes, in higher-paid roles

Change in apprenticeship starts by level, sector and post-apprenticeship pay: England, 2014/15–2017/18



Notes: Bubble size represents the share of apprenticeship starts taken up by each type of programme in 2014/15; pay refers to median pay that apprentices who finished their programmes in 2012/13 received in 2015/16. Newer programmes, including most at Levels 6 and 7, are excluded from this analysis because there were not enough apprentices completing these programmes in 2012/13 to allow for an analysis of post-apprenticeship earnings. UK median annual pay was £23,084 (nominal) in 2015/16.
Source: RF analysis of DfE, *Apprenticeships and traineeships*; DfE; *Further Education: outcome based success measures earnings tables*; ONS, *Annual Survey of Hours and Earnings*

It is clear that the types of apprenticeships that have fallen most tend to be at lower levels and result in lower-than-median UK annual pay three years after completion. The types that have grown most tend to be at higher levels and result in higher-than-median annual pay. Moreover, Figure 4 underplays the shift towards higher-level, higher-paying programmes, because we do not have post-apprenticeship earnings figures for many of the higher-level programmes that grew from a very low base.[20]

There is a question as to whether the shift towards higher-level study has offered up opportunities to new starters, or benefited higher-qualified incumbents: those with

[20] For instance, Level 6 and 7 programmes have grown by more than 1,000 per cent between just 2016/17 and the first three quarters of 2018/19: there were 1,700 Level 6 and 7 starts in 2016/17, and 19,200 in the first three quarters of 2018/19 alone.

higher-level qualifications already working for the same firm. Unfortunately, the DfE does not provide figures outlining the qualifications that new apprentices already hold or how much they had previously been paid, nor do they provide administrative-level data on whether apprentices are new hires.[21]

These data issues, outlined further in Box 4 later in this briefing note, hinder our understanding both of what's happening in the system, and of what's driving it. However, there is some strong evidence to suggest a large majority of higher-level apprentices were in fact already working for their employer when they began their programme: the DfE's 2017 survey of apprentices (conducted of apprentices who finished their course during 2015 and 2016) found this to be the case for 60 per cent of all Level 4/5 apprentices and for 83 per cent of Level 4/5 apprentices over the age of 25.[22]

And although there are no publicly available DfE figures outlining apprentices' prior qualifications, generally low rates of progression (discussed in Box 2) mean it is unlikely that a majority of higher-level apprentices, especially at Levels 6 and 7, will have progressed up through the system. It is more likely that they had already attained a higher-level non-apprenticeship qualification before beginning their apprenticeship programme.

So on the basis of both incumbency and progression, there is evidence to suggest that the recent growth in higher-level programmes will not automatically align with the apprenticeship system's core purpose of providing a clear route to the skills required for a good career for people starting out. We return to this issue in our policy discussion later in this briefing note.

i Box 2: Moving on up? Progression and apprenticeships

Apprenticeships are often assumed to last several years, bringing apprentices from a basic up to an advanced level of knowledge and skills. For instance, apprenticeships last, on average, anywhere from two-to-four years in Australia, Denmark, Germany and the Netherlands.[23] As with age, however, the English apprenticeship system tends to defy some of these more traditional ideas: the average intended duration of apprenticeship is 17 months.[24]

What's more, progressing immediately from one level of an apprenticeship the next is, in the English system, the exception rather than the norm. Only 22 per cent of Level 2 (GCSE-equivalent) apprentices completing their programme in 2015/16 progressed to Level 3 (A-level equivalent) within a

[21] The DfE does provide survey data on the proportion of apprentices who had previously worked for their employer, although this cannot be broken down by age, detailed level or detailed sector. Their 2017 survey only refers to the prior status of Level 2-5 apprentices. Their 2018 survey does not break down incumbency by level or any other characteristics but does find that, overall, 62 per cent of apprentices reported having been employed by the same firm before beginning their programme. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017; Department for Education, *FE learners and apprentices survey*, November 2018

[22] Figures are not available for Levels 6/7. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017

[23] OECD, *Apprenticeships in England, United Kingdom*, April 2018

[24] Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017

year. This varied by sector: 26 per cent of those in health and care progressed, only 18 per cent in business, and just 17 per cent in retail progressed in that timeframe.[25]

Some have argued that we should not be overly concerned with progression, claiming that many apprentices may want to 'stop off' at a Level 2, working with skills and knowledge at that level. However, it's unlikely that the low levels of progression that predominate in England purely reflect apprentice choice. And it's notable that in the Welsh system, an apprentice can enter at Level 2 but must progress onto Level 3 in order to complete the programme.[26]

The big shift in apprenticeship levels within and across sectors underpins the extent of change for apprentices in different demographic groups and areas, although there are nuances to its effects. We turn to these areas next.

On geography, deprivation and diversity, changes to apprenticeships have been mixed

Geography and deprivation

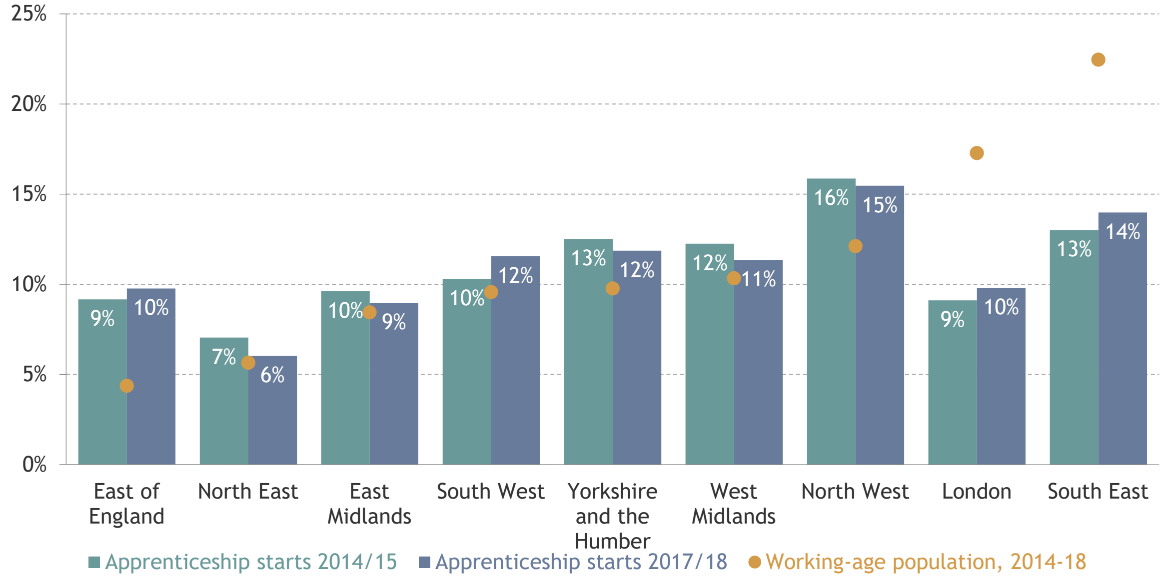
Before 2017, regions outside of London benefited from a disproportionately large proportion of England's apprenticeship starts, relative to the size of their working-age population. For instance, Figure 5 shows that in 2014/15, the East of England comprised just 4 per cent of the working-age population in England but 9 per cent of its apprenticeships. At the other end of the scale, the South East contained 22 per cent of the working-age population but just 13 per cent of all apprenticeship starts.

The composition of these starts did not vary hugely: there was little deviation in the proportion of starts at Levels 2/3 in retail, health and care, and business and administration. This figure ranged from 65 per cent of starts in South West to 74 per cent in London. However, there were fears that if the levy did in fact presage a new 'customer base' of large firms, then levy-paying firms would likely be concentrated in London and the South East. In other words, there would be a sharp regional redistribution in apprenticeships towards the south.

[25] Department for Education, *Further education: outcome-based success measures: 2015 to 2016*, October 2018
[26] Welsh Government, *Apprenticeship Skills in Wales*, October 2018

Figure 5: In the past, London and the South East held a disproportionately low share of apprenticeship starts

Proportion of apprenticeship starts and 16-64 year old population in each region of England



Source: RF analysis of DfE, *Apprenticeships and traineeships*; ONS, *Labour Force Survey*

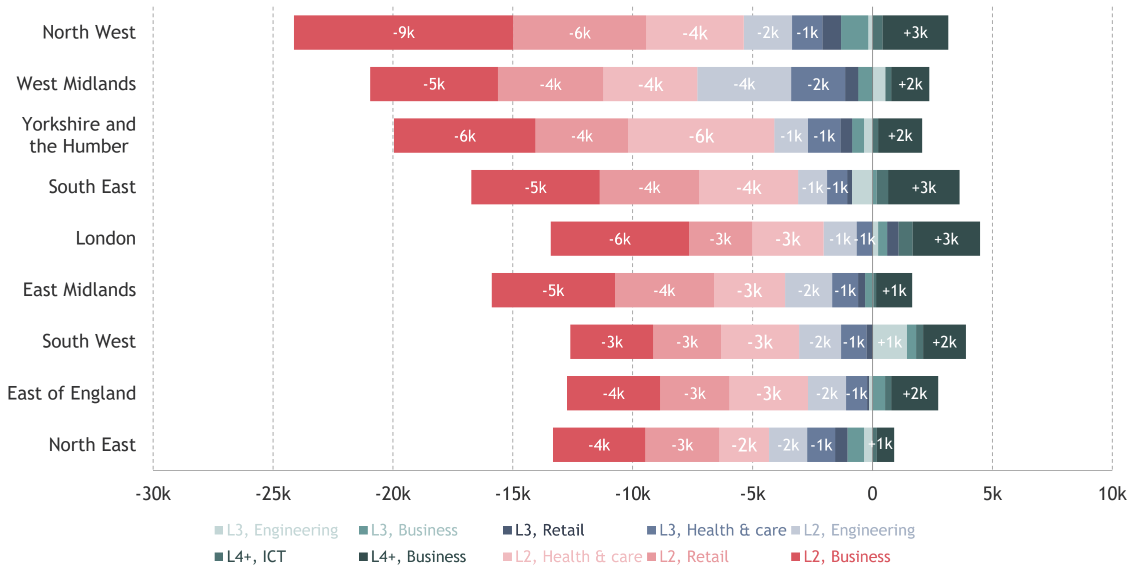
So far, these large regional redistributions have failed to materialise: while the number of starts has dropped overall, Figure 5 shows that the proportion of starts that were in each region has only shifted by a maximum of 1.5 percentage points. For instance, in 2014/15 the North West contained 16 per cent of all starts, it now has 15 per cent. The South East used to comprise 13 per cent of all starts and it now forms 14 per cent. In London these figures are 9 and 10 per cent, respectively.

That is not to the say the types of change have been identical across all places. Figure 6 shows that, on the one hand, lower-level programmes in lower-paid roles (health and care, retail and business administration/customer service[27]) fell within all regions. On the other, higher-level programmes in better paid sectors (ICT, accounting and business management[28]) grew more in London than in any other place.

[27] These two areas currently account for the largest Level 2 programmes in the DfE's business, administration and law sector subject area.
[28] Accountancy and management/leadership are the two largest Level 6 and 7 programmes in the DfE's business, administration and law sector subject area.

Figure 6: The shift away from lower-level apprenticeships in lower-paid sectors has occurred within all regions

Change in apprenticeship starts in the ten apprenticeship types that experienced the most change nationally, by region: England, 2014/15-2017/18



Source: RF analysis of DfE, *Apprenticeships and traineeships*

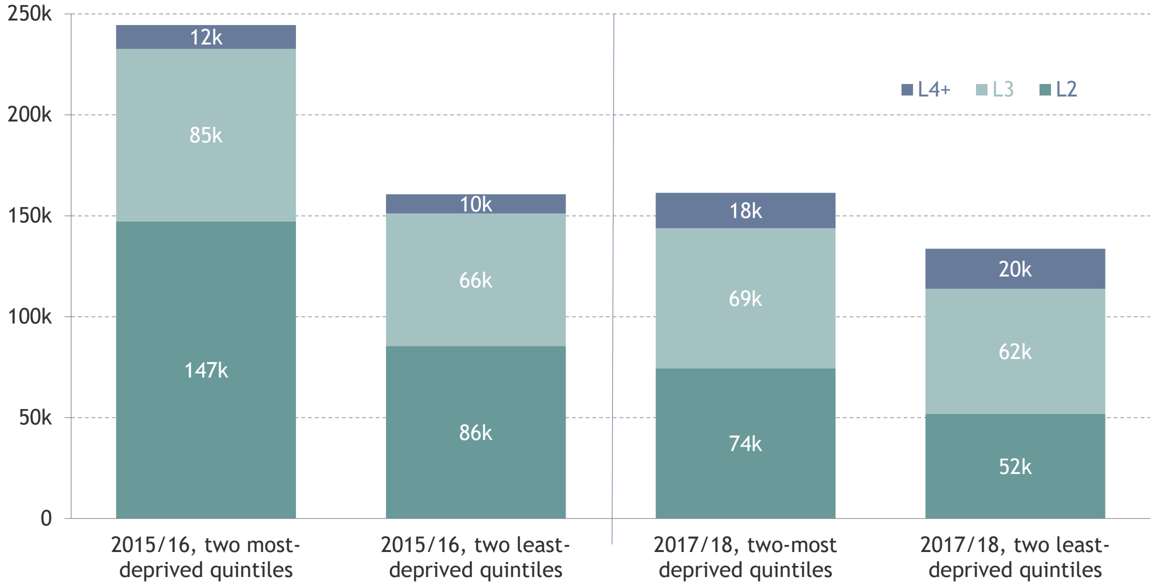
Ultimately apprenticeships are still larger, relative to the size of the working-age population, in areas outside London and the South East – despite small shifts since 2017. However, looking at lower levels of geographic detail, there is clear evidence that the shift towards higher-level programmes has benefited economically better-off areas more than it has benefited deprived areas. While people living in places with higher levels of multiple deprivation (i.e. the top quintiles) tend to account for a greater share of apprenticeship starts than those living in areas with lower levels of deprivation (bottom two quintiles), their relative advantage has declined since the reforms came in.

In 2015/16, those living in areas with the most deprivation (top two quintiles) accounted for 49 per cent of all apprenticeship starts; in 2017/18 their share had fallen (slightly) to 44 per cent. By contrast, the proportion of starts accounted for by people living in areas with the lowest levels of deprivation (bottom two quintiles) rose from 32 to 36 per cent.

And again, the most striking figures sit behind the headline number. Figure 7 shows that prior to reforms, there were more higher-level starts in the two most deprived quintiles than in the two least-deprived quintiles: in 2015/16, 44 per cent of starts (12,000) at Level 4+ were done by people living in areas with higher levels of deprivation, while 36 per cent (10,000) were by those living in areas with the lowest levels.

Figure 7: Economically disadvantaged areas have benefited least from growth in higher-level programmes

Apprenticeship starts by level, local area deprivation score and year: England



Source: RF analysis of DfE, *Further Education and Skills*, December 2018

By 2017/18 these figures had nearly reversed: 37 per cent (18,000) of higher-level starts came from areas with higher levels of deprivation, compared to 42 per cent (20,000) by those living in areas with lower levels of deprivation. Ultimately, inequality in access to both mid- and higher-level apprenticeships is rising, and those from the most deprived areas are losing out. To the extent that these patterns – be they shown in terms of region or deprivation – reflect inequalities in the wider jobs market, this is a difficult problem to tackle. Therefore policies like the recently-launched "Opportunities through Apprenticeships" programme, which aims to address regional disparities, are welcome.[29]

Gender

There have also been noticeable shifts in the relative share of apprenticeship starts taken up by women and men. A quick look at the summary statistics for England puts paid to the idea of apprenticeships being dominated by young men in manual work: between 2014/15 and 2016/17, women comprised the majority of all apprenticeship starts. Despite having a majority of overall starts, the distribution in the type of apprenticeships started by women and men was highly uneven: women comprised at least three-quarters of all starts in Levels 2, 3 and 5 health and care, but just 4 per cent of engineering starts at Level 3, and 9 per cent of engineering starts at Level 2.[30]

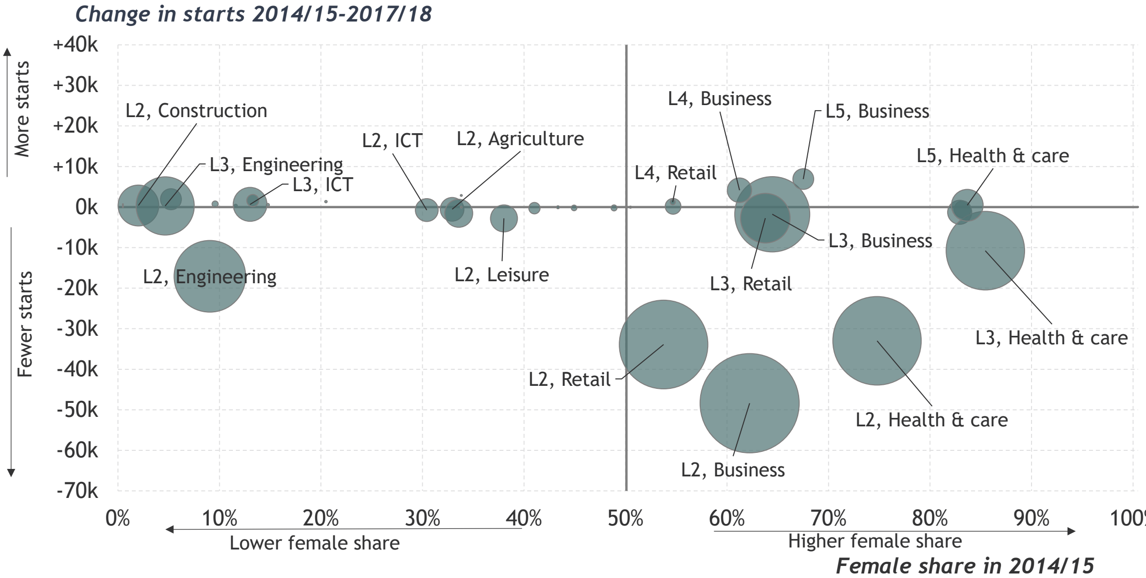
Since the 2017 reforms, however, women have lost their overall majority of apprenticeship starts: the proportion of starts done by women fell from 53 per cent in

[29] The programme will operate in four local authorities (Portsmouth, Nottingham, South Tyneside and Torbay), and encourage employers in ICT, construction, manufacturing and engineering to offer higher-value programmes, as well as encourage local residents to take them up. However, the programme is both small-scale and very new: the jury is still out. See: *Education and Skills Funding Agency*, "Opportunities through apprenticeships' project is launched', 21 November 2018
[30] These gender-based differences look starker in the apprenticeship system than they do in the wider workforce: in 2014/15, women comprised 9 per cent of the working-age population in construction and 23 per cent in manufacturing. Source: RF analysis of ONS, *Labour Force Survey*

2016/17 to 49 per cent in 2017/18 and 48 per cent in the first three quarters of 2018/19. Figure 8 illustrates that this fall was driven by the drop off in the types of apprenticeships that had a large majority of women to start with, those lower-level programmes in lower-paying sectors discussed above.[31]

Figure 8: The drop in lower-level starts in health, retail and business has driven down the overall proportion of apprenticeships that go to women

Change in number of starts, and proportion of apprenticeship starts held by women, by level and sector: England, 2014/15–2017/18



Notes: Bubble size indicates number of starts in 2014/15; fast-growing programmes at Levels 6 and 7 are not shown due their small size/non-existence in 2014/15.
Source: RF analysis of DfE, *Apprenticeships and traineeships*

On the one hand, there is some good news: even in male-dominated sectors like construction and engineering, women's participation tends to increase at higher levels, where apprenticeships are growing most. On the other, this improvement at higher levels of study, however small, helps to highlight just how stark many of the gender (and by extension, pay) gaps are for non-graduate women, who tend to participate in apprenticeships at lower levels of study and in areas that result in lower levels of pay. [32]

Ethnicity

1. In contrast to both deprivation and gender, there have not been any glaring post-2017 changes in the composition of apprenticeship starts according to ethnicity – although there remains substantial room for improvement. Apprentices classed as white have formed between 87 and 88 per cent of all apprenticeship starts between

[31] For instance, in 2014/15, Levels 2 and 3 health and care accounted for 36 per cent of all female apprenticeship starts; by 2017/18 the total number of starts across both men and women in Level 2 health and social care had fallen from 121,000 to 77,000.
[32] For instance, median annual earnings three years after completion for those who undertook a Level 2 health and care apprenticeship in 2012/13 were £14,600, compared to £21,200 for those who completed a Level 2 apprenticeship in construction and £29,200 in engineering and manufacturing. See: Department for Education, *Further Education: outcome based success measures earnings tables, 2015 to 2016*, October 2018

2014/15 and 2017/18 – slightly larger than their share of the overall working-age population (85 per cent).

2. These inequities are more substantial for young apprentices: at Levels 2 and 3, 16-18 year olds from a white background comprised over 90 per cent of all Level 2 and 3 starts by that age group. This comes despite the fact that only about 81 per cent of 16-18 year olds in the population are white.

Learning difficulty and disability

The proportion of apprenticeship starts that went to someone with a learning difficulty or disability (LDD) had been rising since even before the 2017 reforms: in 2014/15, 9 per cent of all starts went to an apprentice with an LDD, rising to 10 per in 2016/17 and 12 per cent by the third quarter of 2018/19. Positive though this is, it appears to reflect employment growth (and rising disability incidence) in the wider labour market more so than change within the apprenticeship system specifically: the share of the working-age population that both has an Equality Act-designated disability and is in work has also been rising, from 10 per cent in 2014/15 to 12 per cent in 2017/18.

Beyond the headline numbers, however, lies the question of level: in the past, LDD apprentices were more likely to start a lower-level apprenticeship than their non-LDD counterparts. These disparities have worsened since 2017: in 2014/15, the proportion of LDD apprenticeship starts at Level 2 was 6 percentage points higher than the share of non-LDD starts at Level 2; the share of LDD starts at Levels 4+ was just 1 point lower than the share of non-LDD starts that occurred at Levels 4+. By 2018/19, these differences grew to 10 and -7 points, respectively.

What explains the widening gap in levels? The proportion of LDD apprentices starting popular Level 2 programmes like business and retail fell to lesser extent than the share of non-LDD apprentices starting those programmes. At the opposite end, the share of LDD apprentices starting higher-level programmes in business and health and care grew less than the share of their non-LDD counterparts doing so.

While not the primary focus of this briefing note, outcomes across traditionally lower-employment groups and areas warrant the government taking a more active role in promoting equality of access to apprenticeships more widely, and in particular to apprenticeships at higher levels.

The age mix of apprenticeships has been exposed to similar forces, but it deserves particular attention given apprenticeships' core role in providing a route to a good career

Although often viewed as a route for young people, a plurality of apprenticeship starts have long been taken up by those over age 25. Box 3 outlines just how unique the UK is when it comes to apprentices' (older) age. In 2015/16, 44 per cent of starts went to the over 25s, compared 30 per cent for those 19-24 and just 26 per cent for the under 19s. As they did with geography, many predicted that the 2017 reforms would beget a substantial shift in the apprentices' average age. More specifically, they predicted that the share of starts going to older apprentices would grow even further.

These predictions were in part driven by expectations that levy-paying firms – who many believed would be large, white-collar businesses new to the apprenticeship system – would prefer to put pre-existing (and de facto, older) workers on their programmes, rather than recruit new starters. They were also driven by new rules around funding, and the removal of an incentive to hire younger apprentices: under the pre-levy system, government promised to cover 100 per cent of the training costs for apprentices aged 16-18, 50 per cent of the costs for those 19-24 and 40 per cent for 25+.[33] Under the levy-funding regime, training costs for apprentices would be covered at the same rate for all ages: levy payers would use their funds and receive a 10 per cent top-up, non-levy payers would be expected to contribute 5 per cent.[34]

i Box 3: How old? Changes in age-related apprenticeship policy

While apprenticeships have traditionally been idealised as a route that young people take into skilled employment, this note has outlined just how far the English system has strayed from that idea, with a plurality of apprenticeship starts going to those over the age of 25. The OECD highlights just how odd this is when compared against apprenticeships in other countries: in 2014 well over 40 per cent of apprenticeship starts in England went to those over 25; in Denmark only about one-quarter of starts did, and in Germany fewer than one-in-ten went to the over 25s.[35]

The English apprenticeships system hasn't always been this way. There had been a bar on apprenticeships going to those over the age of 25, which was lifted in 2004.[36] The effects of it being lifted are, by now, very stark: in 2005/06, just 2 per cent of starts were by those over 25, by 2009/10 nearly 20 per cent were and by 2011/12 over 40 per cent were. While apprenticeships can, undoubtedly, provide good training and outcomes for people of all ages, there are big questions about the quality of experience that, on average, older apprentices receive.

For instance, figures from the DfE's 2017 Apprentice Survey find that just 20 per cent of Level 2/3 apprentices over the age of 25 were new starters at the firm, compared to 70 per cent of 19-24 year olds and 90 per cent of under 19s. And while a clear majority of apprentices under age 19 and aged 19-24 were aware that they were in fact an apprentice (95 and 79 per cent, respectively), only a minority of those over 25 were (45 per cent). We know less about how these factors vary by age at higher levels of study – largely because growth in higher-level and particularly degree-equivalent programmes is so new.[37]

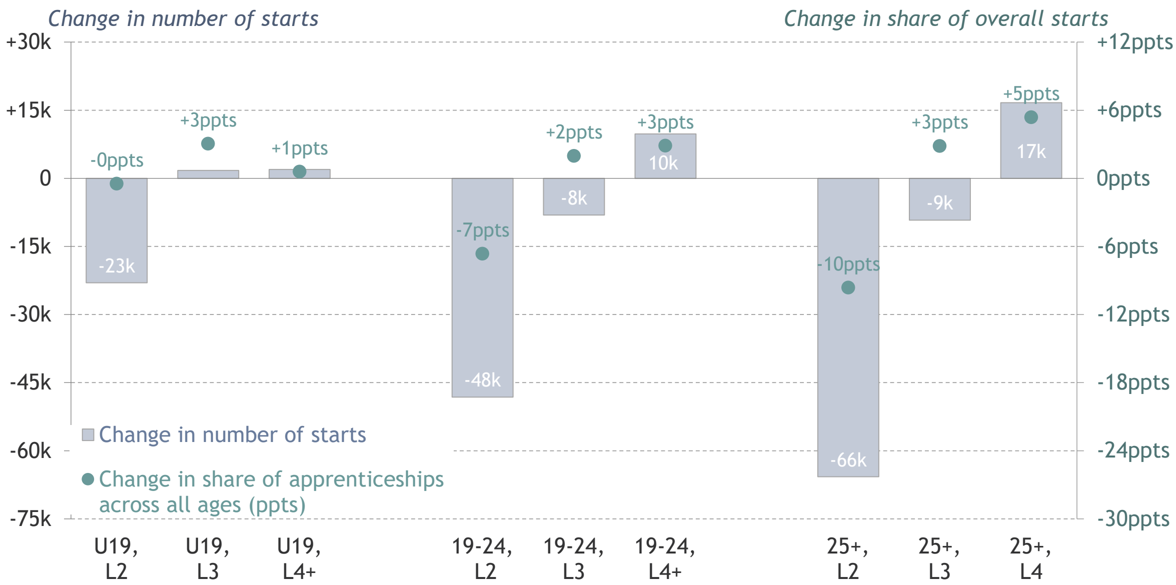
[33] Although in practice, training providers who operated in subject areas where the marginal cost of teaching an additional apprentice was small were able to cross-subsidise between 16-18 year-old and older apprentices.
[34] However, under the current system employers do receive a £1,000 bonus for hiring a 16-18 year old apprentice.
[35] OECD, Apprenticeships in England, United Kingdom, April 2018
[36] Department for Education and Skills, *21st century skills: realising our potential*, July 2003
[37] The survey was conducted in from February-April 2017 but only sampled apprentices who had completed their programme between June 2015 and January 2016. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017

In the end, there was no change on age alone: by the third quarter of 2018/19 those aged 25+ still comprised 44 per cent of all starts, 19-24 year olds comprised 30 per cent, and those under 19 just 27 per cent. But although age-related changes appear negligible on the surface, changes according to level within age are far more striking. Figure 9 illustrates these.

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

Figure 9: Change in apprenticeship levels has been starkest among those over age 25

Change in apprenticeship starts, by age and level: England, 2014/15-2017/18



Source: RF analysis of DfE, *Apprenticeships and traineeships*

And while there has been some absolute growth in the number of mid- and higher-level starts going to young apprentices, the bulk (59 per cent) of the change has – for better or worse – taken place among their older counterparts. For example, during the first three quarters of 2018/19 there were just 1,600 under 19s starting degree-level apprenticeships, as compared to 3,600 19-24 year olds and 4,300 people aged 25 and older.

There is of course a chance that many of those 25+ apprentices are still younger, in their late 20s, for example. There is also a chance that many of these older apprentices do not already have a higher-level qualification.

As we outline in Box 4, however, the DfE does not publish information that allows for detailed analyses by both level and age, let alone information about apprentices' prior qualifications. These facts would help us to estimate the extent to which the system is giving new opportunities to younger people, as opposed to offering more training to already highly qualified incumbents.

Box 4: Disentangling change: The need for more (and better) data

Detailed, timely data is the central requirement for understanding both how the apprenticeship system has changed over recent years and the extent to which it is achieving its objectives (see Box 1). On change, this note outlines that one of the biggest questions surrounding the apprenticeship levy was whether the 'customer base' for apprenticeships would transform as a result of the levy. In other words, were levy-paying firms that hire apprentices the same firms who had previously engaged with the system?

While publicly available DfE figures do allow researchers to break down starts according to whether or not the apprentice has been funded through a levy-paying firm, there remains a large gap: we still do not know what proportion of levy-paying firms are indeed 'new' to the system. Nor do we know if non-levy-paying firms that previously hired apprentices have – as anecdotes suggest – cut back on their apprenticeship numbers. This matters because it is this type of data that would allow both researchers and policy makers to understand whether changes in the composition of apprenticeship starts were driven funding mechanisms, or by something else.

There are also big questions about who takes on different types of apprenticeships, and what happens to them afterwards. For instance, what proportion of apprenticeship starts go to new starters, and what proportion go to those who are pre-existing employees? What proportion of apprenticeships allow an individual to move up to the next qualification level? These questions are key to understanding the extent to which the system opens up new routes to a good career. Unfortunately, however, there are no publicly available administrative figures that detail whether an apprentice is a new starter with the firm, let alone figures that detail apprentices' prior qualifications.

The lack of information is disappointing to the extent that it limits transparency and, as a consequence, substantively reduces scope to monitor the system's performance. It is also unnecessary: as research has long pointed out, many of the data gaps found with regard to the apprenticeships system, and further education more generally, don't exist when it comes to other areas of study, in particular higher education.[38]

[38] See: C Alldritt & A Norman, *The data deficit: why a lack of information undermines the UK skills system*, Centre for Progressive Policy, March 2018; K Henehan & A Vignoles, *Technical fault: Options for promoting human capital growth*, *Resolution Foundation, April 2018*

While some of the concerns initially voiced about the reformed apprenticeship system proved unwarranted – in relation to region, for example – shifts in relation to age should give pause for thought. Although data gaps prevent the level of granularity we would like, the evidence suggests that post-reform, the system has not moved away from its bias towards older (more likely incumbent in their firm) apprentices. And it is among older apprentices that the majority of levels 'upgrading' has happened, via the biggest reductions in lower-level programmes in lower-paying sectors, and the biggest increases in higher-level ones.

That tells us that the apprenticeship system is still not performing well enough against its core objective: providing young people and new starters a route to the skills required for a good career. In order to understand how policy makers should respond to that challenge, the following sections explore how the different reforms brought in in 2017 have shaped today's system.

Too much weight has been attributed to the effects of funding reform…

Given the attention generated by the apprenticeship levy, the common assumption is that it's the levy that drove all of the changes outlined above. Far less consideration has been given to the effects of regulatory reforms. And yet, if we want to push towards a system that is premised on clear routes and quality provision then we need to investigate more closely the effects of both the funding and the regulatory reforms.

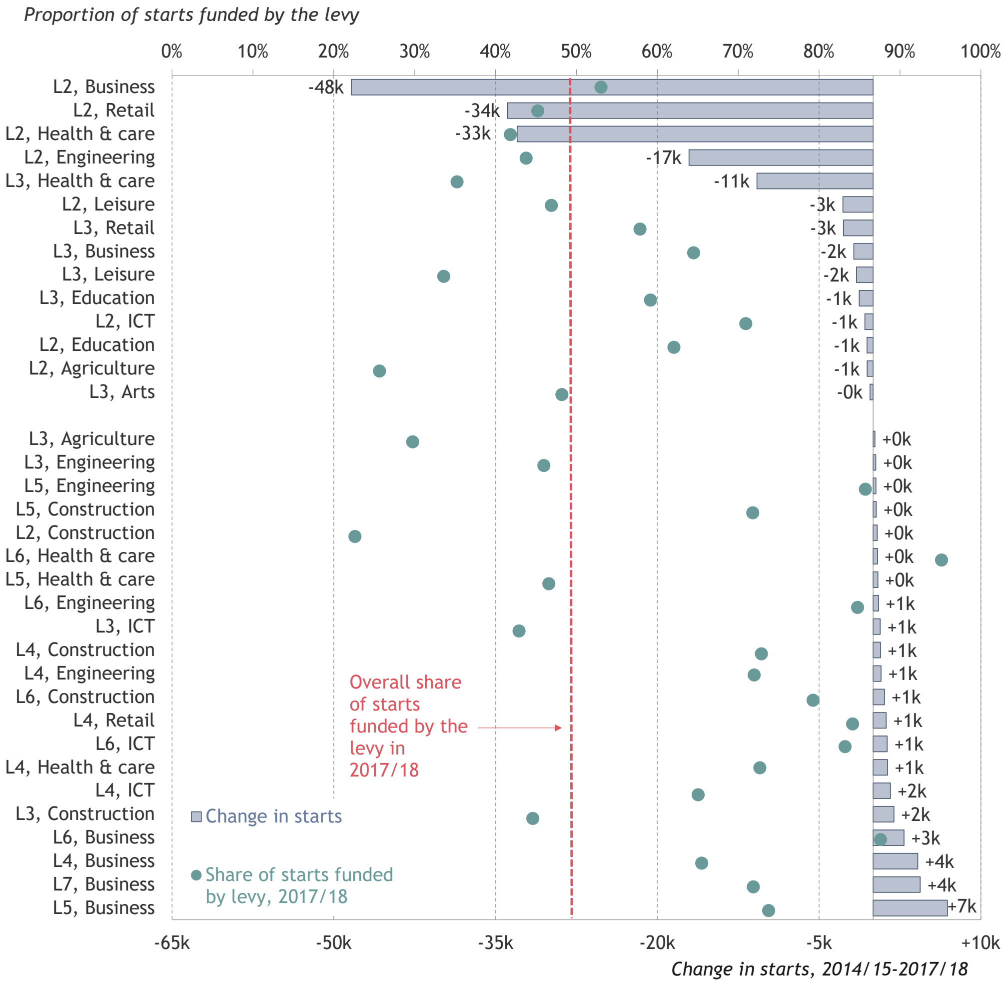
So how can we understand the effects of the funding reforms (i.e. the levy) on the system? We investigate whether the types of starts that both grew and fell most had a different 'customer base'. If the types of apprenticeships that experienced the biggest falls in starts had largely been shunned by levying-paying firms, we might assume the move towards a levy-paying apprenticeship system was indeed responsible for the recent drop in starts.

However, Figure 10 suggests this is not the case. There is little association between the types of apprenticeships that fell most between 2014/15 and 2017/18, and the preferences of levy and non-levy-paying employers to invest in these programmes. For instance, the proportion of Level 2 business starts (the programme that experienced the largest fall in absolute terms) that were funded by levy-paying firms was 53 per cent. Given that levy payers only accounted for 49 per cent of overall apprenticeship starts during 2017/18, it's difficult to argue that the levy-funding mechanism is in itself responsible for falls in this area.

There are some outliers: for instance, levy payers accounted for just 42 per cent of Level 2 and 35 per cent of Level 3 starts in health and social care, both of which fell substantially after the reforms. However, reasons for this are likely to lie beyond the funding regime, and will be discussed in the next section. In the round however, there is no convincing association between the fall in starts and changes to the funding system. Across the ten programmes with the biggest absolute falls in starts (which include these health and care anomalies), four had above-average shares of starts from levy-paying firms, and six had below-average ones.

Figure 10: There is no clear association between the levy and the fall in lower-level starts

Change in apprenticeship starts, and proportion of starts coming from levy-paying firms, by level and sector: England, 2014/15–2017/18



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

But if funding changes were not directly responsible for the *fall in lower-level starts*, could they be responsible for the *growth in higher-level starts*? Again, the common assumption is that growth in higher-level, and especially degree- and Master's-level programmes have been driven largely by white-collar, levy-paying firms. The idea is that, relative to their non-levy counterparts, levy-paying firms being forced to spend levy cash directed a much larger share of their funds towards higher-level programmes for already highly qualified apprentices – hence public concerns about mid-career MBA apprentices.[39]

The bottom half of Figure 10 shows the types of apprenticeships that grew between 2014/15 and 2017/18. With the exception of construction starts at Level 3, the 12 areas that grew most all occur at higher levels of study and had a higher-than-average share

[39] See: J Moules, 'MBAs are good use of apprenticeship levy, says university head', *Financial Times*, 23 September 2018

of levy-funded starts. For instance, levy payers funded 49 per cent of all apprenticeship starts in 2017/18 as compared to anywhere between 65 and 88 per cent of starts in the four programmes that grew most: Levels 4-7 in business.[40]

In sum, there is little supporting evidence for the claim that the 2017 funding reforms are responsible for the bulk of the change in apprenticeship numbers that we've outlined in this note. While there is some indication that the spending power of levy payers has driven up the number of higher-level programmes, particularly in business, administration and law, there is far less evidence that the funding system itself is responsible for the big falls at lower levels that have generated so much attention.

…while regulatory changes appear responsible for driving out lower-level apprenticeships that offered little actual training

If we cannot conclusively attribute the fall in apprenticeship starts at lower levels to the 2017 funding reforms, what about the regulatory reforms? There has long been a suspicion that lower-level starts in popular areas like retail (which includes retail sales and catering/hospitality) and business (business administration and customer service) did not meet the common expectations of what constituted an apprenticeship.

At first principle, there was the question of why a disproportionately large share of apprenticeship starts occurred in sectors that offered lower-than-average rates of training in the wider labour market. For instance, business starts at Levels 2 and 3 formed more than one-quarter (28 per cent) of all apprenticeship starts during 2014/15, yet workers in administrative, elementary administrative and secretarial roles comprised just 21 per cent of the labour force.

More pertinently, they also received lower-than-average rates of training: 19 per cent of workers in these roles reported having recently received training, compared to 25 per cent of those in the wider labour force.[41] Retail starts at Levels 2 and 3 accounted for 18 per cent of all apprenticeship starts, despite the fact that workers in non-management level retail roles accounted for just 6 per cent of the labour force. They also received lower-than-average rates of work-related training, with only 18 per cent having recently taken part.[42]

The DfE's own survey of apprentices raises worrying questions about the seriousness with which many employers took, and perhaps take, apprenticeships: in 2015/16, 30 per cent of Level 2/3 apprentices in business were unaware that their course or training was

[40] There are exceptions: levy payers funded a below-average share of starts in Level 3 ICT and construction. On the whole, however, this pattern speaks to the assumption that a large share of the growth in higher-level starts has been driven by the preferences of levy-paying firms.
[41] Figures relate to training received in the past 13 weeks among 16-64 year olds in 2014-15. Source: RF analysis of ONS, *Labour Force Survey*
[42] This refers to people employed in sales and customer service roles (ONS Standard Occupational Classification system two-digit group 71); it excludes retail managers and directors. In 2014-15, 18 per cent of 16-64 year olds in these roles reported having received work-related training over the previous 13 weeks, as compared to 25 per cent for the 16-64 year old population. Source: RF analysis of ONS, *Labour Force Survey*

in fact an apprenticeship. So were 30 per cent of Level 2/3 apprentices in leisure, 37 per cent in retail and 45 per cent in health and care.[43] Awareness levels were, on average, lower in those types of apprenticeships that experienced the largest reductions in starts (see Figure 11).

So while it's clear that much of the apprenticeship system, including the areas that experienced the largest falls in starts, left much to be desired, we still have to examine whether the falls were more directly driven by regulatory change. There are signs that they were.

The shift from apprenticeship standards to frameworks required apprenticeships to last longer – a minimum of 12 months. The DfE's apprentice survey tells us that the average intended duration for a Level 2/3 apprenticeship in 2015 was 17 months – well above the minimum that would become the rule in 2017. However, it is unclear whether an 'intended' duration varied substantially from actual duration.[44] With the exception of engineering, where the average duration was 26 months, the areas that experienced the largest falls – business, health, retail and leisure – all had shorter-than-average planned durations: from 14 to 15 months.

We find a similar story on training time. The 2017 reforms mandated that all apprentices spend 20 per cent of their paid time on off-the-job training, equivalent to one day per week. In 2015 the likelihood that an apprentice would receive any formal training – be it on or off-the-job – was not at all guaranteed. According to the DfE's apprentice survey, 14 per cent of all Level 2/3 apprentices did not receive any formal training. While only 5, 7, and 9 per cent of apprentices in construction, ICT and engineering went without, as many as 16, 17 and 18 per cent in business, health and care, and retail did.

Employers who offered little-to-no formal training are likely to have been jarred by new regulations that required apprentices to spend a minimum of 20 per cent of their time specifically on *off-the-job* training. This is both because additional training time would result in an apprentice working fewer hours in their normal role, and because of the costs that additional hours of formal training entail.

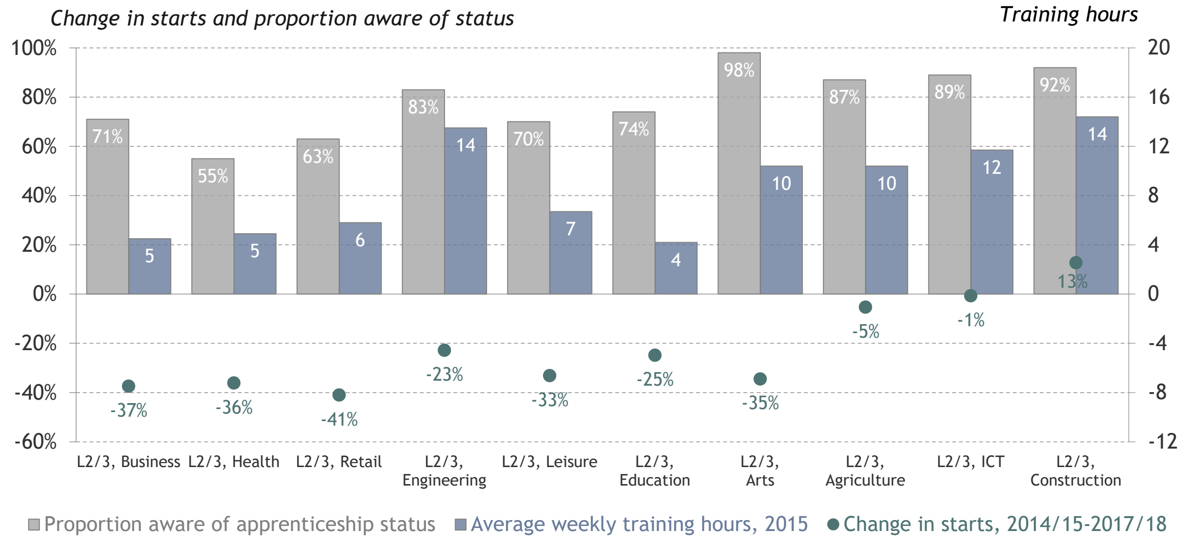
And in fact, the story on training hours is similar to the story on formal training: the apprentice survey found that, on average, apprentices spent 4.4 hours per week training at an external provider and 3.1 hours having formal training in the workplace (7.5 formal hours total – excluding training during usual hours as this is informal). And yet, the usual suspects – retail, health and business and, here, education, offered far less: from just 4-6 hours in total per week. Figure 11 brings the picture on awareness, training and starts together: those types of apprenticeships that contributed most to the fall in Level 2/3 starts (i.e. those starts on the left-hand of the figure) were the ones that suffered from low levels of awareness and little actual training.

[43] The survey was conducted in from February-April 2017 but only sampled apprentices who had completed their programme between June 2015 and January 2016. See: Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017

[44] Latest available figures from the Department for Education indicate that only 67 per cent of apprentices successfully complete their apprenticeship programme; this ranges from 72 per cent of Level 2 apprentices aged 16-18 to 64 per cent of Level 4+ apprentices aged 16-18 and 24+. See: Department for Education, *Further education and skills National Achievement Rates Tables: 2017/18*, March 2019

Figure 11: Apprenticeships that experienced the largest drop in starts tended to have lower levels of apprentice awareness and fewer training hours

Change in apprenticeship starts and apprentice awareness, and formal training hours, by level and sector: England, 2014/15-2017/18



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

The implication is that for training providers and firms who were accustomed to a shorter programme and little formal training, the new regulations presaged something of an expensive step-change – and likely made these programmes much more costly than in the past. These shifts help to underscore just why the NAO reported that standards cost twice as much as originally expected.

There are clear examples where the costs stemming from new requirements did drive down start numbers: for instance, care home managers – who tend to be based in smaller and non-levy-paying firms – have reportedly welcomed the content and quality of the new Level 2 and 3 health and social care standards (which replaced the older frameworks that were 'switched off' last year). However, they report struggling to meet the additional costs.[45]

There are also more clear-cut examples of where heightened regulation has pushed down on starts: for instance, the Institute for Apprenticeships and Technical Education (IfATE), whose remit includes approving and setting funding bands for standards, has

[45] While the maximum amount of public funds that could be spent on a Level 2 framework was £1,500, the maximum that can be spent on a Level 2 standard is £3,000. (In the new system, most providers do indeed charge the maximum rate.) And even still, training providers argue that £3,000 is not enough to deliver the training and support that the standards require, with some large providers saying that they plan to stop offering the programme. See: J Burke, 'Is FE ready for the big apprenticeship frameworks switch-off?', *FE Week*, 4 December 2017; F Whieldon, 'Majority of care apprentice providers to reduce starts after DfE rejects funding plea', *FE Week*, 18 July 2019

recently rejected proposals for a Level 2 business administration standard, which would replace the Level 2 business administration framework that is still on offer, claiming it is not suitably "stretching".[46]

There are programmes that appear to offer high-quality training but experienced a sharp fall nonetheless: there was a large fall in engineering starts at Levels 2 and 3, even though these programmes rank highly on core quality measures, such as awareness, progression, programme length and training time. The reasons for this are unclear, though there are some strong signs that firms struggled with the adjustment process, including a delay in standards being approved by the IfATE.[47]

On the whole, however, there is strong evidence that many of the programmes that experienced the largest falls also had big questions marks when it came to quality: they had a large proportion of apprentices who were so disengaged with the system that they did not even know their own status, they offered shorter-than-average programmes and lower-than-average training. As such, it is very likely that tougher regulation is the main driver of their shrinkage.

But the system still treats young people and new starters as a second-order priority

We should not bemoan the drop off in low-quality programmes. But while the regulatory reforms appear to have pushed out poor programmes at lower levels and the funding reforms appear to have incentivised growth in programmes at higher levels, neither seem to have affected incumbency.

DfE apprentice surveys have long found that a large share of apprentices are incumbents: for instance, in the 2017 survey, which was conducted of apprentices who were in post during 2015 and 2016, 42 per cent of all Level 2/3 apprentices and 60 per cent of Level 4+ apprentices reported having been existing employees before beginning their programme. At Levels 2/3, this ranged from 3 per cent in science to 18 per cent in construction, 42 per cent in business, 53 per cent in retail and 60 per cent in health and care. At Levels 4+ this ranged from 3 per cent in ICT to 59 per cent in business and 82 per cent in health and care.[48]

In the most recent DfE apprentice survey, which was conducted between January and April 2018, as many as 62 per cent of apprentices at all levels reported having been employed by the same firm prior to beginning their apprenticeship. (The report does not provide a breakdown of incumbency by age or by apprenticeship level.)[49]

[46] The IfATE have directly questioned whether the programme would offer substantive skills development, stating the programme is "not stretching enough to require 12 months employment and training." The rejection is likely to have affected start numbers, given that the business administration framework will be 'switched off' next year. See: J Fino, 'IfATE rejects level 2 business admin apprenticeship leaving employers 'disappointed' and 'upset'', *FE Week*, 28 June 2019
[47] Many argued that the standard they sought was not yet approved by the IfATE, that they struggled with the levy's online platform and training procurement process, and that they needed time to plan and that 24 months was too short a time before levy funds disappeared from their account. For example, see: V Davidge, 'Manufacturers support the government's ambitions to create more quality apprenticeships', *FE News*, 30 April 2018
[48] Department for Education, *Apprenticeships evaluation, 2017: learners*, November 2017
[49] Department for Education, *Apprenticeships evaluation, 2018: learners, November 2018*

As discussed in Box 4, there is no publicly available data that tracks incumbency at an administrative level, but the figures published in the apprentice survey suggest little improvement in the proportion of apprenticeships opening up to new starters. If we infer incumbency status through figures on age (given the historical association between the two, discussed above), the story remains the same: apprentices over the age of 25 form a plurality of starts today, just as they did before the 2017 reforms. In other words, recent reforms have managed to push out some poor programmes but they have not necessarily opened up new pathways for new starters and, especially, young people.

This is a missed opportunity: the rate of educational attainment among young people has slowed[50] and study options outside the traditional three-year degree route are both patchy and complex.[51] Young people's transitions from school to work have become more difficult, and the share of young people working in lower-paid roles has risen.[52] Younger people progress at a lower rate than their predecessors did when the same age – a pattern that is not helped by the fact that young people today receive lower rates of in-work training than young people in the past, even in the same roles.[53] If any group would benefit from a system that offers a clear route to the skills required for a good career, it is them.

This means policy makers must hold firm on regulation to continue to address long-standing quality concerns…

To that end, policy makers must, first, hold firm on the welcome improvements that regulatory reforms have brought, while doing even more to get to grips with long-standing quality concerns. The low levels of awareness and training hours that characterised so many programmes in the past reflect the seemingly relaxed approach to the enforcement of regulations that has long prevailed. If regulatory reforms are not accompanied by the more under-the-radar measures needed to improve oversight and quality of provision, they will have much less impact on apprentices' actual learning and development than they could.

These measures include monitoring and accountability for the actual number of training hours that an apprentice receives. For instance, the NAO has stated that the Education and Skills Funding Agency (ESFA), which oversees delivery of apprenticeships, has no effective mechanism for monitoring whether an apprentice actually spends 20 per cent of their time on off-the-job training. Training rules matter little for skills development if they're not enforced.

End-point assessments, another requirement introduced in 2017, are designed to ensure that apprentices do actually learn and develop new skills over the course of the programme. And yet the pressure on regulators to push apprenticeship standards

[50] K Henehan, *Pick up the pace: The slowdown in educational attainment growth and its widespread effects*, Resolution Foundation, March 2019
[51] K Henehan & A Vignoles, *Technical fault: Options for promoting human capital growth*, Resolution Foundation, April 2018
[52] S Clarke & N Cominetti, *Setting the record straight: How record employment has changed the UK*, Resolution Foundation, January 2019
[53] S Clarke & N Cominetti, *Setting the record straight: How record employment has changed the UK*, Resolution Foundation, January 2019

through the approvals process at a quicker rate appears to have weakened their commitment to these quality controls. As of March 2019 there were 1,600 people who had begun apprenticeships that had no assessment organisation in place, and over 18,000 apprentices on programmes that only had one assessment organisation in place. The NAO has warned that these organisations may have insufficient capacity.[54] The 'Quality Alliance' – a body comprised of the IfATE, ESFA, Ofsted, Ofqual, the Quality Assurance Agency for Higher Education and the Office for Students – are working to ensure that some of problems are tackled and should be supported in doing so.[55]

There are big question marks around oversight and the quality of organisations that actually deliver formal training to apprentices. Since the 2017 reforms, the number of organisations providing apprenticeship training has more than doubled: from 800 providers before the 2017 reforms to 1,700 by December 2018.[56] There are concerns about the ESFA's capacity to review each and every one of these new providers, just as there are question marks about Ofsted's ability to ensure they are actually delivering the support and training stipulated in their contract.

Those concerned around the quality of training provision have good reasons to be: Ofsted conducted 118 'early monitoring visits' at new training providers during 2018. Of these, as many as 26 (23 per cent) came up short in at least one of three key inspection areas.[57] Reviews of established providers can be equally discouraging: Ofsted inspected 113 established apprenticeship training providers during 2017/18 and found that 42 per cent of providers, who trained one-third of all apprentices at the time of inspection, were classed as requiring improvement or inadequate. This compares against 24 per cent of further education colleges, 19 per cent of sixth form colleges and 19 per cent of state-funded schools.

Nonetheless, many inside the sector have argued that recent regulatory reforms mandating 20 per cent off-the-job training are onerous and impractical, calling on government to relax such requirements.[58] Rather than heeding to demands for relaxation, policy makers should consider firming up apprenticeship standards even further.

In addition to maintaining the 20 per cent training requirement, they should examine the extent to which the current system offers a clear route to higher-level skills. One way to improve this would to be for the IfATE to require that all lower-level apprenticeship standards are designed to include clear, upward routes to the next level of study. By adding an emphasis on progression and clarity of route, policy makers can ensure that apprenticeships are a route to the skills required for a good career – rather than a one-off training course.

[54] National Audit Office, *The apprenticeships programme*, March 2019
[55] See: J Fino, Apprenticeship quango launches Quality Strategy with aspiration that no apprentice starts without an assessment body', *FE Week*, 21 March 2019
[56] According to the NAO's March 2019 apprenticeships report, there were 2,600 providers on the register as of December 2018, but 900 of these did not have a contract to deliver training.
[57] Early monitoring visits take place within 24 months of a provider receiving funds either through the ESFA (i.e. non-levy funding) or through the apprenticeship levy. They are less encompassing than full Ofsted visits and, according to Ofsted, focus on three themes: progress in terms of leadership, quality and outcomes of training, and safeguarding. See: C Jones, 'Chris Jones, HMI, Specialist Adviser for Apprenticeships, on Ofsted's new provider monitoring visits', *Ofsted blog*, 8 January 2019
[58] See: J Burke, '20% off-the-job rule divides opinion again', *FE Week*, 23 March 2018

Policy makers also need to ensure that apprenticeship standards themselves are fit for purpose. Even though this report has shown a substantial fall in lower-value programmes that tend to be associated with low rates of awareness and little actual training, research has called into question why the IfATE have approved so many seemingly low-value standards within the new system. These include programmes that train people for a very specific role within a wider career, such as a barista at a coffee bar or a fence installer, rather than the more encompassing set of roles likely to be included in a given career, like hospitality member or builder.[59] The IfATE have begun to review the content and quality of a select number of standards and it is important that this work continues.[60]

And finally, holding firm does not necessarily mean ignoring solvable problems, or embracing new approaches as they become available. Concerns that small employers have been pushed out of the apprenticeships system due to difficulty in accessing non-levy training contracts should be addressed as soon as possible.[61] And (without watering down the one-fifth training time requirement) employers and training providers should explore technological advancements in the education sector that can maximise quality of provision and flexibility for both employers and learners.

…and incentivising provision for young people and new starters

Deciding how the system should be funded, what levels of study should be included, and who should be eligible to take them up remains a continued source of debate. For instance, the Chartered Institute for Personnel and Development (CIPD) recently called for the apprenticeship levy to be converted to a more generalised training fund, arguing that the levy has coincided with a fall in apprenticeship starts, and so far failed to boost levels of workplace training.[62]

Although concerns about low levels of workplace training are well-founded, dropping the focus on apprenticeships could risk reversion to the worst of all worlds: some firms would, as they did in the past, use public money to fund poor-quality programmes that offer little actual training and development. Other firms, new to the system, would use public funds to target high-level programmes to the already-haves. Those most in need of a clear route to a good career could remain on the side lines.

[59] For instance, Tom Richmond points out that while the IfATE have approved a 'Hospitality Team Member' standard, the standard does not allow for breadth. Instead, it requires apprentices to select one very specific specialisation, e.g. barista, housekeeping or reception for the entirety of their 12-month programme. By contrast, in Germany, the hospitality apprenticeship lasts for three years, requiring apprentices to work in a series of venues and build a wide array of knowledge, including inventory, marketing, planning and customer service. See: T Richmond, *The great training robbery: assessing the first year of the apprenticeship levy*, Reform, April 2018
[60] B Camden, 'Spring clean of standards underway as IfA reveals outcome of digital review', *FE Week*, 20 May 2019
[61] Under the current system, training providers looking to cater to non-levy-paying firms must submit a bid to the ESFA in order to receive non-levy training funds. Successful providers then come to an agreement with non-levy employers - as all providers and employers did prior to 2017. However, since 2017 the bidding process for non-levy funding has been marred by inefficiencies. Many training providers reported receiving less and in some cases, no funds, compared to the past – causing some to cancel training programmes they had provided to small employers in the past. Recent moves that will allow testing of the 'digital apprenticeships system' – the platform that allows levy payers to access and pay for training – are welcome, but they are still small-scale and only apply to small employers who have already managed to secure non-levy apprenticeship training. See: B Camden, 'Small employers finally invited onto the apprenticeships system – but only those already accessing non-levy funding', *FE Week*, 14 June 2019
[62] CIPD, *Addressing employer underinvestment in training,* August 2018

Responding to expected pressures in the apprenticeships budget, many have proposed keeping the levy focused on apprenticeships but limiting the levels of study that are eligible for funding. For instance, the Association of Employment and Learning Providers (AELP), a representative group for training providers, has called on the government to bar employers from spending their levy funds on programmes at Levels 6 and 7 – which tend to be costlier than average.[63] And yet, cutting off apprenticeship eligibility from higher levels of study could, in many sectors, block routes required for young people and new starters to access a good career.

Lessons from the implementation of the apprenticeship levy tell us that firms will indeed respond to funding incentives. But, as the growth in higher-level programmes for older apprentices (and in all likelihood, pre-existing staff) indicates, they often take the path of least resistance, rather than open up a host of new pathways for young people and new starters. Policy makers should therefore consider new funding requirements that are specifically designed to ensure apprenticeships open up a pathway to skills development for young people and new starters. For instance, the former skills minister, Anne Milton, has suggested that there could be a salary cap, above which a firm's established workers cannot be funded for an apprenticeship.[64]

We recommend a more targeted approach: that levy payers be required to dedicate a substantial proportion (we suggest at least half) of their levy expenditure to new starters to the firm, and a similar proportion to young people (apprentices under the age of 30). Of course, very often these two groups will be the same people, and so a sizable share of levy funds will remain available to older workers or those already established in the firm. As a first priority, policy makers should consider the right balance between these different groups, and the right level of employer flexibility to determine skills needs, by testing the most appropriate proportions to be used in these requirements.

An approach like this would go some way towards ensuring that apprenticeships are focused on routes to a career rather than upskilling pre-existing and often, already highly qualified, staff. There are of course trade-offs: the focus on young people and new starters, in combination with more stringent regulations, could imply a smaller apprenticeship system than we've had in the recent past. In practice, this means moving away from the 3 million apprenticeships target that was a key feature of the government's approach in 2015.[65] Reflecting the subsequent direction of travel, this target already seems to have been de-prioritised by ministers.[66] And that is sensible: a smaller system that offers clear routes to a good career is a better investment than a larger one that provides poor outcomes.

[63] F Whieldon, 'Stop levy funding for all level 6 and 7 apprenticeships, demands training providers', *FE Week*, 20 March 2019
[64] K Parker, 'Why turn off the tap if people are getting skills?', *TES FE*, 25 June 2019
[65] HM Government, *English apprenticeships: our 2020 vision*, 2020
[66] J Belgutay, 'Hinds: apprenticeship target will not be reached', *TES FE*, 26 June 2019

Conclusion

Policy change inevitably comes with a fair degree of difficulty: from administrative hiccups and short-term volatility to insiders' objections and unintended consequences. Recent apprenticeship reforms are no exception, and it's the benefit of time that has allowed us to distinguish between apprenticeship changes that reflected hiccups more so than a long-term adjustment, and between changes that were driven by regulatory, rather than funding, reforms.

These distinctions are important: regulatory reforms, rather than the apprenticeship levy, and in particular more stringent training requirements, have driven out a large number of lower-quality programmes. On the other hand, the levy does seem to have helped drive up a large number of higher-level programmes – many of which appear to go to established workers over the age of 25. Looking forward, however, it is crucial to recognise that the apprenticeship system is still not performing well enough against its core objective: providing young people and new starters a route to the skills required for a good career.

To that end, we have recommended that while the regulatory reforms, in particular on training, are kept in place, the funding system is adjusted in order to prioritise young people and new starters. Insiders will, understandably, fight their corners. Policy makers would be wise to cut through this. Recognising that the system is still young, they should proceed cautiously and keep their sights set on one core objective: an apprenticeship system premised upon clear routes to a good career.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:
Kathleen Henehan, Research and Policy Analyst
kathleen.henehan@resolutionfoundation.org
0203 372 2980

Download
This document is available to download as a free PDF at:
https://www.resolutionfoundation.org/publications/

Citation
If you are using this document in your own writing, our preferred citation is:
K Henehan, Trading up or trading off?:
Understanding recent changes to England's apprenticeships system, Resolution Foundation, August 2019