REFORM

The great training robbery

Assessing the first year of the apprenticeship levy

Tom Richmond

April 2018

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Reform

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Contents

Executive summary

Now that the apprenticeship levy has completed its first full year of operation, this report reviews the available evidence to determine whether the levy will, as the Government hopes, "incentivise more employers to provide quality apprenticeships" and "transform the lives of young people who secure them".

The levy itself is, in effect, a tax of 0.5 per cent on the pay bill of organisations with annual wages of over £3 million. These organisations pay their levy contributions into a 'digital account' held by HMRC and can then 'spend' their contributions on apprenticeship training delivered by registered providers. Smaller employers can also access the funds generated through the levy, although they must pay a 'co-investment' of 10 per cent towards the cost of the training.

The impact of the levy on the quantity of apprenticeships

In the six months after the levy was introduced (April - October 2017), the number of people starting an apprenticeship was 162,400 – over 40 per cent lower than the same period in the previous year. A similar downward trend was also evident across November and December.

When the new employer-designed 'apprenticeship standards' were originally written and delivered in 2014 and 2015, they were concentrated on younger age groups. Since the levy began operating, the age category with the highest number of people starting to train towards one of the new 'apprenticeship standards' is the over-25s instead.

In addition, the mix of apprenticeship levels is shifting away from 'Intermediate' (Level 2; equivalent to GCSEs) towards Higher and Degree Apprenticeships (Levels 4-6; equivalent to the first year of university through to a full degree). From 2016 to 2017 the percentage of apprenticeship starts at Level 2 dropped by 8 per cent. Meanwhile the proportion of apprenticeships delivered at higher levels (Level 4+) has grown markedly since the levy began but just 12 per cent of these higher-level apprenticeships have been provided to those aged under 19.

The changing age profile and the movement towards training at higher levels suggests that more experienced and older workers are increasingly becoming the focus of the apprenticeship programme, at the expense of less experienced and younger employees.

Alongside the levy, the Conservative Party remains committed to its 2015 manifesto pledge that 3 million people will start an apprenticeship between 2015 and 2020. Commentators have consistently raised concerns over this target, and previous similar targets, as they prioritise the quantity of apprenticeships rather than necessarily increasing their quality.

The impact of the levy on the quality of apprenticeships

The introduction of the levy has diminished the quality of apprenticeships. The list of roles now officially counted as an 'apprenticeship' includes many low-skill and often very short training courses, all of which can now be delivered using the funds generated by the levy. These roles include serving customers in a delicatessen or coffee shop, working on a hotel reception desk, performing basic office administration and serving food and drink in a restaurant. Such training courses do not meet the historical or international definition of an apprenticeship because they typically offer minimal training, represent low-wage jobs and do not constitute skilled occupations.

Employers are also using the levy to rebadge existing training courses as apprenticeships to shift the costs of training onto the Government instead. The most obvious examples of

this relabelling are found in leadership and management skills. The list of the most popular apprenticeship standards includes becoming a 'Team Leader', 'Supervisor' or 'Manager'. Cranfield University's prestigious School of Management has even re-designated its existing *Executive MBA* as an apprenticeship to attract up to a 90 per cent government subsidy towards the programme costs. Such examples further illustrate how the apprenticeship levy is encouraging employers to prioritise older and more experienced workers instead of improving the recruitment and training of young people in skilled occupations.

Almost 40 per cent of the 'apprenticeship standards' approved by the Government since 2012 fail to reach the international or historical definition of an apprenticeship. These mislabelled courses are consuming over 20 per cent of the funding available for newly-designed apprenticeships. Without reform, in 2019-20 the Government will spend £600 million on courses incorrectly labelled as apprenticeships, out of the £2.7 billion expected to be raised in that year.

How the levy has affected employers

Employers and employers' groups have become increasingly critical towards the levy since its launch, primarily due to the burdens associated with accessing the levy funds as well as identifying and selecting training and assessment providers. Surveys of employers have suggested that, instead of increasing the amount of training offered to employees, they were considering cutting their non-apprenticeship training budgets or writing off the levy as a tax and ignoring it. International evidence from the OECD also indicated that the design of the levy was flawed from the outset. For example, there is no arms-length body or agency to coordinate how the funding will be used and there is the prospect of substantial 'deadweight' as companies try to claim levy funds for as many forms of training as possible. The substantial increase in bureaucracy, plus several other issues, has led business groups to brand the levy 'disastrous', 'confusing' and 'broken'.

How the levy has affected providers

The Register of Apprenticeship Training Providers, which lists all the organisations eligible to receive government funding for training apprentices, has been beset by difficulties. New organisations appeared on this register despite having no track record in delivering apprenticeships or even a set of financial accounts available, and early indications suggest that they could be performing poorly. Meanwhile, some high-performing and established training providers have missed out. The Register of Assessment Organisations has also struggled to command the respect of stakeholders, with serious concerns being raised about its approach to monitoring the end-point assessments for apprentices and its ability to highlight and address poor-quality provision.

Conclusion

The opening page of the Government-sponsored *Richard Review*, published in 2012, observed that the growth in apprenticeship numbers in the preceding years had "led us to stretch the definition of what an apprenticeship is too far and, as a consequence, we risk losing sight of the core features of what makes apprenticeships work, what makes them unique." Six years on, there is a real danger that the same mistakes could be made all over again. The evidence from the first year of the apprenticeship levy suggests that significant reforms are needed if the Government is to deliver its aim of high-quality apprenticeships for young people at greater volume. At present, the levy is too complicated for employers, focused on too many inappropriate forms of training and as a result is unlikely to deliver value-for-money. If the necessary changes described in this report are made then apprentices, taxpayers and employers across the country stand to benefit for many years to come.

Recommendations

To realise the objectives set out in the *Richard Review* for funding apprenticeships – namely that the system must be simple, accessible and encourage employers to offer them without asking for greater investment overall – this report outlines six significant changes that are required:

Recommendation 1: The target for 3 million apprenticeship starts by 2020 should be abandoned so that the focus can be placed on apprenticeship quality above all else.

Recommendation 2: The Government should introduce a new internationally-benchmarked definition of an 'apprenticeship' and any apprenticeship standard that does not meet this definition should be withdrawn.

Recommendation 3: The requirement for 10 per cent employer co-investment towards the cost of training apprentices should be removed with immediate effect to avoid employers disengaging from apprenticeships.

Recommendation 4: The Government should replace the existing HMRC digital payment system with a simpler 'apprenticeship voucher' model to give employers control of government funding while reducing their administrative burdens.

Recommendation 5: All apprenticeship standards and end-point assessments for apprentices should be assigned a fixed cost by the Education and Skills Funding Agency to remove the need for complicated price and contract negotiations between employers and both training and assessment providers.

Recommendation 6: The exam regulator Ofqual should be made the only option for quality assuring the end-point assessments for apprentices to ensure that standards are maintained over time and poor practice is quickly identified and eradicated.

Introduction

Apprenticeships have a long history in this country, dating back to the 16th century.[1] Their central place in the education system as a way of training young people in skilled crafts and trades continued well into the twentieth century, with approximately 240,000 apprentices being supported each year by the mid-1960s. Nevertheless, concerns began to emerge around this time related to the traditional model of apprenticeships, not least because it was failing to keep up with the rapidly changing demands arising from industrial and technological advancement.[2] This was compounded by the decline of the manufacturing sector in the 1970s, the weakening influence of trade unions and the falling demand for goods produced by trades associated with the apprenticeship model.[3] Consequently, apprenticeship numbers fell from 171,000 in 1968 to just 34,500 in 1990,[4] although a handful of sectors such as manufacturing, construction and engineering retained their involvement.

Successive governments sought to reverse this decline through initiatives such as the introduction of 'Modern Apprenticeships' in 1994.[5] However, the temporary boost in numbers that this produced was accompanied by criticisms of the weak level of knowledge and understanding required by apprentices and the considerable variability across sectors.[6] In 2004 apprenticeships were rebranded yet again so that 'Modern Apprenticeships' became known simply as 'Apprenticeships' at Level 2 (equivalent to GCSEs) and 'Advanced Apprenticeships' at Level 3 (equivalent to A-levels) and above, while the upper-age limit of 25 for apprenticeships was abandoned.

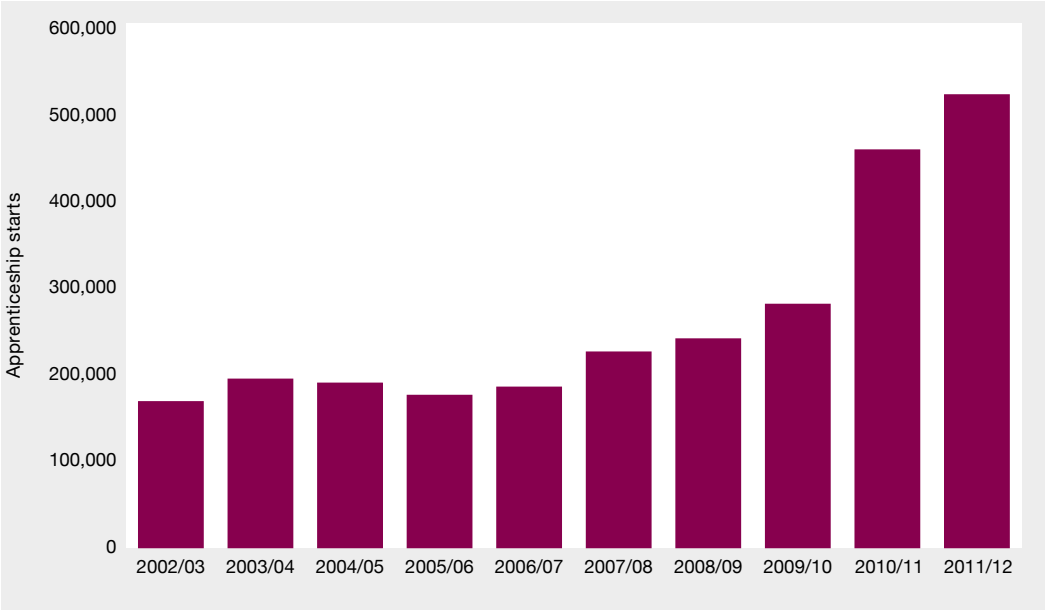
In 2006 the Labour government published a review by Lord Leitch (the *Leitch Review*) that examined the UK's skills system. It praised the Government's achievements, citing the rise in the number of young people participating in apprenticeships from 75,000 in 1997 to 255,000 in 2005.[7] That said, the completion rate for apprenticeships was just 53 per cent and the review noted that "expanding the available levels and qualifying ages means that there are more apprenticeships but may dilute the overall brand".[8] Despite this warning, the *Leitch Review* recommended that the Government should boost the number of apprenticeships to 500,000 by 2020.

The number of people starting an apprenticeship began to rise following the *Leitch Review*, although this expansion was driven almost entirely by the rapid growth in apprenticeships for adults, while the number of young people starting an apprenticeship actually fell from 2007 to 2009.[9] In addition, a House of Lords Select Committee found that the number of apprentices enrolled on Level 3 programmes was falling too,[10] but the provision of apprenticeships at lower levels – permitted since 2001 – was propping up the overall figures. Reductions in the quality of apprenticeships were being identified as well, with one witness telling the Select Committee that the Government was showing "a lack of commitment …to maintaining acceptable minimum standards of training."[11] The Committee concluded that, although apprenticeship numbers had increased substantially since 1996, "most of this increase has been as a result of converting government-

1 House of Commons Library, 'A Short History of Apprenticeships in England: From Medieval Craft Guilds to the Twenty-First Century', Webpage, 9 March 2015.
2 Learning and Skills Council, *Rapid Review of Research on Apprenticeships*, 2008, 11.
3 Paul Ryan and Lorna Unwin, 'Apprenticeship in the British Training Market', *National Institute Economic Review* 178, no. 1 (October 2001): 99–114.
4 Learning and Skills Council, *Rapid Review of Research on Apprenticeships*, 12.
5 James Mirza-Davies, *Apprenticeships Policy, England Prior to 2010*, Briefing Paper 07266 (House of Commons Library, 2015), 3. This resulted in apprentices counting as employees and being paid a wage as well as requiring them to work towards a qualification at Level 3 (equivalent to A-levels).
6 Ibid., 7.
7 HM Treasury, *Leitch Review of Skills: Prosperity for All in the Global Economy - World Class Skills*, 2006, 97.
8 Ibid., 98
9 Department for Business, Innovation and Skills, *Quarterly Statistical First Release - Post-16 Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held*, 2012, 31.
10 House of Lords Select Committee on Education Affairs, *House of Lords Select Committee on Education Affairs, Apprenticeship: A Key Route to Skill (Volume 1), 5th Report of Session 2006–07*, HL Paper 138-I (London: Stationery Office, 2007).
11 Ibid., 13.

supported programmes of work-based learning into apprenticeships".[12] Poor completion rates – as low as 10 per cent in some sectors – continued to hamper the programme and the Select Committee expressed their worry that "too much emphasis has been placed on quantity of apprenticeships, and not enough on quality".[13]

Figure 1: Increase in the number of people starting an apprenticeship



Source: Department for Education, *Statistics: further education and skills,* 2002-2012.

It was suggested at the time that the sharp increase in 'apprenticeship starts' after the 2010 General Election (see Figure 1) was in fact the result of shifting adult learners into the apprenticeship programme from the previous government's 'Train to Gain' scheme (which was being closed down).[14] Regardless, the expansion in apprenticeship numbers was welcomed by the House of Commons Business, Innovation and Skills Select Committee in their report on apprenticeships in 2012 but they said "there is a risk that the rapid expansion may result in the programme becoming less focused" and "the success of the apprenticeship programme should not be judged by numbers alone".[15] To further complicate matters, there was still no agreed definition of an apprenticeship being used by the Government or stakeholders (at least four different descriptions were available at the time).[16]

The Coalition Government appeared to agree with the Committee's conclusions. In June 2012 they announced a wide-ranging review of apprenticeships to be led by the entrepreneur Doug Richard (the *Richard Review*).[17] It was tasked with ensuring that apprenticeships meet the needs of the changing economy, deliver high-quality training and maximise the impact of government investment. The *Richard Review* was convinced that:

> *…funding is the major lever the Government has to drive change in apprenticeships [and] establishing a funding system which incentivises quality, actively encourages expansion of apprenticeship opportunities, and drives efficient use of both Government and private investment, is an essential underpinning of everything else recommended in this report.*[18]

12 Ibid.
13 Ibid., 34.
14 FE Week, 'Adult Apprenticeships Benefit from Train to Gain Funding', *FE Week*, 28 October 2011.
15 House of Commons Business, Innovation and Skills Committee, *Apprenticeships, Fifth Report of Session 2012-13*, HC 83-III (London: The Stationery Office, 2012), 3.
16 Learning and Skills Council, *Rapid Review of Research on Apprenticeships*, 9.
17 Department for Business, Innovation and Skills, 'Doug Richard to Lead Government Apprenticeships Review', Press release, 11 June 2012.
18 Doug Richard, *The Richard Review of Apprenticeships* (Department for Business, Innovation and Skills, 2012), 106.

After numerous discussions about how to fund apprenticeships in future, the 'apprenticeship levy' was announced in March 2015 and was expected to raise £3 billion per annum by 2019-20.[19] Shortly afterwards, the 2015 Conservative Party election manifesto committed them to delivering 3 million apprenticeship starts between 2015 and 2020, and this target officially remains in place today. With the apprenticeship levy having come into force in April 2017, the Government also published a 'Social Mobility Strategy' in December last year which declared that "apprenticeships can transform the lives of young people who secure them" and emphasised that apprenticeships should offer "a structured and substantial transition for young people from education to work".[20] To achieve this, the Strategy claimed the levy would "incentivise more employers to provide quality apprenticeships"[21] and there would be "a crucial role for Small- and Medium–Sized Enterprises (SMEs) in delivering the skills revolution that we need".[22]

This report will analyse the impact of the changes made to apprenticeships in recent years; more specifically, the effect of the apprenticeship levy on learners, employers and providers. Although the levy is a relatively new part of the education and training landscape, the evidence available thus far – combined with a detailed understanding of past mistakes in reforming apprenticeships – raises serious concerns about the integrity and value-for-money of apprenticeships in this country. As will become clear throughout this report, the apprenticeship levy and its supporting systems have led to a series of unintended consequences that, if left unchecked, could diminish the overall quality and brand of the apprenticeship programme.

19 HM Treasury, *Spending Review and Autumn Statement 2015*, 2015, 45.
20 Department for Education, *Unlocking Talent, Fulfilling Potential: A Plan for Improving Social Mobility through Education*, 2017, 25.
21 Ibid.
22 Ibid., 31.

1
The impact of the levy on apprenticeship quantity

The levy formally came into force on 6th April 2017. To assess the impact of the levy, the first consideration is whether there has been a rise or fall in the number of people starting an apprenticeship since its introduction. After explaining how the levy works in practice, this chapter will explore the data published by the Government on the number of 'apprenticeship starts' since April last year as well as analysing the ages of those starting their training and the level at which people are training.

1.1 How the apprenticeship levy works

Any organisation with an annual wage bill of over £3 million[23] (approximately 2 per cent of all employers) must report and pay their levy – at a rate of 0.5 per cent of their pay bill – to HMRC through the PAYE system. This applies to employers in all sectors, including public sector bodies and charities. Each of these employers has access to a 'digital account' with HMRC that holds their levy contribution, which is updated on a monthly basis and includes a 10 per cent top-up to their accounts provided by government. The funds stay in an employer's digital account for up to two years before they expire. Once an employer decides to take on an apprentice, there are a number of steps required for them to draw down their levy funds:

1. The employer chooses which 'apprenticeship standard' (i.e. training course) they want their apprentice to work towards.
2. The employer selects a 'training provider' from a list of organisations approved by the Education and Skills Funding Agency (ESFA).
3. The employer also selects an 'assessment organisation' approved by the ESFA to carry out the final assessment at the end of the apprenticeship.
4. The employer and the training provider agree a price for each apprenticeship, which includes the costs of training and assessment.
5. The employer pays for training and assessment with funds through their digital account.

Each apprenticeship standard is placed into one of 15 funding bands, with the upper limit of those bands ranging from £1,500 to £27,000. These bands were introduced by the Government as "setting an upper limit on the amount spent on an individual apprenticeship ensures that public money is spent in an appropriate way and achieves maximum value for the taxpayer."[24] In line with the *Richard Review*, the government guidance for levy-paying employers also maintained that they "are expected to negotiate a price for their apprentice's training and assessment."[25]

If an employer does not pay the levy then they must still choose an apprenticeship standard, training provider and assessment organisation. However, the absence of a digital account means that they simply pay a 'co-investment' of 10 per cent towards whatever price they negotiate with the providers and the Government will then directly pay the provider the remaining 90 per cent. The same applies to a levy-paying employer who has used up all of their levy funds in a given month.

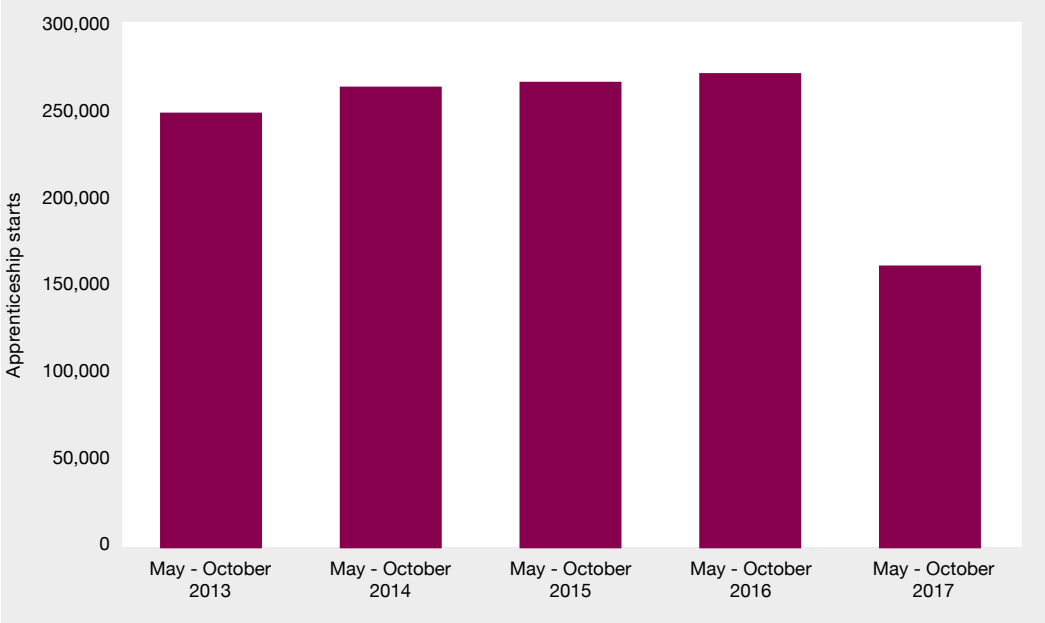
The levy system has other nuances. For example, employers with fewer than 50 people can train 16 to 18-year-old apprentices or those aged 19 to 24 who have previously been in care or have a Local Authority Education, Health and Care (EHC) plan without paying the 10 per cent co-investment – meaning that the Government foots the whole training bill. Employers who take on apprentices aged 16 to 18 receive £1,000 to help meet the extra costs involved while training providers also receive the same £1,000 payment for supporting apprentices who are aged 16 to 18 or aged 19 to 24 and are either a care leaver or have a Local Authority EHC plan.

23 This includes employers that are connected to companies or charities for Employment Allowance which in total have an annual pay bill of more than £3 million.
24 Department for Education, *Apprenticeship Funding: Apprenticeship Funding in England from May 2017*, 2016, 10.
25 Ibid.

1.2 Falling apprenticeship starts

Government statistics show that the number of people starting an apprenticeship from May 2017 to October 2017 (the 6-month period after the levy was introduced) was 162,400 – over 40 per cent lower than the same period in the previous year. Figure 2 shows the number of apprenticeship starts in the comparable May-October period in each year since 2013.[26]

Figure 2: Number of people starting an apprenticeship in the same 6-month period as the statistics on the levy



Source: Department for Education, *Statistics: further education and skills,* 2013-2018.

The Department for Education (DfE) has also begun publishing monthly updates on the number of apprenticeship starts since the quarterly data covering the period from May to October 2017 was released. The most recent figures fared little better than the previous six months. In November 2017 27,000 learners started an apprenticeship compared to 41,600 starts in November 2016,[27] while in December 2017 there were 16,700 apprenticeship starts compared to 21,600 starts in December 2016.[28]

Even before these figures were released, warning signs had emerged elsewhere. In September 2017, a survey of more than 1,400 companies found that nearly a quarter of those paying the levy had no understanding of it or no sense of how their company would respond to it, and more than half of them said that it represented merely an additional cost with 56 per cent not expecting to recover any or only a part of their levy funds.[29] In terms of the likely impact on employer behaviour, a survey of more than 1,000 organisations in January 2018 found that:

- 46 per cent of levy-paying employers think that the levy will encourage their organisation to rebadge current training activity in order to claim back their allowance.

26 For each of the years displayed, Figure 2 combines the final figure for apprenticeship starts from Q4 (May-July) with the provisional figure for apprenticeship starts for Q1 (August-October).
27 Department for Education, 'Apprenticeship and Levy Statistics: February 2018', Webpage, 28 February 2018.
28 Department for Education, 'Apprenticeship and Levy Statistics: March 2018', Webpage, 29 March 2018.
29 Sarah Gordon, 'Apprenticeship Levy Leaves Businesses Baffled', *Financial Times*, 27 September 2017.

- 40 per cent of levy-paying employers said it will make little or no difference to the amount of training they offer.
- 35 per cent of employers will be more likely to offer apprenticeships to existing employees instead of new recruits.
- 26 per cent of levy-paying employers said it will mean their organisation reduces investment in other areas of workforce training and development.
- 19 per cent of levy-paying employers, including 35 per cent of SMEs, will simply write it off as a tax.[30]

This indicates that, rather than investing in high-quality apprenticeships for young people that aim to train them in a new and skilled occupation, employers were already planning to react to the levy in a very different manner (or perhaps not respond at all).

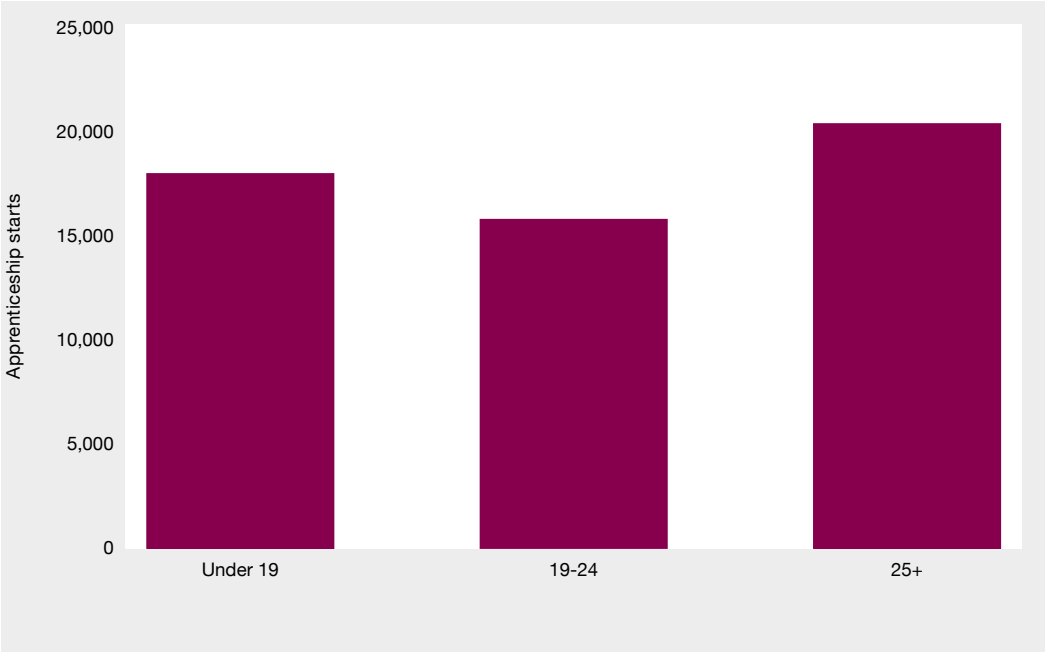
1.3 Changing patterns in the level and age of apprentices

The response from employers is also beginning to change the profile of who starts an apprenticeship. Apprenticeships are almost exclusively offered to young people in other countries such as Germany, Switzerland, Austria and France because it is widely understood that apprenticeships are a form of initial vocational training to help a young person enter an occupation.[31] In this country the decision to offer apprenticeships to those aged 25 and over from 2004 onwards did not have a noticeable impact at the outset. By 2007 there were still only 300 adult learners starting an apprenticeship each year.[32] Subsequently, as discussed earlier, there was a sharp increase in the number of adult apprentices (amplified by the transfer of learners from the 'Train to Gain' scheme that was being closed down). In every year since 2011, the number of learners aged 25 and over starting an apprenticeship has been higher than the number of starts among those aged under 19 – with adult apprenticeships peaking at 230,300 in 2013.[33] Far from addressing this lack of focus on young people in the apprenticeship programme, the levy appears to be compounding it.

During 2014 and 2015, the delivery of the new wave of 'apprenticeship standards' designed by groups of employers - describing the skills, knowledge and behaviours that an apprentice is expected to acquire during their training[34] - was initially concentrated on younger age groups. The latest statistics suggest that this is an evolving picture as employers switch their attention to older age groups instead. In the six months of full data available since the levy began operating in April 2017, the age category with the highest number of people starting to train towards one of the new 'apprenticeship standards' is the over-25s (See Figure 3[35]).

30 Chartered Institute of Personnel and Development, 'More than Half of Employers Currently Paying the Apprenticeship Levy Want It Replaced with a Training Levy', Press release, 11 January 2018.
31 Hilary Steedman, *The State of Apprenticeship in 2010* (The Centre for Economic Performance, 2010).
32 Department for Business, Innovation and Skills, *Quarterly Statistical First Release - Post-16 Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held*.
33 Department for Business, Innovation and Skills, *Statistical First Release - Further Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held*, 2014.
34 Institute for Apprenticeships, 'How to Develop an Apprenticeship Standard: Guide for Trailblazers', Webpage, 7 November 2017.
35 Figure 3 combines the final figure for apprenticeship starts from Q4 (May-July) with the provisional figure for apprenticeship starts for Q1 (August-October).

Figure 3: Ages of people starting training towards a new 'apprenticeship standard' since the levy was introduced (May to October 2017)

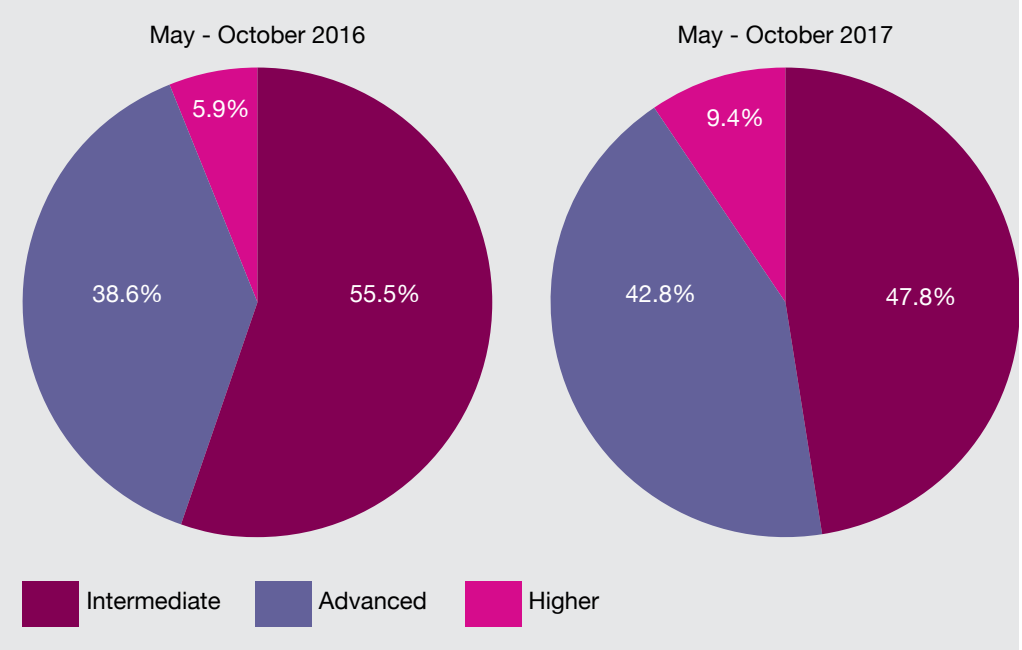


Source: Department for Education, *FE data library: apprenticeships,* 2018.

In addition to older age groups becoming the focus, Figure 4 shows that the mix of apprenticeship levels is shifting from Intermediate (Level 2) towards Higher and Degree Apprenticeships (Levels 4-6; equivalent to the first year of university through to a full degree). In established apprenticeship systems such as Germany, Switzerland and Austria, almost all apprenticeships are at Level 3 because the training is designed to ensure apprentices become fully competent in their occupation rather than providing training at higher levels to those already in work.[36] The proportion of apprenticeships in this country being delivered at higher levels (Level 4+) has grown markedly since the levy was introduced, but just 12 per cent of these have been delivered to those aged under 19. This suggests that more experienced workers are increasingly becoming the focus of the apprenticeship programme, at the expense of less experienced employees.

36 Steedman, *The State of Apprenticeship in 2010*.

Figure 4: Proportion of apprenticeship starts at different levels before and after the levy was introduced



Source: Department for Education, *FE data library: apprenticeships,* 2018.

The changing mix of ages and levels in the statistics on apprenticeship starts are both in line with the aforementioned survey findings that suggested many employers will seek to use existing and/or older employees and rebadged training schemes to draw down their levy funds instead of recruiting new and typically younger people. By 2020 all apprenticeships will be delivered using these new 'standards',[37] which serves to highlight their importance as an indicator of how the levy is likely to affect opportunities for young people.

Furthermore, the extent to which government funding generates outcomes that are not additional to what would have occurred in the absence of such funding, also known as 'deadweight', looms large. Before the levy was introduced, apprentices aged 19 and over typically attracted a subsidy of around 50 per cent for their training costs while apprentices aged under 19 attracted a subsidy of 100 per cent. This has now altered so that, while those aged under 19 can still attract the full subsidy, apprentices aged 19 and over are now subsidised to the tune of 90 per cent of the training costs (the employer co-investment rate of 10 per cent covers the remaining portion). This introduces a sizeable incentive for employers to start training older apprentices, including existing employees, that goes well beyond the subsidies available before the levy was rolled out.

1.4 The role of the 3 million target

Politicians from all parties are right to demand a better technical education system in this country, but the apparent targeting of the quantity of apprenticeships rather than the quality and substance of what is being delivered is the wrong approach. As described in this chapter, the overall quantity of apprenticeships has fallen and the mixture of the ages and levels of apprenticeships is also changing. The target of 3 million apprenticeship starts by 2020 creates a situation in which the need to support young people into apprenticeships at a suitable level is no longer formally prioritised by the Government. Likewise, the apprenticeship levy is now expected to help deliver more apprenticeship starts in an effort to hit the 3 million target even if those additional apprenticeships are

37 Department for Education, 'Removal of Apprenticeship Frameworks', Webpage, 24 January 2018.

disproportionately taken by older and existing workers.

When the commitment to 3 million apprenticeships by 2020 was first announced, Professor Alison Wolf – author of a major government review of vocational education in 2011 – described it as a "mad and artificial political target which risks undermining the reputation of apprenticeships".[38] The NAO subsequently pointed out that the target would not tackle skills gaps or improve outcomes for learners,[39] while the Institute for Fiscal Studies stated last year that "a stronger focus on quality and a policy designed to maximise impact rather than numbers" was needed instead.[40]

The 3 million apprenticeship target is not responsible for every problem facing the apprenticeship levy and its associated reforms described in this report. It is nevertheless driving employers and training providers to accelerate the delivery of new apprenticeship standards before a solid foundation has been placed underneath the reform programme as a whole – particularly, as this report argues, in terms of apprenticeship quality (see chapter 3) and the validity and reliability of apprenticeship assessments (see chapter 5).

To this day, no research evidence has been published by the Government to support the notion that 600,000 apprenticeship starts per year from 2015 to 2020 is appropriate for the economy. Moreover, the incentives that the target has introduced into the apprenticeship system for employers, training providers and assessors will undermine any attempt to either improve the quality and stature of apprenticeships in this country or generate more opportunities for young people to enter skilled occupations.

Recommendation 1: The target for 3 million apprenticeship starts by 2020 should be abandoned so that the focus can be placed on apprenticeship quality above all else.

38 Oliver Wright, ''Mad' Apprenticeship Targets Have Consigned a Generation to Low-Skill, Low-Paid Duties', *The Independent*, 30 August 2015.
39 National Audit Office, *Delivering Value through the Apprenticeships Programme*, 2016, 22.
40 Neil Amin-Smith, Jonathan Cribb, and Luke Sibieta, *Reforms to Apprenticeship Funding in England* (Institute for Fiscal Studies, 2017), 29.

2
The impact of the levy on apprenticeship quality

Having considered the number of people starting an apprenticeship since the levy was introduced, it is also important to assess the quality of the apprenticeships that those same individuals have embarked on. This chapter will investigate the characteristics of a high-quality apprenticeship and the extent to which these characteristics are reflected in the apprenticeships being delivered to learners.

2.1 Exploiting the weak definition of an 'apprenticeship'

Apprenticeships are a global and established brand. The International Labour Office (ILO) defines apprenticeships as "training programmes that combine vocational education with work-based learning for an intermediate occupational skill (i.e. more than routinised job training)".[41] The ILO definition also incorporates other key features of an apprenticeship such as their focus on training young people and that this training involves a long-term and 'systematic' (i.e. predefined) programme of learning.[42]

The *Richard Review* in 2012 voiced concerns that the definition of an 'apprenticeship' in this country was being stretched too far, stating that "there has been a drift towards calling many things apprenticeships which, in fact, are not."[43] It also insisted that "increasing the skills of people within an existing job" was not an apprenticeship.[44] The 'quality statement' published in November 2017 by the Institute for Apprenticeships (IfA), a new government agency introduced alongside the levy, echoed these sentiments:

> *Not all training is an apprenticeship. Work experience alone, shorter duration training for a job, attending a course, or assessing and certificating an employee who is already working in the occupation, are all positive forms of learning and accreditation at work but they are not apprenticeships.*[45]

Back in 2013, the Government had sought to explain what it meant by the term 'apprenticeship' (see box below).

What is an Apprenticeship?

An Apprenticeship is a job that requires substantial and sustained training, leading to the achievement of an Apprenticeship standard and the development of transferable skills.

This definition is underpinned by four principles of future Apprenticeships:

- An Apprenticeship is a job, in a skilled occupation
- An Apprenticeship requires substantial and sustained training, lasting a minimum of 12 months and including off-the-job training
- An Apprenticeship leads to full competency in an occupation, demonstrated by the achievement of an Apprenticeship standard that is defined by employers and
- An Apprenticeship develops transferable skills, including English and maths, to progress careers.

Source: HM Government, *The Future of Apprenticeships in England: Implementation Plan,* 2013.

The gap between the Government's definition and that of the ILO was striking. For the Government to propose that any 'job with training' could be classed as an apprenticeship directly conflicted with the ILO's view. A precise description of what constituted a 'skilled occupation' was absent, as was any mention of the need for a 'systematic' training plan

41 Hilary Steedman, *Overview of Apprenticeship Systems and Issues: ILO Contribution to the G20 Task Force on Employment* (International Labour Organisation, 2012), 2–3.
42 Ibid.
43 Richard, *The Richard Review of Apprenticeships*, 4.
44 Ibid., 32.
45 Institute for Apprenticeships, 'What Is A Quality Apprenticeship', Webpage, 2017.

highlighted by the ILO. The Government also decided it was up to employers "to agree what constitutes a suitable and discrete occupation."[46]

Having left the definition of an apprenticeship in the hands of employers, the Government claimed to only be willing to accept new apprenticeship standards that were "high quality, with sufficient content and transferability to justify public investment".[47] This was to be achieved through a 'framework' of criteria (still largely in place today) against which the proposed new apprenticeships put forward by employers would be judged. Nevertheless, the phrase 'skilled occupation' did not feature in the criteria while the notion of 'sustained training' was removed in favour of requiring apprenticeships to last just 12 months – well below the international benchmark of three years.[48]

The decision not to adhere to the internationally-recognised definition of an apprenticeship has therefore created two problems. First, employers do not have to focus on skilled occupations – they merely have to describe any job or role that they wished to be labelled as an 'apprenticeship'. Second, the new apprenticeship standards designed by employers do not have to promote long-term or systematic training, even though this is regarded as a core feature of apprenticeships in other countries.

2.2 Low-skill roles being rebadged as 'apprenticeships'

As part of the Government's wider package of reforms to apprenticeships, groups of employers have come together to write the new 'apprenticeship standards'. Some employers have used this opportunity to generate high-quality standards. However, as will be described in this section, other employers appear to be simply rebadging low-quality, low-skill and often low-wage roles as 'apprenticeships' instead.

The opening sentence of the 'Retailer' apprenticeship standard notes that "the main purpose of a retailer is to assist customers when they purchase products and services".[49] The standard claims that those who complete it can work in a variety of shops and other retail establishments including supermarkets, small boutiques, funeral services, garden centres, and delicatessens.[50] The only way that these different employment contexts could be linked is if the training on this 'apprenticeship' lacks depth and relates to low-level responsibilities restricted to basic customer interactions. In 2015, the joint Business, Innovation and Skills and Education Select Committees described the significant difference between retail apprenticeships in Germany compared to those in England:

> *In Germany sales assistants are typically responsible for the whole distributive process, including ordering, merchandising and advising customers and they do not receive daily instructions from superiors. …By contrast, in UK retail firms, work for sales assistants is typically divided up into bounded tasks which are relatively easy to carry out. Sales staff have limited autonomy and tend to follow day-to-day instructions by managers.*[51]

In short, there is a serious risk that those completing a 'retail' apprenticeship in England end up less skilled, less knowledgeable, less autonomous and with a much narrower training scheme than their German counterparts.

The 'Hospitality Team Member' apprenticeship standard takes a similar approach by claiming that it encompasses training to work in different venues such as bars, restaurants, cafés and hotels across a range of 'specialist areas' (e.g. Barista,

46 HM Government, *The Future of Apprenticeships in England: Guidance for Trailblazers (Version 2)*, 2014, 12.
47 HM Government, *The Future of Apprenticeships in England: Implementation Plan*, 2013, 12.
48 Steedman, *The State of Apprenticeship in 2010*, 2.
49 Institute for Apprenticeships, 'Retailer', Webpage, 2018.
50 Ibid.
51 House of Commons Business, Innovation and Skills and Education Committees, *Education, Skills and Productivity: Commissioned Research – First Joint Special Report of the Business, Innovation and Skills and Education Committees of Session 2015–16*, HC 565 (London: The Stationery Office, 2015), 20.

Housekeeping, Reception).[52] That said, a learner is only trained in one of these specialist areas during the 12-month course. The comparison to Germany is again illustrative as their 'Hotel Business Specialist' apprenticeship trains people to work in hotels, guesthouses, inns, restaurants, cafes and in catering by delivering a training package that lasts for three years rather than 12 months. This single apprenticeship in Germany also covers all of the 'specialist areas' named in the English equivalent as well as training apprentices in a much wider range of skills and knowledge such as managing inventories, stock control, promotions and marketing, planning employee shifts and handling complaints.[53]

The 'Customer Service Practitioner' standard also fails to meet any reasonable measure for high-quality content. The standard merely states that "the role of a customer service practitioner is to deliver high quality products and services to the customers of their organisation".[54] The core 'knowledge' listed in the standard includes statements such as "understand who customers are", "understand your role and responsibility within your organisation and the impact of your actions on others" and "understand the products or services that are available from your organisation".[55] Useful as these attributes are, they do not represent the end-product of a rigorous and substantial training course in a skilled occupation. The list of advertisements for 'Customer Service Practitioner' training vacancies show that learners can end up working at an estate agent, car dealership, coffee shop, accountancy firm, distribution firm, medical centre, locksmith, sport centre, recruitment firm, pharmacy or a cleaning company.[56] This enormous variety of job roles further demonstrates how little emphasis the standard places on the level of skill and depth of occupational knowledge that would be acquired through this 'apprenticeship'.

The generic 'Business Administrator' standard notes that it gives apprentices "a highly transferable set of knowledge, skills and behaviours that can be applied in all sectors."[57] The core 'skills' listed in the standard include the apprentice becoming "skilled in the use of multiple IT packages and systems relevant to the organisation" and "[understanding] the organisation's processes, e.g. making payments or processing customer data",[58] indicating that this apprentice is only learning the processes, procedures and systems needed to operate in a specific workplace – not across all industry sectors. The gap between this apprenticeship standard and its German equivalent is yet again instructive because they offer six different 'business administrator' apprenticeships in Germany to recognise the need for people to acquire sector-specific skills and knowledge to perform such a role effectively.[59]

The risk with such ill-defined and low-skill roles is that the experience for the apprentices does not match the government rhetoric around the value of apprenticeships. For example, news reports of 'Business Administrator' apprentices being asked to do little more than filing, photocopying and answer the phones while being paid below the normal minimum wage because they are classed as an 'apprentice' are all too common.[60] The practice of labelling low-skill courses as 'apprenticeships' is becoming widespread but has not gone entirely unnoticed. In its report on the quality of apprenticeships in 2015 Ofsted was vocal in its criticism, stating that "employers and providers involved in poor

52 Institute for Apprenticeships, 'Hospitality Team Member', Webpage, 2018. The full list of specialist areas is: 'Food and beverage service', 'Barista', 'Housekeeping', 'Reception', 'Reservations', 'Concierge and guest services' and 'Serving alcoholic beverages' (the latter being further divided into serving beer, wine or cocktails – not all three).
53 Bundesagentur Für Arbeit, 'Hotelfachmann/-Fachfrau', Webpage, 2018.
54 Institute for Apprenticeships, 'Customer Service Practitioner', Webpage, 2018.
55 Ibid.
56 A search for 'Customer Service Practitioner' (Level 2 / Intermediate) roles in England was carried out on the 'Find an apprenticeship' website in March 2018.
57 Institute for Apprenticeships, 'Business Administrator', Webpage, 2018.
58 Ibid.
59 Recognition in Germany, 'Recognition Finder: Business Administrator', Webpage, 2018. The full list of Business Administrator apprenticeships in Germany is: Automobile business administrator; Business administrator for logistics systems; Business administrator for marketing; Business administrator for office and project organisation; Business administrator for purchasing; Business administrator for sales and distribution in the retail sector.
60 BBC News, 'Apprenticeships: "It's the Money That Puts People Off"', Webpage, 13 October 2017.

quality, low-level apprenticeships are wasting public funds and abusing the trust placed in them by government and the apprentices."[61]

The proliferation of low-level and low-skill roles being labelled as 'apprenticeships' poses a further problem. England is one of only a handful of countries to offer apprenticeships at both Level 2 (equivalent to GCSEs) and Level 3 (equivalent to A-levels) instead of just the widely-recognised international benchmark of Level 3. There are now several examples of 'vertical differentiation'[62] (i.e. splitting an occupation into training courses at higher and lower levels) that have generated groups of new apprenticeship standards containing almost identical descriptions of a role at both Level 2 and Level 3 and sometimes even Level 4 (equivalent to the first year of a degree). For instance, the 'Investment Operations Administrator' standard sits at Level 2 while 'Investment Operations Technician' is at Level 3 and 'Investment Operations Specialist' is at Level 4, even though the Level 3 version describes itself as an "entry level role". Similarly, there are separate standards for 'Rail Engineering Operative', 'Rail Engineering Technician' and 'Rail Engineering Advanced Technician' that span Levels 2, 3 and 4 respectively. The same pattern is evident yet again with the standards for 'Housing/Property Management Assistant', 'Housing/Property Management' and 'Senior Housing/Property Management'.

Such practices contradict the requirements laid out by the IfA, which states in its guidance that an apprenticeship occupation must "cover a recognised stand-alone occupation, for which there is a genuine demand in the job market" and "be one for which someone can achieve full competence without the need for further training beyond the apprenticeship."[63] Producing two or three versions of the same apprenticeship indicates that at least one of them is unnecessary as it does not represent the level of skill and knowledge required to enter an occupation. Nonetheless, the availability of substantial government subsidies for anything badged as an 'apprenticeship' means that employers are being driven to create these duplicate roles irrespective of their value or relevance in the labour market.

2.3 Professional development courses being labelled as 'apprenticeships'

A central point made in the *Richard Review* was that increasing the skills of people within an existing job should not be viewed as an apprenticeship. The use of the apprenticeship brand to cover supervisory or management positions does not meet the Government's description of an apprenticeship, the *Richard Review*'s perspective or the ILO definition, yet these 'apprenticeships' account for a large proportion of the new apprenticeship standards. Given the 90 per cent subsidy available for any course or programme that is designated as an apprenticeship, even at managerial levels, employers are now actively incentivised to relabel training courses as 'apprenticeships' that they previously paid for themselves. Accordingly, the deadweight costs of this activity could be extremely high. The National Audit Office (NAO) had previously warned in September 2016 that "employers might artificially route other forms of training into apprenticeships".[64]

The list of approved apprenticeship standards contains numerous professional development opportunities for those already in a job, such as 'Early Years Centre Leader', 'Golf Course Manager', 'Hospitality Manager' and 'Retail Manager'. Perhaps the most obvious example of relabelling professional development courses is the 'Chartered Manager Degree Apprenticeship'. Management courses are a form of professional development – not training for a discrete occupation. One of the key organisations behind this standard – the Chartered Management Institute (CMI) – found in its own survey of

61 Ofsted, *Apprenticeships: Developing Skills for Future Prosperity*, 2015, 5.
62 Lorna Unwin and Alison Fuller, *Apprenticeship and the Concept of Occupation* (The Gatsby Charitable Foundation, 2013), 26.
63 Institute for Apprenticeships, *'How to' Guide for Trailblazers*, 2017, 9.
64 National Audit Office, *Delivering Value through the Apprenticeships Programme*, 40.

managers seeking 'chartered' status back in 2015 that the three most common reasons for training to become a 'Chartered Manager' were "to demonstrate my continued professional development", "to gain professional recognition" and "to demonstrate my commitment to management as a profession".[65]

The brochure containing this survey included a quote from a manager at another organisation involved in developing the new standard, which stated that the existing Chartered Manager qualification "is an essential part of the company's management and leadership training programme".[66] This manager's company "saw the accreditation [of becoming a Chartered Manager] as being something positive to include in tenders for new contracts [as] they recognised that Chartered Manager shows the client the capability and adaptability of the senior management team working on the contract."[67] This makes it clear that such companies were willing and able to pay for management training at this level before the degree apprenticeship was invented because it could give them a commercial advantage. The CMI claim that Chartered Managers add £391,443 of value to their employer,[68] which would explain why employers seemed willing to cover the cost of the training themselves. Following the decision to approve this new standard, the Government now funds this management 'apprenticeship' instead at up to £27,000 for everyone who enrols on the course.

The same group of employers behind the Chartered Manager scheme have also designed an apprenticeship standard called 'Team Leader / Supervisor'. It is described as "a first line management role" and includes training in areas such as 'team management', 'financial management', 'project management', 'leadership', 'communication' and 'performance management'. This bears a striking resemblance to the 'First Line Management' Level 3 qualification offered at present by the CMI outside of apprenticeships (and funded by employers), which includes training in 'managing and communicating information, 'improving team performance', 'being a leader', 'understanding team dynamics' and 'leadership influencing skills'.[69] Now that this too has been relabelled as an 'apprenticeship', it commands a government contribution of up to £5,000 for each person enrolled on the course.

To further demonstrate the power of the 90 per cent government subsidy introduced by the levy, these same employers have recently produced a 'Senior Leader Masters Degree Apprenticeship' aimed at Chief Executives, Chief Financial Officers and Chief Operating Officers amongst others. Cranfield University's School of Management – one of the most prestigious management schools in the country – state on their website that their existing 'Executive MBA' programme is "for middle managers wanting to move into a senior management role and those on a fast-track career path within their organisations".[70] This MBA has now been "designed to meet the requirements" of the new 'Senior Leader' apprenticeship.[71] If anyone wishes to pay for this Executive MBA independently, it would cost them or their employer £32,000 to start in April 2018. Now that this course is set to be absorbed into the new 'senior leader' apprenticeship, non-levy paying employers will be able to claim a 90 per cent subsidy from government towards the cost of the external training instead. The *Financial Times* recently reported that "British business schools cannot believe their good fortune as companies look to use the levy to send executives on MBA courses" and the article quoted Paul Baines, MBA course director at Cranfield University, as saying "the apprenticeship levy creates a new opportunity for us".[72]

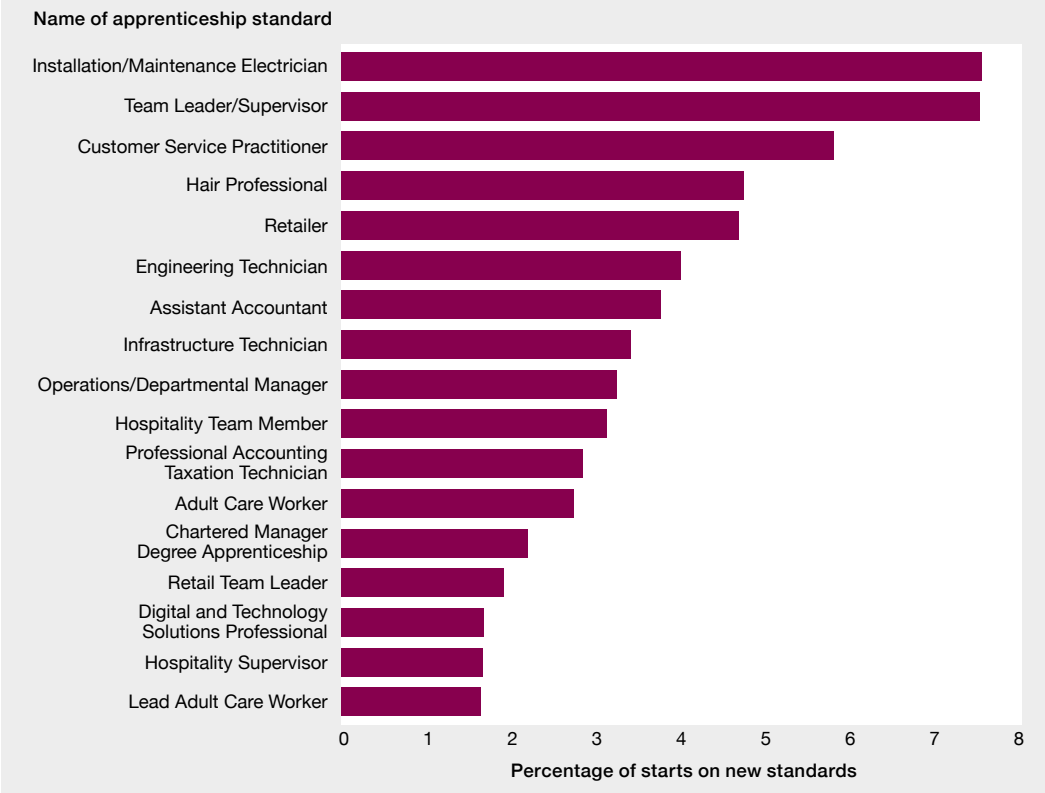
65 Patrick Woodman, Lysbeth Plas, and Tristan Garrick, *Mapping Management Excellence: Evaluating the Impact of Chartered Manager* (Chartered Management Institute, 2015), 9.
66 Ibid., 16.
67 Ibid.
68 Ibid., 15.
69 Chartered Management Institute, 'CMI Level 3 - First Line Management', Webpage, 2018.
70 Cranfield School Of Management, 'Executive MBA', Webpage, 2018.
71 Ibid.
72 Jonathan Moules, 'MBA Students Become Unlikely Beneficiaries of UK Apprenticeship Levy', *Financial Times*, 6 October 2017.

2.4 The financial consequences of failing to protect quality

The impact on the public finances of allowing employers to label almost anything they wish as an 'apprenticeship' should not be underestimated. The latest government statistics on the number of people starting apprenticeships on the new employer-designed standards[73] show how much money is at risk.

When combined, the 'Retailer', 'Customer Service Practitioner', 'Hospitality Team Member' and 'Business Administrator' roles already account for 14 per cent of the people training towards any apprenticeship standard in any sector. The two professional development courses described earlier ('Chartered Manager Degree Apprenticeship' and 'Team Leader / Supervisor') account for a further 10 per cent of the people starting any apprenticeship. This means that these six standards alone – all of which fail to meet the historical and international definition of an apprenticeship – account for almost 25 per cent of all apprenticeship starts on the new standards.

Figure 5: Most popular apprenticeship standards according to the percentage of starts on the new standards



Source: Department for Education, *FE data library: apprenticeships,* 2018.

Figure 5 demonstrates how entrenched these inappropriately labelled 'apprenticeships' have already become. Looking across other apprenticeship standards that cover either low-skill training courses, duplicated roles across multiple levels or professional development courses (see Appendix for the full list) they together represent 37 per cent of the people training towards any apprenticeship standard.[74] There is no reason why this

73 Department for Education, 'FE Data Library: Apprenticeships', Webpage, 25 January 2018. The statistics quoted in this section refer to total starts on the apprenticeship standards in programme year 2016/17 and the first quarter of 2017/18.

74 This was calculated by analysing the content, entry point and international equivalents of all the apprenticeship standards that had recorded apprenticeship starts since 2016. The final number was produced by counting any apprenticeship standard that either: (a) covered a role that offered low-level training and fell short of occupational competence or was not specific to a skilled occupation; (b) covered a role where there was a directly-equivalent standard in the same occupation at a higher or lower level, in which case only one of those standard was accepted; or (c) described a professional development course for someone who had already acquired significant experience in the workplace before being allowed to commence the apprenticeship.

could not climb even higher as employers are still able to propose what should be labelled or rebadged as an 'apprenticeship'.

The latest figures from the Office for Budget Responsibility have revised the expected levy receipts from the original estimate of £3 billion down to £2.7 billion per annum by 2019-20.[75] The apprenticeship standards that cover low-skill training courses, duplicated roles across multiple levels and professional development courses have accounted for 22 per cent of the funding attached to the new standards over the past two years. If this trend continues, the Government will be spending almost £600 million per annum by 2019-20 on training courses that have been incorrectly labelled as 'apprenticeships'.[76]

2.5 Addressing concerns over apprenticeship quality

Employers and training providers have been given access to hundreds of millions of pounds in government subsidies so long as whatever they deliver has been labelled as an 'apprenticeship'. It is therefore essential that, for the first time in years, the Government builds a strong platform underneath their levy reforms by taking a robust and unequivocal stance on what should and should not be classified as an apprenticeship.

In a recent OECD report on the costs and benefits of apprenticeships, they noted that respected apprenticeship systems such as Austria, Germany, Canada and Norway do not even entertain the idea that you can have apprenticeships in anything other than skilled or highly-skilled roles. The report added that:

> *…apprentices who undertake only unskilled work learn few new skills …[and] in these circumstances, there may be a high dropout rate from apprenticeship programmes, and students will tend to shun apprenticeships. In the long run, even just a small proportion of low-quality apprenticeships can damage the overall reputation and 'brand' of apprenticeships.*[77]

Allowing employers to decide for themselves what they wish to be labelled an 'apprenticeship' was never, and will never, be an appropriate solution because employers' incentives are not properly aligned with the needs of apprentices and society as a whole. Instead, the following definition – which builds on the work of the ILO and OECD – would provide a more rigorous and stable foundation for apprenticeships in this country:

Proposed new definition of an apprenticeship

'Apprenticeship' refers to an education and training programme that combines vocational education with work-based learning in relation to entry into a new skilled occupation or trade. It follows a systematic programme that utilises both on- and off-the-job training. On completing an apprenticeship, the apprentice will be fully competent in their occupation, which means that they will be able to:

- Operate independently in the workplace.
- Take responsibility for initiating and completing tasks and procedures.
- Use their factual, procedural and theoretical understanding to complete tasks and address problems.
- Exercise autonomy and sound judgement to deliver complex and non-routine work.
- Investigate and review the methods used by them and others in the workplace.

75 Office for Budget Responsibility, *Economic and Fiscal Outlook*, 2018, 104.
76 This figure was calculated by first multiplying the number of apprenticeship starts in 2016/17 and 2017/18 on each standard by the maximum funding band allocation for those standards to create a total of the funding allocated to learners on each standard so far. Next, the total funding allocated to each standard was added together to generate the total funding allocated to all standards. Next, the proportion of this total funding allocation accounted for by each individual standard could be calculated. The sum of the proportions of funding allocated to apprenticeship standards that cover low-skill training courses, duplicated roles across multiple levels or professional development courses is 21.71 per cent, representing a total of £586,259,781 of the £2.7 billion levy receipts expected by 2019-20.
77 Malgorzata Kuczera, *Striking the Right Balance: Costs and Benefits of Apprenticeship* (OECD, 2017), 30.

This new definition would make a significant contribution to preventing the possible misuse of the apprenticeship brand by employers and training providers. Any standard that is not able to meet this definition should be withdrawn immediately and either revised or discarded accordingly in order to protect apprentices and taxpayers. Professional development courses that are not related to acquiring initial occupational competence would not be acceptable, while low-skill roles would also be rejected because they do not support an apprentice to reach a sufficiently high level of competence, responsibility and autonomy in the workplace. There is nothing wrong in principle with apprenticeships being offered at both lower or higher levels, which is why it is better to focus on the rigour, depth and breadth of the training course rather than worrying unduly about which level it is associated with.

Recommendation 2: The Government should introduce a new internationally-benchmarked definition of an 'apprenticeship' and any apprenticeship standard that does not meet this definition should be withdrawn.

Far from representing a departure from current government policy, this recommendation fits squarely with the views of the expert panel led by Lord Sainsbury that was established in November 2015 by then Minister for Skills Nick Boles (with strong endorsement from the Prime Minister David Cameron). The panel were asked to advise ministers on measures that could improve technical education in England. Their final report in April 2016 made the following observation about the quality of apprenticeship standards:

> *…[we are] concerned that some existing apprenticeship standards, at least at face value, seem to overlap significantly with others, be firm- rather than occupation-specific, and/or contain insufficient technical content. If this is indeed the case, it risks a proliferation of low-value or niche standards, creating complexity and recreating all the problems of the previous system.*[78]

The panel recommended that "at the earliest opportunity, the Institute for Apprenticeships reviews all existing apprenticeship standards to satisfy itself that there is no substantial overlap between standards, and that every standard is occupation rather than firm-specific and contains sufficient technical content to warrant at least 20% off-the-job training."[79] Following this review, the panel advised that "standards found to be overlapping or wanting in terms of breadth or technical content should be revised, consolidated or withdrawn."[80]

Two years later the IfA has still not carried out this review, despite the Government saying at the time that "we accept and will implement all of the Sainsbury panel's proposals, unequivocally".[81] This review of existing standards, if it is based around the new definition of an apprenticeship outlined above, would protect the apprenticeship brand from further damage and strengthen the quality of apprenticeships in future.

78 David Sainsbury et al., *Report of the Independent Panel on Technical Education* (Department for Business, Innovation and Skills and Department for Education, 2016), 41.
79 Ibid., 42.
80 Ibid.
81 Department for Business, Innovation and Skills and Department for Education, *Post-16 Skills Plan*, 2016, 6.

3
How the levy has affected employers

Maintaining the support of the business community for any major reforms to apprenticeships is vital, yet business leaders have expressed serious misgivings in recent months about the apprenticeship levy.

In January 2018 Steve Nash, Chief Executive of the Institute of the Motor Industry, said that the slump in apprenticeship starts under the levy was caused by "a combination of confusion amongst employers about the new processes [and] reluctance by smaller employers to take on what they see as an increased administrative burden".[82] In February 2018 Dame Judith Hackitt, chair of the EEF manufacturing group, described the levy's impact on employers as "disastrous" because "it is complex, companies are unable to access their funds and many view it as another tax on business."[83] Such is the degree of complexity and bureaucracy associated with the apprenticeship levy, she added that employers were "near breaking point" and consequently the Government must "rethink the entire levy system from top to bottom."[84] In March 2018 the CBI business group said that the apprenticeship levy is 'broken' and the Government must go back to the drawing board.[85]

While it may be tempting to dismiss such concerns on the grounds that some organisations could be unhappy with having to pay the levy, the reality is far more complicated. The difficulties facing employers of all sizes since the introduction of the levy can in fact be traced back to the very beginning of the reforms.

3.1 The funding proposals in the Richard Review

The *Richard Review* articulated the view - shared by many at the time - that the funding model for delivering apprenticeships "drives a system which is too provider-driven and not sufficiently responsive to employers".[86] The proposed solution was that government should contribute to the cost of training apprentices but "the purchasing power for training must lie firmly in the hands of employers" as "employers are best placed to judge the quality and relevance of training and demand the highest possible standards from training organisations".[87] This proved more popular among employers than the *Richard Review*'s following recommendation that they should be forced to make financial contributions to the cost of training over and above paying their apprentices' wages. This was deemed necessary to make employers "demand the highest quality and most cost-effective training."[88]

The Review's preferred approach to achieving this was that government should fund apprenticeships through National Insurance or the tax system – ideally through a tax credit (based on the R&D tax credit already in operation). More generally, the Review wanted the funding system to be simple and accessible, particularly for small firms, and that government should consider varying how much it pays for training according to the size of the firm and the age of the apprentice.[89]

3.2 Research evidence on the Richard Review proposals

Some of the Review's proposals looked questionable from the outset. A government survey of the employers of apprentices, published shortly before the Review, found that over 80 per cent of employers were 'satisfied' or 'very satisfied' with the quality of training delivered by their external training provider, the relevance of that training to their needs

82 Tom Sharpe, 'Increased Administrative Burden of Apprenticeship Levy Blamed for 26.5% Decline in New Starters', *Automotive Management Online*, 30 January 2018.
83 George Ryan, 'Employers "Near Breaking Point" Thanks to Apprenticeship Levy, Says Industry Leader', *Times Education Supplement*, 20 February 2018.
84 Ibid.
85 Robert Lea, 'Broken Apprentice Levy Can't Be Fixed, Says CBI', *The Times*, 23 March 2018.
86 Richard, *The Richard Review of Apprenticeships*, 107.
87 Ibid., 100.
88 Ibid., 108.
89 Department for Business, Innovation and Skills, *The Future of Apprenticeships in England: Next Steps from the Richard Review*, 2013, 24.

and the support and communication they received. The vast majority of employers also felt able to influence the structure, content and delivery of the external training.[90] For the Review to propose that employers wanted, and needed, more responsibility for organising and overseeing training provision appeared wide of the mark.

Furthermore, the same survey found that only 11 per cent of employers paid any financial contribution to the training provider for their apprentices, and of that 11 per cent only half paid more than £1,000.[91] Of those employers who paid a contribution, 35 per cent said that they took on fewer apprentices as a result.[92] This shows that as far back as 2012 it was clear employers would be sensitive to demands for cash contributions. As described in an OECD report last year, the costs to employers of an apprenticeship are significant, with the largest being the apprentice's wages (plus social security and travel costs) followed by the cost of instructors or trainers in the workplace, tools and equipment and finally administration.[93] The same report pointed out that employers "will offer apprenticeships if the expected benefits are more than, or at least equal to, the expected costs".[94] Conversely, if the costs are too high then employers may simply walk away.

Demanding cash contributions also diverged from the approach taken in other countries, where employers often get paid by the government to take on apprentices. For example, in Austria companies have received government grants for each apprentice since 2008 equivalent to as much as three times an apprentice's gross wages. In France, organisations employing apprentices for at least one month can benefit from a tax credit of €1,600 per apprentice per year. In the Netherlands, a subsidy for employers was introduced in 2014 of up to €2,700 per apprentice per year.[95]

The *Richard Review* recognised that enforced contributions might affect employer's willingness to offer apprenticeships noting that "the funding system should encourage and not deter employers from participating – particularly recognising that today many receive apprenticeship training as a free good."[96] To resolve this, the Review proposed that "the Government could be more generous in other respects, for example [it] could offset or partly offset employers' contributions to training, by reimbursing part of the cost of internal training or even a proportion of the wage costs. Therefore, it should be possible to ensure that overall, employers are not worse off".[97]

3.3 The journey towards the apprenticeship levy

Following the Review, the Government set out to deliver its vision of employer co-investment coupled with government funding. Four different funding models were put forward across two large-scale consultations throughout 2013 and 2014, which triggered hundreds of responses from stakeholders. In the end, all four models were either rejected or withdrawn – typically on the grounds that the administrative burdens they would generate were too high or that they would create cashflow problems, particularly for smaller employers. In the March 2015 Budget, the Government opted for a new approach in the form of a 'digital apprenticeship voucher' that would put employers in control of government funding by using the vouchers to directly purchase training.[98] This was soon followed by the announcement of an 'apprenticeship levy' in the Summer 2015 Budget to support all post-16 apprenticeships in England, with the digital vouchers being used to control where the levy funds would be spent.[99] After yet another consultation, the 2015

90 Department for Business, Innovation and Skills, *Research Paper Number 77 - Evaluation of Apprenticeships: Employers*, 2012, 41–48.
91 Ibid., 62–64.
92 Ibid., 67.
93 Kuczera, *Striking the Right Balance: Costs and Benefits of Apprenticeship*, 23–28.
94 Ibid., 23.
95 Ibid.
96 Richard, *The Richard Review of Apprenticeships*, 109.
97 Ibid.
98 HM Treasury, *Budget 2015*, 2015, 49.
99 HM Treasury, *Summer Budget 2015*, 2015, 60.

Autumn Statement described how the levy would operate from April 2017:

> *It will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million and that less than 2% of UK employers will pay it. The levy will be paid through Pay As You Earn. By 2019-20, the levy will raise £3 billion in the UK.*[100]

Over 60 countries have a levy scheme in operation,[101] including the UK in sectors such as construction. Even so, there were elements of the Government's proposed levy that made it highly unusual. For example, employer funds would be passed directly to HM Treasury with no arms-length body or agency to coordinate how the funding is used. The OECD has previously stated that this approach would create "a risk that the proceeds might be diverted to different purposes."[102] Professor Alison Wolf had recommended earlier in 2015 that a levy be introduced to fund apprenticeships but emphasised the need for it to be placed into a hypothecated (i.e. ring-fenced) fund to ensure that it remains a secure source of long-term funding.[103] Should any government fail to protect the funds it collects through a levy, the OECD warned that "employers may look at their contribution simply as a tax and lack commitment."[104] Other causes for concern included the prospect of substantial deadweight as companies try to claim levy funds for as many forms of training as possible. In addition, the OECD had previously found that "better qualified employees or those at higher occupational levels, and employees in large firms seem to derive greater benefit from levy schemes" as the returns on investment are seen to be higher.[105]

Numerous issues were also raised by business groups after the levy's announcement. The CBI almost immediately called for a "radical rethink", citing a range of design flaws.[106] A survey of their members in 2016 found that 45 per cent of respondents planned to increase prices or reduce margins in response to the levy, 39 per cent would cut investment in non-apprenticeship training and 22 per cent felt that there would be downward pressure on wages.[107] Meanwhile, the EEF manufacturing group stated in their response to the levy consultation in 2016 that their members did not expect to deliver much more training in response to the levy.[108]

In hindsight, the above predictions have been proved largely correct. The OECD was of the view that some employers might write off the levy as a tax, there might be significant deadweight costs and better qualified employees stood to benefit the most – all of which appear to be borne out by the decrease in apprenticeship quantity and quality discussed earlier in this report. The fears among employers, namely that the levy was not designed properly and would not necessarily encourage organisations to offer apprenticeships, look equally robust. With the evidence available both then and now, there was no need for the levy system to be constructed and begin operating in such a way that these outcomes became more likely (or, in some cases, almost inevitable).

100 HM Treasury, *Spending Review and Autumn Statement 2015*, 45.
101 Normann Müller and Friederike Behringer, *Subsidies and Levies as Policy Instruments to Encourage Employer-Provided Training* (OECD, 2012), 26.
102 Ibid., 39.
103 Alison Wolf, *Fixing a Broken Training System: The Case for an Apprenticeship Levy* (Social Market Foundation, 2015), 15.
104 Müller and Behringer, *Subsidies and Levies as Policy Instruments to Encourage Employer-Provided Training*, 38.
105 Ibid., 41.
106 Confederation of British Industry, '"Radical Rethink" Required for Apprenticeship Levy', Press release, 28 April 2016.
107 Confederation of British Industry, *CBI/Pearson Education and Skills Survey 2016* (Confederation of British Industry, 2016), 7.
108 EEF, 'EEF Response to the Apprenticeship Levy Funding Guidance', Press release, 11 October 2016.

3.4 The administrative burdens created by the levy

For those employers using the new HMRC digital accounts, the task facing them is a daunting one. Although large companies with sizeable HR departments will presumably find a way to navigate this new regime, that does not excuse its complexity or onerous nature. Levy-paying employers must now take responsibility for the following tasks through their digital accounts:

- Constantly monitoring the amount of levy funds they have available in total and for each apprentice in their organisation.
- Monitoring their transactions with training providers for each apprentice on a monthly basis.
- Keeping track of the expiry dates of all the levy funds they currently have available.
- Adding, reviewing and checking the status of all their current contracts with training providers for each apprentice.
- Searching for, and updating the status of, each apprentice in their organisation.

These tasks are all on top of the requirement for employers to search for, and then engage in price negotiations with, training providers and assessment providers for each apprentice as well as organise and sign contracts. Large employers may be able to handle these extensive duties, but the plan to bring small and medium-sized employers into the same system by April 2019 are concerning in light of these new responsibilities.

At no point during the reforms to apprenticeships enacted since 2012 have employers expressed a strong desire to take on these burdens. Under the pre-levy system, training providers were able to shoulder most of these responsibilities, which allowed employers to concentrate on training apprentices. It is difficult to see how employers can pass some, or indeed any, of these responsibilities onto providers under the levy system given the use of HMRC-operated accounts. In these circumstances it is unsurprising that, as described at the beginning of this chapter, employer representatives have been forceful and direct in their criticisms.

3.5 Reducing the burdens on employers

The *Richard Review* was adamant that the only way to justify asking employers for cash contributions was if the Government was more generous in other respects by, for example, reimbursing part of their internal training costs or a proportion of an apprentice's wages. Offsetting of this nature was necessary "to ensure that overall, employers are not worse off".[109] This need to balance employer contributions with some related employer benefits has been ignored by ministers and civil servants, removing any justification for demanding a cash contribution from employers.

It is hard to know at this stage which factors have contributed most to the decline in apprenticeship starts since the levy came into effect. That said, previous research suggests that the demand for cash contributions from employers, who already face significant costs when hiring and training apprentices, is likely to have played an important role. As always, it is small employers who are the most vulnerable, as neatly described by the OECD last year:

109 Richard, *The Richard Review of Apprenticeships*, 109.

> *The provision of apprenticeships and the use of subsidies involve costs. The cost of these procedures may be less significant for bigger enterprises, relative to their overall training costs. Small enterprises may lack the capacity to determine training needs, plan accordingly and file applications for cost reimbursement or grants. It is therefore important to assist small companies with access to and the processing of available funding in parallel to providing financial incentives for apprenticeships.*[110]

The OECD believe that smaller employers should be getting more support, not demands for more money. The *Richard Review*, countless research papers, the international evidence on employer incentives and the OECD are all stacked against the notion of employer cash contributions. This strongly suggests that the 10 per cent co-investment rate is likely to lead to widespread disengagement from apprenticeships by small employers as well as some larger organisations.

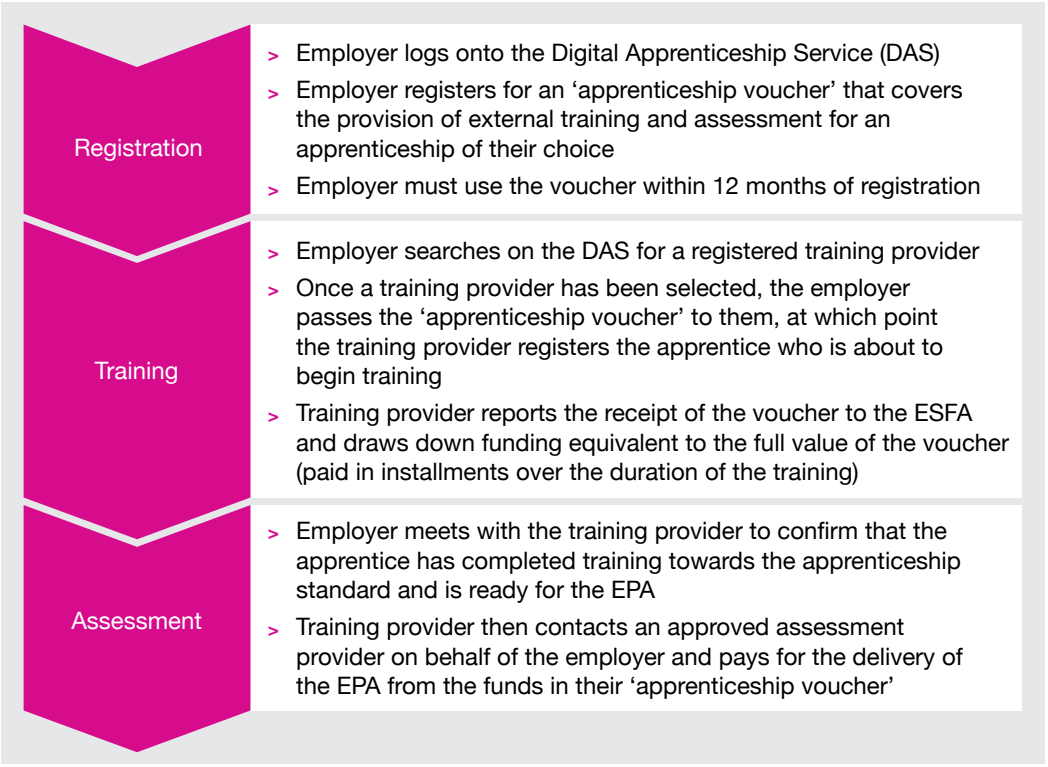
Recommendation 3: The requirement for 10 per cent employer co-investment towards the cost of training apprentices should be removed with immediate effect to avoid employers disengaging from apprenticeships.

Even in the absence of employer co-investment, the administrative and logistical burdens placed on employers by the HMRC digital accounts need to be reconsidered. The best system to support the levy is one that hands the 'purchasing power' to employers without the need for substantial administrative burdens, particularly for smaller organisations. Ironically, the Government has already designed such a system five years ago. In the first government consultation on funding apprenticeships released in 2013, one of the options presented was a 'Provider payment' model.[111] While the employer in this model was still responsible for selecting a training and assessment provider, the crucial difference between this and the new levy system was that the training provider took on the bulk of the administrative duties throughout the duration of the training (as was the case before 2012).

The Government said in March 2014 that it would not pursue the 'Provider payment' model because "it does not go far enough to deliver the Richard principle of giving employers the purchasing power".[112] This made little sense given that employers would be fully in control of selecting and paying training providers and assessment providers and would also be more involved in managing the apprenticeship than ever before. Small businesses were particularly disappointed by the decision to ignore this model, as was evident in the small print included at the end of the Government's consultation response. It was acknowledged in the consultation annex that the "common themes in the responses received included the importance of minimising administrative burdens on employers" and "smaller businesses in particular tended to prefer the provider payment model as they felt this was likely to generate the smallest administrative burden."[113] To accommodate these concerns, a new **'apprenticeship voucher'** model should be introduced to replace the current system for distributing funds collected through the levy.

110 Kuczera, *Striking the Right Balance: Costs and Benefits of Apprenticeship*, 50.
111 Department for Business, Innovation and Skills and Department for Education, *A Consultation on Funding Reform for Apprenticeships in England*, 2013, 17.
112 HM Government, *The Future of Apprenticeships in England: Funding Reform Technical Consultation*, 2013, 15.
113 Department for Business, Innovation and Skills and Department for Education, *A Consultation on Funding Reform for Apprenticeships in England*, 30.

Figure 6: Proposed new 'apprenticeship voucher' funding model



This model would put the purchasing power firmly in the hands of employers by allowing them to choose an apprenticeship standard and training provider, but the administration of the Individual Learner Record, arranging assessments and other bureaucratic burdens would rest with training providers. This system also removes two unhelpful and burdensome features of the current levy system:

- All employers now have access to **a single pot of funding produced by receipts from the apprenticeship levy** with no differentiation between levy-payers and non-levy payers and no complicated HMRC infrastructure for constantly monitoring and moving levy funds
- **The digital accounts for each employer are much simpler** as they only need to include their voucher purchase history, the names of their chosen training provider and a list of their current apprentices

This represents a considerable simplification over the current levy system that will benefit all stakeholders, especially those who do not necessarily have the time or resources to engage with the apprenticeship system as it now stands. Crucially, all of this can be achieved within the existing 'digital account' infrastructure designed by HMRC for employers.

Recommendation 4: The Government should replace the existing HMRC digital payment system with a simpler 'apprenticeship voucher' model to give employers control of government funding while reducing their administrative burdens.

One notable impact of introducing this new ‘apprenticeship voucher’ would be that it creates a truly demand-led system for apprenticeships with employers in the driving seat. This would have implications for HM Treasury in terms of controlling public expenditure. Consideration should be given to the ESFA setting a ‘maximum annual allocation’ of apprenticeship starts for each training provider (based largely on historical performance data in terms of ‘completions’ and OFSTED ratings). This would ensure that better providers are promoted while guarding against any provider over-extending their operations. It would also be beneficial to award small-scale allocations to new providers who wish to enter the market, with the ESFA closely monitoring them during their first phase of apprenticeship delivery.

4
How the levy has affected providers

Not only is it important to gain the support of employers for reforming apprenticeships, the colleges and private training providers who ultimately deliver the external training and assessments within an apprenticeship are also key stakeholders. The Government has put in place two 'registers' of organisations who they deem suitable to deliver this external training and the final assessment for apprentices at the end of their course. This chapter will discuss a whole host of problems already facing these two registers that threaten to reduce the quality of apprenticeships.

4.1 The Register of Training Providers

Employers must choose a training provider from a new register – the Register of Apprenticeship Training Providers (RoATP). The aim of the Register was to "open up the market and increase competition and thereby to drive up value for money and quality".[114] The Government also noted that the Register "should have a strong focus on applicants' capability to deliver high-quality apprenticeships, supported by applicants' fitness and ability to receive public funding. Therefore, applicants to the RoATP would need to pass a range of tests in the areas of financial health, due diligence, quality, capacity and capability".[115]

There is nothing wrong in principle with allowing new entrants into a market. That said, a focus on high-quality provision should remain paramount. In March 2017 Amanda Spielman, who had recently been appointed as the new Chief Inspector at Ofsted, noted that "it is clear there are a lot of would be new entrants, a lot of people with very limited experience and potentially quite a lot of fragmentation",[116] which presents a considerable challenge to Ofsted as well as the ESFA. Since the application process for the Register was opened, several incidents have suggested that quality is not being sufficiently reinforced by the ESFA.

The initial task facing the ESFA was to invite applications from training providers who wished to join the Register in order to train apprentices in levy-paying employers, after which they accepted applications from training providers who wished to bid to deliver a share of a £650 million contract to work with non-levy paying employers. The final list of over 2,500 organisations that have made it onto the Register[117] contains some questionable entries. For example, there are over 100 organisations on the Register that have either not been trading for a sufficient length of time to provide a set of financial accounts to the ESFA or have been previously censured by the ESFA for poor performance.[118] In addition, 32 per cent of the providers now able to deliver training to non-levy payers have been awarded their first ever apprenticeships contract,[119] echoing Amanda Spielman's concerns about the limited experience of many providers.

The first sign that new entrants to the market may potentially weaken the apprenticeships programme has come from Ofsted's early monitoring visit of Key6 Group Limited, which was created in 2015 and accepted onto the Register in March 2017. This visit resulted in Ofsted declaring that the apprenticeships being provided "are not fit for purpose" and deliver "a poor standard of training".[120] Their report stated that the Key6 Group had begun "swiftly recruiting apprentices in a relatively short space of time" after being added onto the Register and that "the large majority of apprentices are not even aware that they are an apprentice, and identify themselves as studying a level five management course".[121] The apprentices told inspectors that they were "not learning anything new on their

114 Skills Funding Agency, *Supporting Quality and Employer Choice through a New Register of Apprenticeship Training Providers*, 2016, 3.
115 Ibid., 5.
116 Pippa Allen-Kinross, 'Review of Apprentice Provider List Planned', *FE Week*, 29 September 2017.
117 Education and Skills Funding Agency, 'Apprenticeship Training Providers', Webpage, 14 March 2008.
118 Jonathan Owen, 'Exclusive: ESFA Gives Millions to Apprenticeship Providers That Have Failed to Meet Standards', *Times Educational Supplement*, 21 February 2018.
119 Billy Camden, 'Revealed: The 714 Providers That Won Non-Levy Tender Funding', *FE Week*, 11 December 2017.
120 Paul Offord, 'First Early Ofsted Monitoring Visit of Apprenticeship Newcomer Warns Training "Not Fit for Purpose"', *FE Week*, 15 March 2018.
121 Ibid.

apprenticeship" and had been asked to "shoehorn existing work in a portfolio to get a free qualification". The response from Key6 was to complain about the Ofsted report while citing the fact that they are "a young organisation which inevitably will go through continuous improvement."[122]

As this was only the first monitoring visit to a new entrant by Ofsted, it is too early to say how many other new providers will raise similar concerns. Meanwhile, the ESFA had already decided to introduce additional checks after the application process was completed. In March 2017, it announced that new providers would be required to attend mandatory training before any apprenticeship activity starts. In addition, an ESFA 'snapshot' of the new provider's delivery three to six months into their training could potentially result in them being taken off the Register.[123] In September last year, the ESFA also said that it would 'review' how the Register operates in light of the results of the application process.[124] Even so, the volume of new market entrants presents a considerable challenge in terms of maintaining high-quality provision across hundreds of new apprenticeship standards.

Not only are many seemingly unsuitable organisations now on the Register and able to access millions of pounds in government funding, some high-profile providers with a strong track record in apprenticeships have been excluded. Exeter College - one of the most successful colleges in the country and rated 'outstanding' by Ofsted - was denied a contract for supporting non-levy paying employers, as was Newcastle and Stafford Colleges Group, which is rated 'good' by Ofsted and has an apprenticeship achievement rate of 84 per cent.[125] At the time of writing, the recriminations from the application process are far from over as at least 50 complaints have been lodged with the ESFA[126] in an attempt to overturn these decisions and others like them.

As noted in the previous chapter, being placed on the Register is merely the first step for providers. Their next task is to negotiate a price with employers for the external training they provide. In 2012 the *Richard Review* proposed that the price for apprenticeship training should be freed from government control, meaning that employers and providers would negotiate the cost of whatever training was delivered.[127] The Review predicted that "a market-led price for the provision of apprenticeship training will lead to higher quality training, lower prices and, ultimately, better outcomes for the learner, employer and society."[128]

This vision was not supported by evidence at the time. As the Institute for Fiscal Studies have since pointed out, the exact opposite is a much more likely outcome under the levy:

> *…there will be little scope for providers to compete on price – the price of training has little effect on the cost to the employer. Thus there will be little incentive for providers to price below a given band's maximum. […]we would expect to see a strong tendency for providers to price training courses at or close to the level of the relevant band maximum. This could be reinforced by the fear of training providers that pricing below the maximum would signal that a course is of lower quality. One related side effect of this likely bunching of providers at the band maxima is that it will make it difficult for employers to use price signals as a guide to quality.*[129]

Once a training provider – however inexperienced or unsuitable – gets onto the Register, their rational response is to push prices as high as possible to receive the maximum subsidy available for every apprentice from the government's levy pot. The quality and relevance of the training provided is little more than a footnote in this scenario, contrary to

122 Ibid.
123 Billy Camden, 'Confusion for New Providers on RoATP over Compulsory Training', *FE Week*, 19 May 2017.
124 Allen-Kinross, 'Review of Apprentice Provider List Planned'.
125 Billy Camden, 'Non-Levy Tender Shocker: Defunct Provider Gets Contract but "Outstanding" College Misses Out', *FE Week*, 15 December 2017.
126 Owen, 'Exclusive: ESFA Gives Millions to Apprenticeship Providers That Have Failed to Meet Standards'.
127 Richard, *The Richard Review of Apprenticeships*, 110.
128 Ibid.
129 Amin-Smith, Cribb, and Sibieta, *Reforms to Apprenticeship Funding in England*, 26.

what the *Richard Review* envisaged.

The decision not to assign fixed prices to each apprenticeship, which was essentially the system used before the apprenticeship levy, appears to have compounded the overall complexity of the levy. What's more, in recent weeks the Government has announced that the entire 15-band funding structure is to be reviewed (before the levy even reached a full year of operation).[130] They are also reconsidering the whole concept of employer-provider negotiations, despite insisting on it for the last six years, as many employers have told them that "they do not feel able to negotiate with providers".[131]

Recommendation 5: All apprenticeship standards and end-point assessments for apprentices should be assigned a fixed cost by the Education and Skills Funding Agency to remove the need for complicated price and contract negotiations between employers and both training and assessment providers.

4.2 The Register of Assessment Organisations

After choosing a training provider, employers must select an organisation from the Register of End-Point Assessment Organisations (RoEPAO) to deliver an 'end-point assessment' (EPA) for each apprentice at the end of their training. The training provider then contracts with the EPA provider on behalf of the employer to deliver the assessment. As with the register for training providers, the government guidance states that any organisation wishing to be included on this register of assessment organisations must meet a range of entry criteria that analysed their financial health, organisational capacity and capability and also their sector experience and knowledge.[132] As of February 2018, there were 126 organisations listed on the RoEPAO.[133]

The Register itself is overseen by the ESFA, which is purely a funding body and has no background or expertise in judging the capability and capacity of prospective assessment providers. The bottleneck created by putting the ESFA in charge of the Register meant that in the summer of 2017 at least 1,300 apprentices had started their training without an EPA in place, leaving them unable to complete their apprenticeship. In addition, one-third of all apprenticeship standards still had no assessment organisation listed against them while another third only had one.[134]

Once on the Register, assessment organisations are free to offer EPAs for any of the apprenticeship standards that have been approved for delivery. Seeing as there are now over 250 approved standards,[135] the scale of potential confusion and duplication becomes immediately apparent. As of March 2018, there are 19 different assessment organisations on the Register offering an EPA for the 'Team Leader / Supervisor' standard, 15 organisations offering an EPA for the 'Retailer' standard, 13 organisations offering an EPA for the 'Retail Team Leader' standard, 13 offering an EPA for 'Customer Service Practitioner' and 11 offering an EPA for 'Hospitality Team Member'.[136] This issue – which could conceivably get even worse if more assessment organisations decide to offer the same EPAs – poses significant risks to the quality of the apprenticeship programme. The NAO had already stated in 2016 that the Government's approach to assessing apprentices would inject a variety of risks into what is now the levy system:

- *Employers might look to use assessors whose standards are lower than others*

130 Education and Skills Funding Agency, 'Apprenticeship Funding Bands', Webpage, 12 March 2018.
131 Jude Burke, 'Apprenticeship Funding Bands Set to Change', *FE Week*, 21 February 2018.
132 Education and Skills Funding Agency, 'Register of End-Point Assessment Organisations: How to Apply', Webpage, 15 March 2018.
133 Education and Skills Funding Agency, 'Using the Register of End-Point Assessment Organisations', Webpage, 29 January 2018.
134 Alix Robertson, 'Assessment Organisations Still Lacking for over 1,300 Apprentices', *FE Week*, 7 July 2017.
135 Education and Skills Funding Agency, 'Register of End-Point Assessment Organisations: How to Apply'.
136 Ibid.

- *Assessors might look to win more work by lowering their assessment standards*
- *Employers might collude with assessors to sign off apprentices without checking*
- *Assessors might collude with employers to sign off apprentices without checking*[137]

Just months before the levy came into force, the NAO found that the "DfE has not yet established what information it will need to monitor key behavioural risks and spot signals that these risks may be maturing."[138] Several loopholes have since been identified and exploited. For example, it was reported in February 2017 that three sectors – retail, hospitality and leisure – had managed to find a way for employers to assess their own apprentices at the end of their training, which undermined the explicit requirement for every EPA to be independently judged.[139]

The on-going quality assurance of the organisations accepted onto the Register is more troubling still. Once a group of employers has designed a new apprenticeship standard, they can choose from four different options to monitor the quality of the EPAs delivered by assessment organisations on the Register:

- The exam regulator Ofqual;
- An 'employer-led' model;
- A professional body;
- The Institute for Apprenticeships (IfA)

Ofqual – the only one of the four options that can offer sufficient expertise in assessment validity and reliability – is responsible for formally regulating just 29 apprenticeship standards. The IfA, which only came into existence in April 2017 alongside the levy, was supposed to focus on supporting employers as they develop new apprenticeship standards and 'assessment plans' (which give a high-level overview of what an EPA should include). Nevertheless, the fledging IfA has been selected for the quality assurance of 98 apprenticeship standards despite being set up just a matter of months ago and having no track record or proficiency in regulating national assessments.[140] This situation has been allowed to develop despite the IfA stating on numerous occasions that it should only be used 'as a last resort'.[141]

In total, there are now around 40 different bodies who are listed in assessment plans and want to offer quality assurance across the four options listed above. The IfA website claims that all four options must "[monitor] the performance of different [assessment organisations], the effectiveness of the apprenticeship standard and assessment plan; checking it is reliable, rigorous and fit-for-purpose".[142] This makes no mention of how the validity and reliability of the real assessment tools being used to assess apprentices will be checked both now and in future. In such a system, there is no dependable way to prevent poor practice and inappropriate behaviour on the part of employers or assessment organisations when the responsibility for monitoring them – and the expertise required to do effectively – is spread so thinly.

Irrespective of how well the apprenticeship levy has been designed, if the supporting structures like this Register fail to deliver the necessary safeguards to protect against a 'race to the bottom' in service quality then taxpayers and apprentices are the ones most likely to lose out. Genuine high-quality EPAs are vital to the integrity and credibility of apprenticeships. So long as employers can pick and choose who monitors them and their assessment providers in delivering EPAs, it is hard to see how the apprenticeship system

137 National Audit Office, *Delivering Value through the Apprenticeships Programme*, 40.
138 Ibid., 10.
139 Jude Burke, 'Employers in Three Sectors to Grade Their Own Apprentices', *FE Week*, 17 February 2017.
140 Education and Skills Funding Agency, 'Register of End-Point Assessment Organisations: How to Apply'.
141 Institute for Apprenticeships, *Driving the Quality of Apprenticeships in England*, 2017, 14.
142 Institute for Apprenticeships, 'External Quality Assurance', Webpage, 2018.

will be respected. The contrast between this incomplete approach to quality assurance for apprenticeships and the rigorous manner in which GCSEs and A-levels standards are protected nowadays could hardly be greater. The NAO was right to warn of the dangers inherent in pursuing the current model. To counteract these problems, new measures need to be introduced to provide much greater assurance for apprentices and taxpayers:

- Responsibility for administering the Register of End-Point Assessment Organisations should be moved from the ESFA to Ofqual
- All the existing options for quality-assuring EPAs should be scrapped save for the option of an assessment provider registering with Ofqual
- Ofqual should be formally given responsibility for judging the quality of the assessment plans put forward by groups of employers when developing the apprenticeship standards
- Ofqual should require a complete set of sample assessment tools (e.g. written examinations, practical assessment sheets) before any new apprenticeship standard is cleared for delivery
- Only one set of assessment tools should be allowed per apprenticeship standard, meaning that any assessment provider will use the same set of standardised tools for each EPA

Any additional resource required to deliver these measures should be drawn from the funds generated by the apprenticeship levy as they are required to ensure that these funds are spent appropriately.

Recommendation 6: The exam regulator Ofqual should be made the only option for quality assuring the end-point assessments for apprentices to ensure that standards are maintained over time and poor practice is quickly identified and eradicated.

Conclusion

The opening page of the *Richard Review* in 2012 observed that the growth in apprenticeship numbers in the years leading up to this pivotal document had "led us to stretch the definition of what an apprenticeship is too far and, as a consequence, we risk losing sight of the core features of what makes apprenticeships work, what makes them unique."[143] There is a real danger that, six years on, the same mistakes could be made all over again. It would be foolhardy to suggest that apprenticeships should never move beyond traditional sectors such as manufacturing and engineering in this country's services-led economy. It would, however, be equally foolhardy to allow the movement beyond traditional sectors to endanger the value and prestige offered by the very best apprenticeships in genuinely skilled occupations.

The detrimental effect of the levy on the quantity and quality of apprenticeships is concerning. The effect of the levy was also mostly, if not entirely, avoidable. By the time the levy was announced in 2015, the plans to change the way that apprenticeships would be funded had drifted a long way from the principles that the Coalition Government set out several years earlier. The *Richard Review* stated that any funding system must incentivise high-quality apprenticeships, be simple and accessible for employers (particularly small businesses), actively encourage employers to expand apprenticeship opportunities and not result in greater overall investment from employers. The latest data on apprenticeships suggest that the levy system is not meeting any of these four objectives at present. A new approach is therefore needed.

There is no reason to withdraw support from the apprenticeship levy at this stage. Rather, the questions at stake here are: how the levy funds are accessed; what they are spent on; and what outcomes the levy generates. This report has concluded that, at present, the levy is too complicated for employers, focused on too many inappropriate forms of training and as a result is unlikely to deliver value-for-money. Consequently, the apprenticeship levy and its supporting systems require significant changes if they are to gain and subsequently retain the trust and respect of stakeholders.

The Government's recent *Social Mobility Strategy* set out a clear vision for what it wanted from apprenticeships. It recognised that high-quality apprenticeships can transform the lives of young people and help them transition from education to work, while the apprenticeship levy could incentivise more employers to offer apprenticeships and give SMEs a crucial role in improving technical education and tackling skills gaps. These goals remain achievable but only if the Government acts quickly to address the problems outlined in this report, such as the poor quality of training being offered and the lack of emphasis on young people. The potential transformation of the UK labour market following 'Brexit' makes achieving these goals even more critical. If the necessary changes are made to the apprenticeship levy then apprentices, taxpayers and employers across the country stand to benefit for many years to come.

143 Richard, *The Richard Review of Apprenticeships*, 2.

Appendix

Full list of apprenticeship standards with recorded starts by October 2017 that cover low-skill training courses, duplicated roles and professional development courses

Advanced Butcher

Aviation Ground Operative

Business Administrator

Chartered Manager Degree Apprenticeship

Customer Service Practitioner

Dental Practice Manager

Food and Drink Advanced Process Operator

Gas Network Team Leader

Healthcare Assistant Practitioner

Healthcare Science Assistant

Hospitality Supervisor

Hospitality Team Member

Housing/Property Management Assistant

HR Consultant / Partner

Insurance Professional

Investment Operations Administrator

Investment Operations Specialist

Lead Adult Care Worker

Operations/Departmental Manager

Rail Engineering Operative

Retail Manager

Retail Team Leader

Retailer

Senior Financial Services Customer Adviser

Senior Healthcare Support Worker

Senior Housing/Property Management

Team Leader/Supervisor

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