

Apprenticeships for Northern Growth

Challenges, trends
and current reforms

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1. Summary

The nation is entering a period of great uncertainty with economic challenges that it has been grappling with for at least a decade, including a longstanding labour productivity gap and regional inequalities. The Government is in the process of overhauling England's education and skills system in response to some of these challenges, and considers an expansion of the apprenticeships programme – including a target of 3 million starts over the current parliament – as a core part of the solution.

To mark the *UK Northern Powerhouse Conference and Exhibition 2017*, this report gives an overview of some of the key trends in outcomes in economic activity, education and skills – focusing on the North of England. It explains the key changes to apprenticeships being brought in by the Government and highlights the views of employers. **The report is supported by Pearson and uses data kindly provided by the CBI and Pearson from their *Education and Skills Survey 2016*.**

Key findings

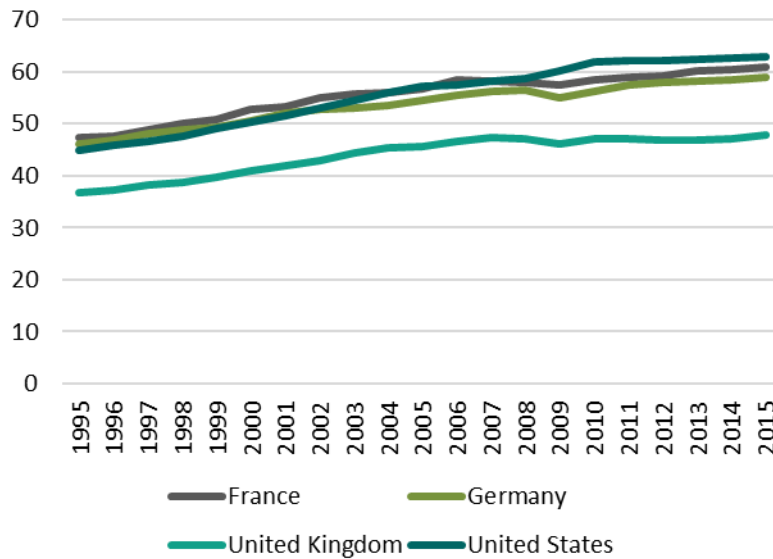
- Nationwide, shortages of skills have been cited as a major contributor to productivity gaps. This has been reflected in research evidence as well as employer perceptions in the North.
- Despite having weaker outcomes in schools, northern employers report similar perceptions to those of others of the skills of school leavers. The proportion of northern employers in the CBI/Pearson *Education and Skills Survey 2016* expressing satisfaction with the qualities of school and college leaver job applicants was 50 per cent or less for business and customer awareness, knowledge about the current job or career, and relevant work experience
- Northern employers are more engaged in apprenticeships than those elsewhere, and have a higher proportion of apprentices in construction and manufacturing. 36 per cent of all apprenticeship starts are in the North, despite the region representing 23 per cent of the working age population.
- The Government's focus on public sector apprenticeships may result in the North being affected disproportionately by an increase in subsidy for and numbers of apprentices among such employers.
- Although most employers do not expect significant changes to come from the introduction of the Apprenticeship Levy and associated reforms, the most common changes expected are the development of new apprenticeship programmes and the recruitment of more apprentices. 47 and 40 per cent of northern employers citing these impacts respectively, while 28 per cent expect a decrease in graduate recruitment.
- There is, however, a risk that apprenticeship training displaces other forms of workplace training: 39 per cent of employers in the North expect some reduction in other training.
- Finally, there is evidence that the economic returns to apprenticeships can be significant. However, it is important that employers play an active and constructive role in the development of the new apprenticeship system to ensure the changes benefit the economy as a whole as well as individual firms.

2. Introduction: The North’s productivity challenge

The UK faces a longstanding productivity gap

The Government’s *Building our Industrial Strategy* green paper highlights a productivity gap between the United Kingdom and other advanced economies. In 2015, output per hour worked in the UK was 13 per cent below the average for the G7 advanced economies. As the Industrial Strategy set out, these differences have direct effects on wages.¹

Figure 1: Average GDP per hour worked, USD constant prices (2010 PPPs) ²



The North of England has a population of over 15 million people (7.2 million in the North West, 5.4 million living in Yorkshire and the Humber, and 2.6 million in the North East³), representing 23 per cent of the UK population. However, only 19 per cent of the UK’s economic output is produced there. In terms of output (GVA – gross value added) per capita, all three northern regions performed well below the national average of £25,351 in 2015, ranging from £18,927 in the North East to £21,867 in the North West. Average productivity in the North was 17.9 per cent below that of the UK as a whole.⁴

While the average British weekly wage in April 2016 was £539, an average worker earned £503 in the same period in the North West (6.6 per cent less), £498 in Yorkshire and The Humber (7.5 per cent less), and £494 in the North East (8.3 per cent less). Nonetheless, northern regions experienced faster than average wage growth between 2010 and 2015. In fact, the North West and the North East have had the fastest wage growth in the country, with nominal wages increases of 10.1 and 9.9 per cent respectively, compared with 8.1 per cent growth across the UK.⁵

All northern regions have higher unemployment rates than the average of 4.8 per cent in the UK, ranging from 6.8 per cent in the North East, 5.3 per cent in the North West, and 4.9 per cent in

¹ Building our Industrial Strategy, HM Government, 2017

² OECD.Stat, 2017

³ Mid-year population estimates, Office for National Statistics, 2015

⁴ NUTS1 Regional GVA, Office for National Statistics, 2015

⁵ Annual Survey of Hours and Earnings, Office for National Statistics, April 2016

Yorkshire and the Humber.⁶ In January 2017 the inactivity rate (people aged 16-64 not participating in the labour market) was 24.3 per cent in the North East, 22.9 per cent in the North West and 22.5 per cent in Yorkshire and the Humber, in all cases above the English average of 21.3 per cent.⁷

The Government's green paper identifies six key factors constraining national productivity:

- The UK has found it difficult to commercialise research and deploy existing technologies, limiting innovation and productivity growth.
- Basic skills, especially among young people, are poor, and the historic neglect of vocational education is exacerbating skills shortages.
- The lack of a coherent, long-term planning strategy has resulted in an infrastructure system that is deemed worse than that of other competitor economies, according to the World Economic Forum.
- Start-ups and small businesses struggle to scale up as the access to capital is limited.
- The share of the economy that trade accounts for has grown more slowly than in countries that are more productive.
- Regional disparities are greater in the UK than in other advanced economies.⁸

The North is no exception and needs to improve its skills, infrastructure and rate of innovation

Recent research by the IPPR assessing individual northern cities' productivity concludes that factors driving down productivity in the North include a low job density and a sharp variation in the degree to which businesses are innovative.⁹ Poor productivity in the service sector is also cited, and in the North's case the performance of the public sector is especially important: public services accounted for a quarter of the North East's GVA in 2015, a large proportion compared with London (13.4 per cent) and England as a whole (17.8 per cent).

The research also notes the North's relatively strong presence of low-productivity manufacturing compared to that of high-tech enterprises. This is an important factor considering that manufacturing accounts for 15.5 per cent of output in the North West, the third highest proportion in the country, with the North East (14.0) and Yorkshire and the Humber's (13.7) proportions also significantly greater than 9.7 per cent across England.

The Centre for Cities have also highlighted the impact of a low availability of high skills, bad connectivity within cities, and the over-emphasis in recent policies of inter-city links at the expense of wider infrastructure.¹⁰

To respond to the productivity gap and boost economic growth and employment in the North, the Government presented its *Northern Powerhouse Strategy* in November 2016. The Strategy identified four areas where actions were needed to unlock the region's full potential¹¹, some of which were

⁶ Regional labour market statistics in the UK, Jan 2017, ONS

⁷ Ibid

⁸ Building our Industrial Strategy, HM Government, 2017

⁹ The state of the North 2016: building northern resilience in an era of global uncertainty, IPPR, 2016

¹⁰ Building the Northern Powerhouse: lessons from the Rhine Ruhr and Randstad, Centre for Cities, 2016

¹¹ Northern Powerhouse Strategy, HM Northern Powerhouse, 2016

detailed further in the industrial strategy green paper.¹² Key interventions being taken forward are summarised below:

- **Connectivity:** the transport network in the North of England is fragmented, giving companies access to a smaller range of potential employees and markets. The Government has pledged to invest £13 billion in transport until 2020, and to provide funding to connect northern cities with Birmingham and London through high speed rail. £161 million will be invested to turn the M62 into a smart motorway using technology to monitor traffic levels to reduce congestion, and £150 million will be provided to ensure the rollout of smart and integrated ticketing in the region.
- **Skills:** the Government will be investing £70 million to support educational improvement in the North, with the training of high quality teachers a main priority. To make the region more attractive to graduates and high-skilled workers, additional funding will be made available to promote new affordable housing.
- **Enterprise and Innovation:** the Government will be spearheading investment initiatives such as the provision of £235 million for the Sir Henry Royce Institute for advanced materials research and innovation, and £113 million for the Hartree Centre to speed up the application of high performance computing. It has also pledged £100 million for English universities to commercialise research until 2020-21.
- **Trade and Investment:** the Government has provided £15 million to support the Northern Powerhouse trade missions and £7 million to establish the Northern Powerhouse Taskforce. £5 billion will be made available for investment opportunities in the region and the Government expects to provide additional support to the international outreach of the northern industries. The Industrial Strategy observes new initiatives to support businesses aiming to expand overseas, such as the *Infrastructure Exports Leadership Forum*, which will assist businesses willing to secure overseas contracts. That same green paper sets out the countries with which the Government wants to strengthen trade links, including Canada, India, China and South Korea, among others. This could be particularly important in areas such as the North East, where 59.2 per cent of exports go to EU countries, compared to 48.9 per cent in England.¹³

¹² Building our Industrial Strategy, HM Government, 2017

¹³ UK regional trade in goods statistics, HM Revenue and Customs, December 2016

3. Developing the North's skills base

Educational pathways and school-leaver destinations

Educational outcomes tend to vary much more within areas than between. However, local authorities in the North are overwhelmingly represented among the bottom performers at GCSE level. In 2015/16, only 5 out of 50 northern local education authorities were in the top fifth in terms of the proportion of students achieving A*-C in English and maths GCSEs, while 14 were in the bottom fifth.¹⁴

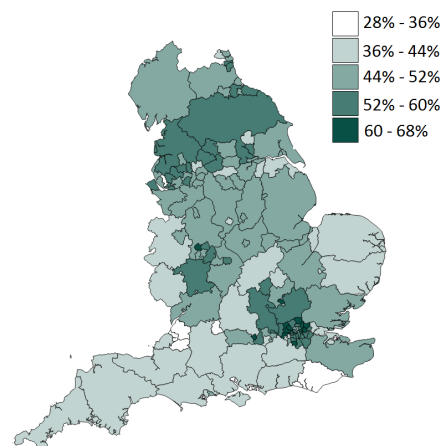
The underperformance – on average – of northern secondary schools has been highlighted by the recent government-commissioned review, *A Northern Powerhouse Schools Strategy*.¹⁵ But amongst the North's primary schools the picture is mixed. While standards are low in Yorkshire and the Humber, the North East is second only to London in terms of the proportion of pupils achieving the expected standard in reading, writing and mathematics.¹⁶ Therefore, in some areas there is a relatively strong base on which to build improvements. Apart from London, it is the northern regions that have been found to have had the strongest rates of improvement in attainment and progress in secondary schools over the last decade.¹⁷

The North has slightly higher-than-average rates of 16 to 18-year olds not in education, employment, or training (NEET). Between 92 and 93 per cent of pupils across the three northern regions continued in education, or went into employment and/or training, after 16 in 2014/15. This was just below the average across England of 94 per cent. However, a higher proportion (between 7 and 8 per cent) of pupils went on to an apprenticeship at 16 to 18, compared with 6 per cent across England.¹⁸

At Key Stage 5, northern local authorities tend to rank below average for A-level results. 22 out of 50 Northern local authorities were in the two bottom quintiles for the percentage of students achieving grades AAB or better at A level in 2015/16, while only 16 were in the top two-fifths.¹⁹

However, as Figure 2 shows, of those who completed Key Stage 5 – being entered for A-levels or equivalents – a slightly higher proportion of pupils in the North West (51 per cent) went to a UK higher education institution in 2014/15, compared

Figure 2: Proportion of KS5 leavers going to higher education



¹⁴ GCSE and equivalent results in England 2015/16 (revised), Department for Education, 2017

¹⁵ A Northern Powerhouse Schools Strategy, Sir Nick Weller, 2016.

¹⁶ National curriculum assessments: key stage 2, 2016 (revised), Department for Education, 2017

¹⁷ Education in England: Annual Report 2016, CentreForum (now Education Policy Institute), 2016.

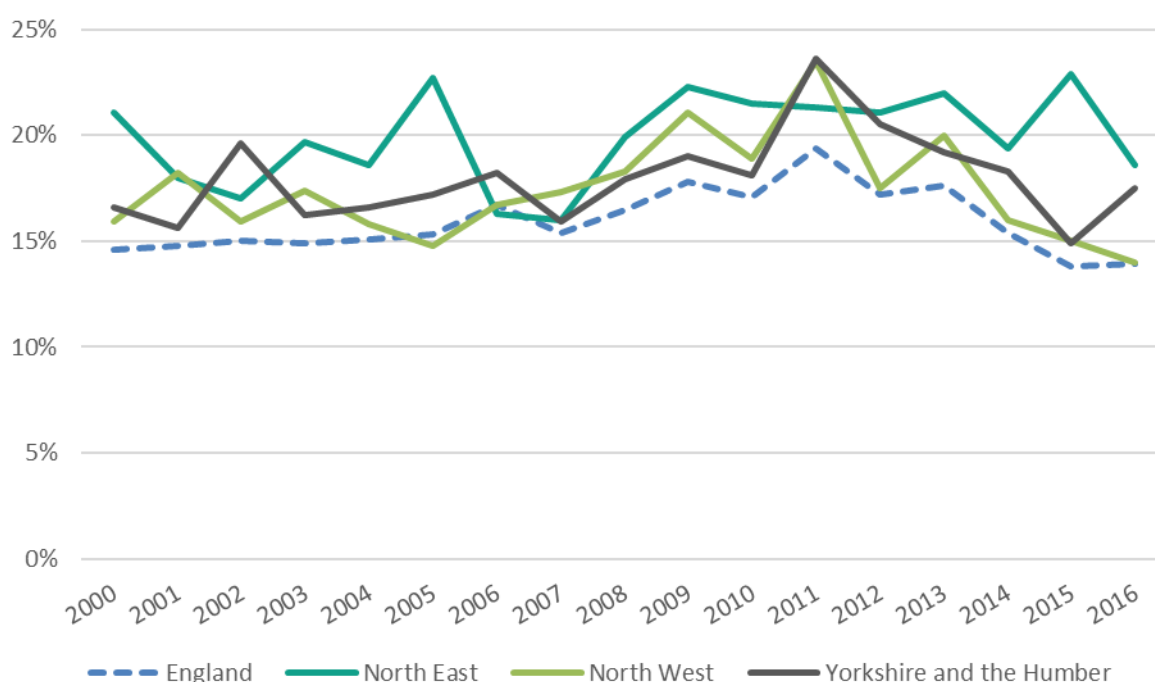
¹⁸ Pupils from all state funded schools, KS4 and KS5 destinations 2015/16, Department for Education, 2016

¹⁹ A-level and other 16-18 results: 2015/16 (revised), Department for Education, 2017

with 48 in the North East, 49 in Yorkshire and the Humber and 48 across England.²⁰ Again, there are notable differences within regions.

However, taking into account those who do not enter level 3 qualifications at Key Stage 5, young people in the North are more likely not to be in education, employment or training than those elsewhere. Although the North West (14.0 per cent) has a similar rate to the English average (13.9 per cent), the proportions of people aged 16 to 24 who are NEETs in the North East (18.6 per cent) and Yorkshire and the Humber (17.5 per cent) were the highest in the country (Figure 3).²¹ However, in the North as elsewhere these rates have declined since 2011, in part due to the raising of the legal education participation age.²²

Figure 3: Proportion of 16-24 year-olds who are NEETs (Q3) (northern regions and England)



Employer perspectives on skills in the North

The CBI/Pearson *Education and Skills Survey 2016* asked employers about their degree of satisfaction with the skills of job applicants. For each skill, employers had to state whether they were very satisfied, satisfied, or not satisfied with applicants' command of it.

Despite some challenges in education, northern employers are no less likely than others to express satisfaction with the competencies of school and college leaver job applicants (Figure 4). However, the survey suggests that there are significant skills shortages to be addressed in the North of England and elsewhere. The proportion of northern employers expressing satisfaction with the qualities of

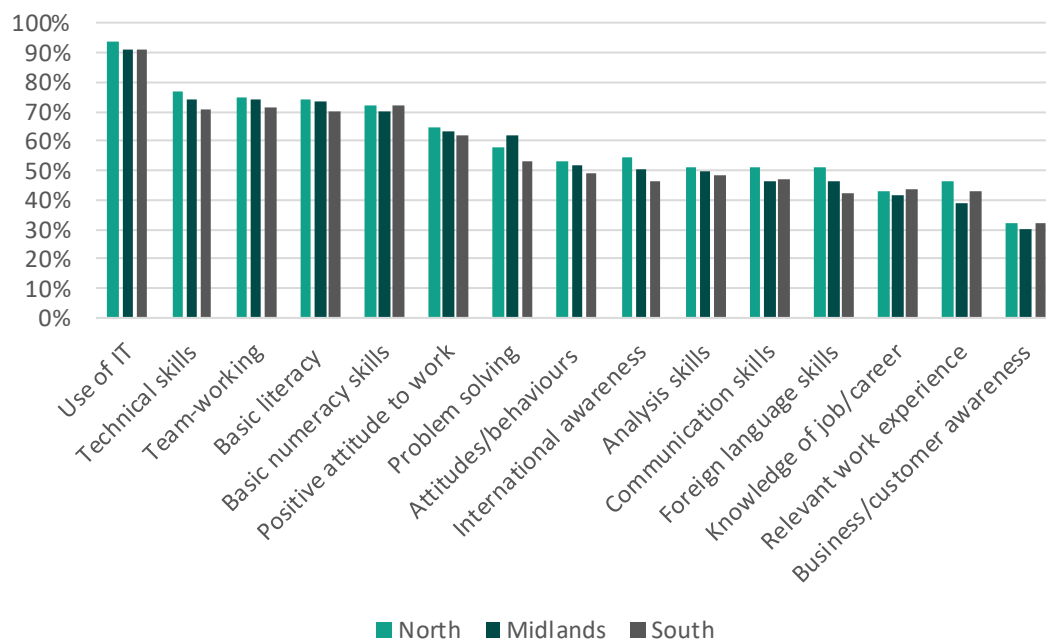
²⁰ Pupils from all state funded schools, KS4 and KS5 destinations 2015/16, Department for Education 2016

²¹ NEET Quarterly Brief – July to September 2016, Department for Education, 2016

²² <https://www.gov.uk/government/collections/raising-the-participation-age>

school and college leaver job applicants was 50 per cent or less for: business and customer awareness, knowledge about the current job or career, and relevant work experience.²³

Figure 4: Proportion of employers satisfied or very satisfied with school and college leavers job applicant skills



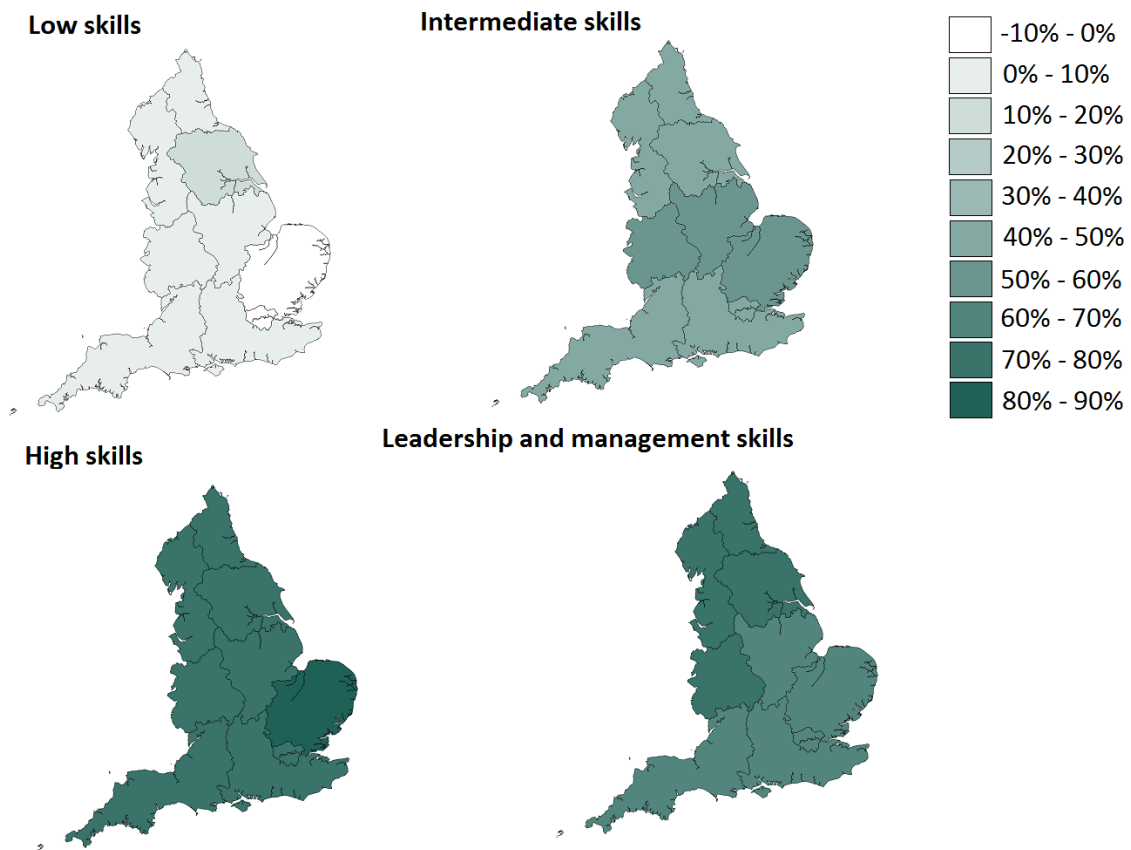
Levels of satisfaction tend to be higher for graduate applicants, but similarly there is little difference across regions and many employers expressed dissatisfaction. For instance, relevant to the potential role of apprenticeships, 31 per cent of northern employers were not satisfied with the level of work experience of graduate applicants, whilst 38 and 25 per cent were not satisfied with business/customer awareness and communication skills respectively.

These shortages could become more pressing. The *CBI/Pearson Education and Skills Survey 2016* asked employers about whether they expected to increase or decrease the number of positions needing various levels of skills over the next 3-5 years. Figure 5 displays the net proportion of employers expecting to need more employees by level of skills.²⁴ 52 per cent of employers in Yorkshire and the Humber expected to increase their intermediate jobs, whilst only 5 per cent anticipated a decrease, leading to a net increase of 47 per cent. Relatively few employers expect to need more workers with low or intermediate skills in the near future. In contrast, an increase in the needs of high and leadership and management skills is expected across the board.

²³ Education and Skills Survey 2016, CBI/Pearson, 2016. Employers are defined by the regions in which they have workers, so some are counted in more than one region.

²⁴ The net proportion has been calculated subtracting the proportion of employers expecting to need fewer individuals with a given level of skills from the proportion expecting to need more.

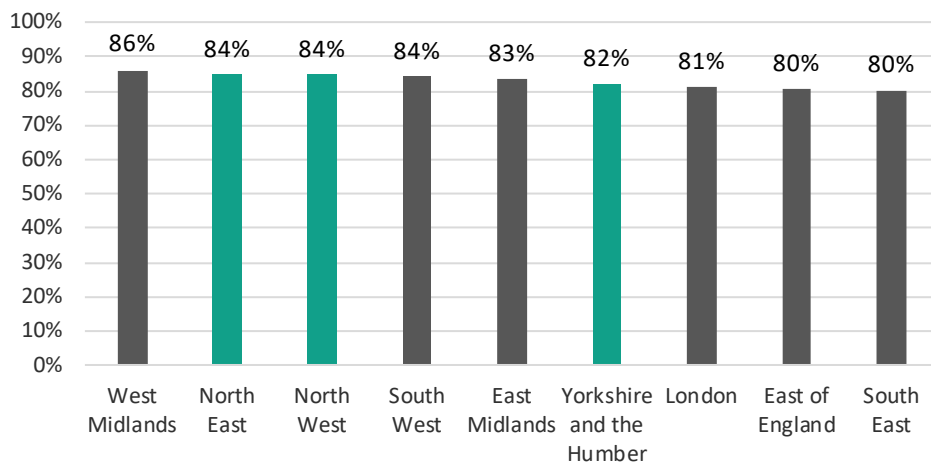
Figure 5: Net proportion of employers expecting to increase demand for employees by level of skills



The role of northern employers in improving skills

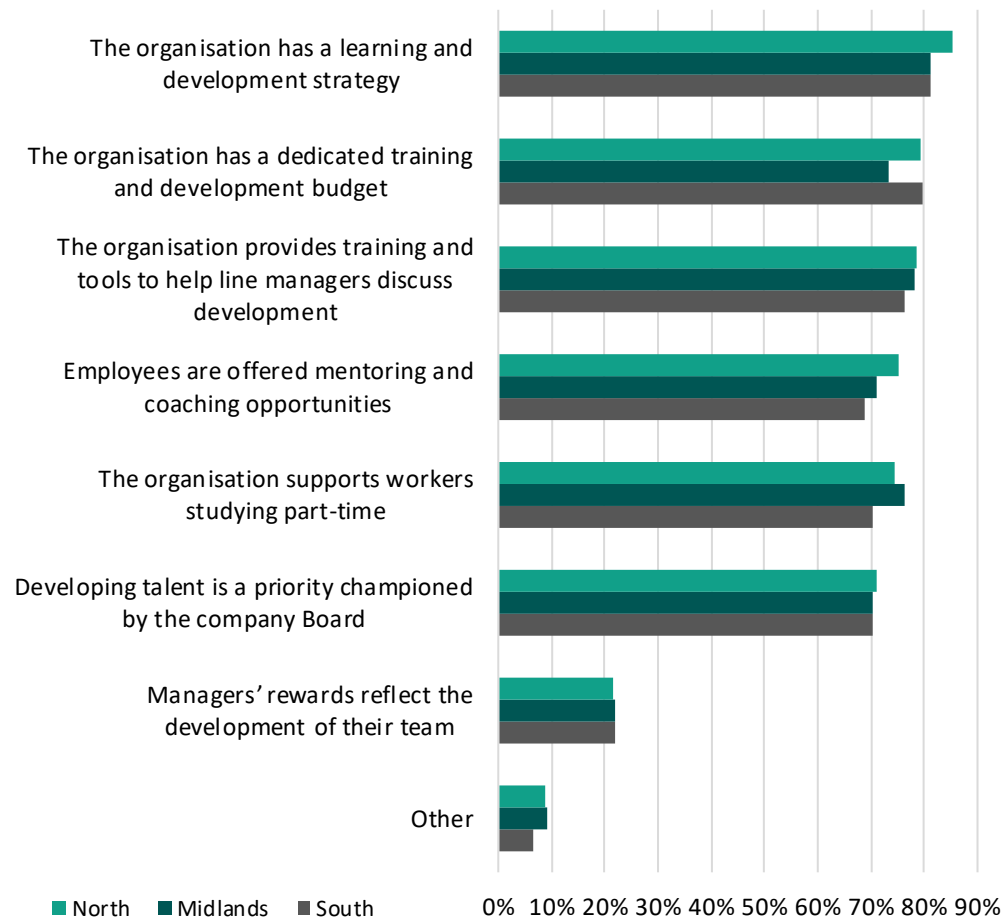
The CBI/Pearson *Education and Skills Survey 2016* also highlights what northern employers are doing to narrow skills gaps. As shown in Figure 6, employers in the North East and the North West (84 per cent) were slightly more likely than elsewhere to report offering work experience to school-age children, with a majority of employers doing so across the country.

Figure 6: Proportion of employers that report to offer work experience to school-age students



Employers offer a wide array of training and professional development opportunities to current employees. Figure 7 shows the proportion of employers where specific arrangements are available and, again, shows little consistent difference across parts of the country. Employers in the North are highly likely to offer mentoring and coaching opportunities (75 per cent), to make developing talent a priority (71 per cent), and to have a learning and development strategy (85 per cent).

Figure 7: Proportion of employers that report to offer training arrangements to employees



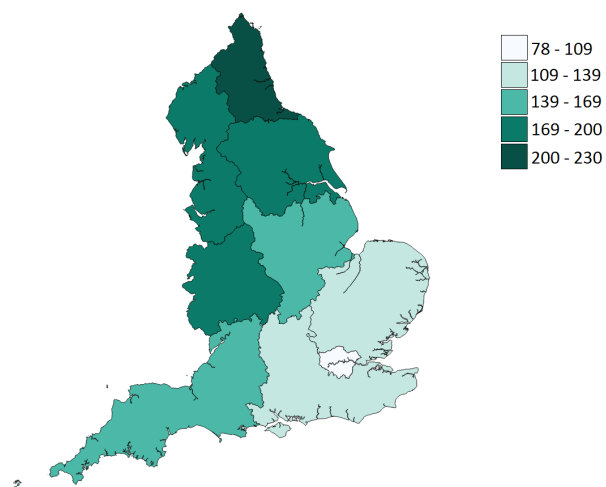
However, data from the Continuing Vocational Training Survey suggests that UK employees in organisations with at least 10 workers were slightly less likely than those in the rest of the European Union to have participated in non-apprenticeship continuing vocational training courses in 2010: 31 per cent compared to an average of 38 per cent. In some countries, for instance Germany (39 per cent) and Norway (46 per cent), training rates were higher.²⁵

²⁵ Eurostat [<http://ec.europa.eu/eurostat/data/database>, accessed January 2017]. National report for UK: Continuing vocational training survey: CVTS4, Department for Business, Innovation and Skills, 2013.

4. The role of apprenticeships in skills development

Apprenticeship starts: regional breakdown and evolution

Figure 8: Starts per 10,000 of working age population



The North contributes disproportionately to apprenticeships in England, as shown in Figure 8. There were 182,550 apprenticeship starts in these regions in 2015/16, 36 per cent of all starts in England, whilst only 23 per cent of all working-age English population lives in the North.²⁶ There were 230 apprenticeship starts per 10,000 of working-age (16-65) population in the North East, followed at distance by Yorkshire and the Humber (187) and the North West (179).²⁷ The average across England was 145 starts.

The absolute number of apprenticeship starts increased dramatically between 2009/10 and 2010/11, in part due to a transfer of funding from other adult skills programmes including Train to Gain to the apprenticeships programme. In fact, in 2010/11 the number of new learners starting Train to Gain qualifications decreased by over 130,000, while new apprentices older than 25 rose by around 126,000.²⁸ In only one year, there was a 64 per cent increase in apprenticeship starts. The number of starts peaked nationwide in 2011/12, with 515,000, after which a two-year decline began with a tightening up of requirements by the Government (Figure 9).

While the overall growth in apprenticeships starts between 2010/11 and 2015/16 was 11.2 per cent in England, both in the North East (10.6 per cent) and especially in the North West (2.7 per cent) it was more modest in relative terms. Yorkshire and the Humber, on the other hand, saw a 13.8 per cent increase over the same period.

²⁶ Apprenticeship starts and achievements, Department for Education, 2017

²⁷ Author's calculation, dividing number of apprenticeship starts (DfE) by estimated mid-term year population (ONS)

²⁸ Workplace Learning Starts by Region (2006/07 to 2011/12 – full year estimates), Department for Education, 2012

Figure 9: Apprenticeship starts 2005/06-2015/15, England and the North



The distribution of apprenticeship starts across different economic sectors is fairly consistent across different parts of England. In 2015/16, around three in ten starts were in *Business, Administration and Law* both in England (28 per cent), and in the North (30 per cent). The second biggest sector for apprenticeships starts was *Health, Public Services and Care* (26 per cent in England and 25 per cent in the North).

However, the three northern regions have slightly greater proportions of starts in the *Construction, Planning, and Built Environment* sectors: 5.2 per cent of apprenticeship starts in the North East were in these sectors, 4.8 per cent in Yorkshire and the Humber, and 4.7 per cent in the North West, compared to 4.2 per cent in England. The North West has a relatively high number of starts in the business sector (32 per cent compared to 28 across England), while a higher-than-average proportion of starts in the North East are in *Engineering and Manufacturing Technologies* (19 per cent, compared to 15 per cent in England).

Given that the proportion of the workforce in public employment in the three northern regions is the largest in England (between 18.1 and 20.2 per cent in September 2016, compared to a low of 14.5 in London)²⁹, and the Government wants apprentices to represent 2.3 per cent of the workforce in all public bodies with more than 250 employees (see section 5), we might expect a greater-than-average expansion of apprenticeship numbers in this sector in the North.³⁰

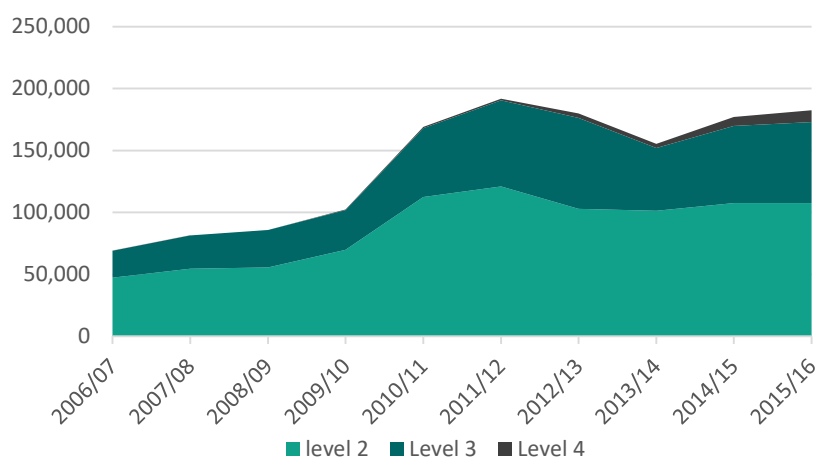
Not only has the growth in apprenticeship starts been geographically uneven, but it also has occurred more at some levels of skills (defined by the National Qualifications Framework) than at others. While apprenticeships at level 4 accounted for one in two hundred starts in England in 2009/10 (before the surge in apprenticeships take-up), in 2015/16 5.3 per cent of all apprenticeships starts were at level 4, with the largest proportion in the North East (6.2 per cent of starts) and the North West also registering more level 4 starts than the English average (5.9 per cent). In Figure 10, we can see that level 4 apprenticeships are still negligible in the North and the surge in starts has

²⁹ Public sector employment, UK: September 2016, Office for National Statistics, 2016

³⁰ Apprenticeship targets for public sector bodies: government consultation response, Department for Education, 2017

been driven by intermediate (level 2) and advanced (level 3) apprenticeships – a pattern that was repeated across England³¹.

Figure 10: Apprenticeship starts by level, northern regions



Learners and employers are generally satisfied with apprenticeships, but improvements can be made

Both employers and learners are largely satisfied with apprenticeships, according to evaluation surveys for England.³² In 2015, 89 per cent of learners and 86 per cent of employers reported being satisfied or very satisfied with apprenticeship schemes (Figure 11). Learners were more likely to be satisfied if they did an apprenticeship in construction and least satisfied if they did it in ICT or arts and media. Common reasons for not being satisfied included the lack of support from training providers, college or tutors or poor organisation of the apprenticeship. On the other hand, employers were least satisfied with apprenticeships in arts and media and construction, giving reasons such as the quality of applicant and a feeling of powerlessness over the process.

Figure 11: Proportion of employers and learners who are satisfied/dissatisfied with apprenticeships, England



³¹ Apprenticeships by geography, age and level: starts 2005/06 to 2015/16, Department for Education, 2017

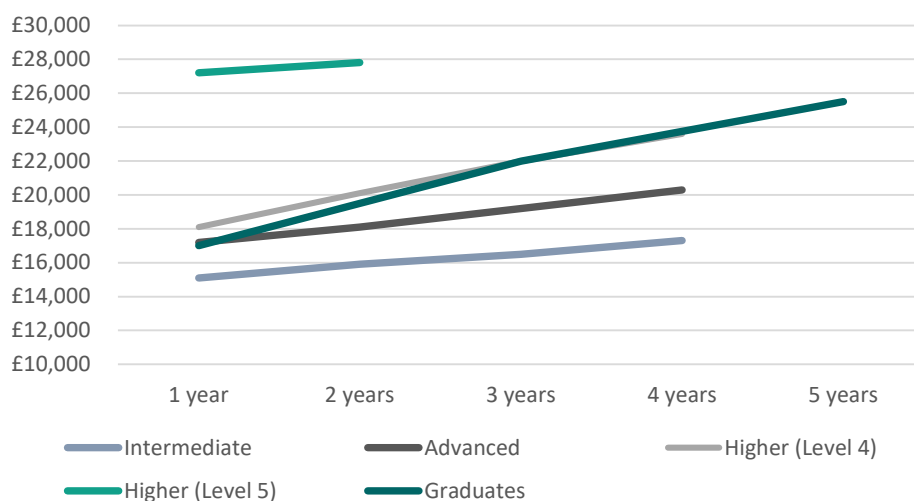
³² Apprenticeships Evaluation 2015 – Employers, Department for Education 2016; Apprenticeships Evaluation 2015 – Learners, Department for Education 2016. Learners included level 2 and 3 apprentices only.

The labour market returns to apprenticeships are variable, but can be significant

According to the 2015 apprenticeship evaluation report, 92 per cent of former apprentices were working after 12-20 months after finishing an apprenticeship, while 5 per cent were unemployed and 2 per cent in education or training. 72 per cent of former apprentices currently in employment reported to be working with the same employer with whom they undertook their apprenticeship with.³³

While former level 2 apprentices have, on average, substantially lower wages compared to graduates at any point within the first four years following completion, level 3 apprentices starting salaries are very similar to those of graduates, although the gap widens in following years. The median starting salary for level 4 apprentices is higher than for graduates, converging later on. Similarly, data on level 5 apprenticeships available show that salaries after completion are substantially higher than for graduates, with a median starting salary of around £27,000. Figure 12 shows how different qualification-holders compare.

Figure 12: Median salaries at different career times for apprentices (by level) and graduates, England³⁴



However, earnings vary both across apprenticeships and within levels. For example, the median earnings one year after completing a level 4 apprenticeship in accounting are £18,000, while the earnings for a former level 4 IT professional apprentice one year after completion is £29,000.

Previous research has found that workers with a level 2 apprenticeship have 15 per cent wage returns (male) or 2 per cent (female) over their lifetime compared to workers who hold lower level or other level 2 qualifications.³⁵ The wage return is higher for level 3 apprenticeship completers, with male workers obtaining a 19 per cent and women a 5 per cent return, compared to level 2 qualification holders. Longer term, it has been found that workers who completed a level 3 apprenticeship earn twice as much over their lifetime as workers with no qualification; while workers who completed a level 4 apprenticeship earn roughly as much as those who hold a degree

³³ Apprenticeships Evaluation 2015 – Learners, Department for Education, 2016

³⁴ Average earnings post-apprenticeship: 2010 to 2015, Department for Education, 2016; Graduate outcomes by degree subject and university. Data for former apprentices covers earnings 1,2,3 and 4 years after completion; data for graduates covers earnings 1,3 and 5 years after graduation

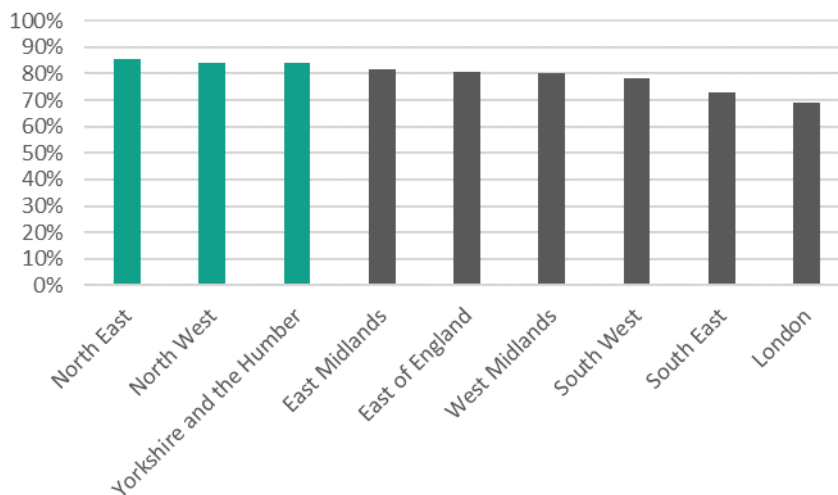
³⁵ The economic value of key intermediate, qualifications: estimating the returns and lifetime productivity gains to GCSEs, A-levels and apprenticeships, Department for Education, 2014

from a non-Russell Group university – whom in turn earn slightly less than those completing a level 5 apprenticeship.³⁶

Northern employers are more likely to offer apprenticeships and find it no more or less difficult to recruit them than the average for England

Consistent with the statistics highlighted above, the *CBI/Pearson Education and Skills Survey 2016* shows that employers in the North of England are more likely to currently be offering apprenticeships than those in the rest of the country, with 86 per cent of employers in the North East and 84 per cent in the North West and Yorkshire and The Humber reporting to do so compared to 73 per cent of employers in the South East and 69 per cent in London (Figure 13).

Figure 13: Proportion of employers who state they are currently offering apprenticeships by region

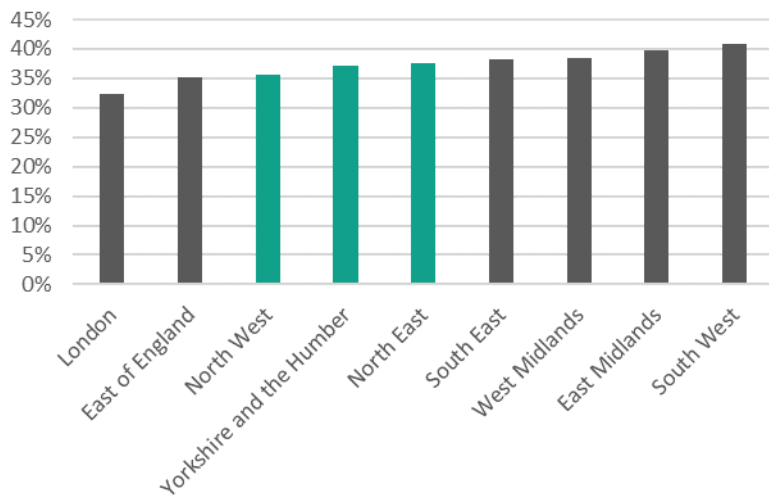


Similarly, more employers in the North than elsewhere, except for the East Midlands (74 per cent) are currently offering apprenticeships and expecting to expand their offer: 72 per cent in the North East and 71 per cent in both the North West and Yorkshire and the Humber. Only 65 per cent of employers in London are currently offering apprenticeships and plan to expand, although 13 per cent are not offering apprenticeships but plan to do so in the near future, compared to 7 per cent in the North East and 8 per cent in the North West and Yorkshire and the Humber.

Between 36 and 38 per cent of employers in the North responded that they currently had difficulties recruiting apprentices. As Figure 14 shows, this is lower than the proportions in the Midlands and in the South West and South East of England, although differences are modest in general.

³⁶ Levels of success: the potential of UK apprenticeships, the Sutton Trust, 2015.

Figure 14: Proportion of employers with difficulties recruiting apprentices by region



However, more employers are concerned about future difficulties recruiting apprentices. This ranges from 41 per cent in London to 50 per cent in East Midlands, with northern regions again in the middle of the range.

5. Prospects for growth in apprenticeships

Why is the Government changing the apprenticeships system?

The Government has attributed much of the country's weak productivity performance to continuing skills gaps in its workforce.³⁷ Despite rapid increases in tertiary or university-level education, the UK is forecast to fall to 28th out of 33 OECD countries for intermediate skills by 2020.³⁸ The OECD's Adult Skills Survey showed that over a quarter of working aged adults in England have low literacy or numeracy skills, and struggle with basic quantitative reasoning or handling simple written information.³⁹ Unlike those of other developed countries, England's young people are no more literate or numerate on basic measures than their counterparts approaching retirement age.⁴⁰

As explained above, completing an apprenticeship has been found to increase wages and likelihood of employment, but England has few apprentices compared to countries with lower youth unemployment rates such as Germany, Austria and Norway. The Government sees an expansion of apprenticeships as a way to improve skills and productivity, and meet the high projected needs for new workers in key sectors. That includes around 5 million job openings for high skilled workers and 3.6 million for skilled trades and professional or technical roles.⁴¹

The 2012 Richard Review of Apprenticeships identified weaknesses in the quality of apprenticeships being funded.⁴² The 2010-2015 Coalition Government accepted its recommendations to refocus apprenticeships on training and occupations where they can add most value, increase their level of rigour demonstrated, and give employers a stronger role in their design, delivery and success measures.

Short apprenticeships, and those not associated with employment from day one, were ceased, and new employer-designed 'Trailblazer' standards embodying the new approach were piloted in some occupations as a replacement for the previous apprenticeship 'frameworks'. These were restricted to skilled occupations, involve a minimum of 20 per cent off-the-job training over 12 months, and have to develop transferrable skills including English and maths.⁴³ Standards use an end-point assessment of holistic occupational competence designed by industry experts, instead of a focus on achieving a specific set of qualifications.⁴⁴ The 'Trailblazer' approach also trialled a new funding model, with employers and Government co-funding off-the-job training negotiated with colleges and other providers instead of education institutions drawing down fixed levels of funding for each learner from the Skills Funding Agency.

³⁷ Technical education reform: the case for change, Department for Business, Innovation and Skills, and Department for Education, 2016

³⁸ Bosworth and Leach (2015), UK Skill Levels and International Competitiveness, 2014

³⁹ Building Skills for All: A Review of England, OECD 2016.

⁴⁰ Skills Matter: Further Results from the Survey of Adult Skills, OECD, 2016

⁴¹ English Apprenticeships: Our 2020 Vision, HM Government, 2015

⁴² The Richard Review of Apprenticeships, Doug Richard, 2012.

⁴³ Level 2 apprentices are required to achieve level 1 in English and maths to complete their apprenticeship and then must work towards level 2; all level 3 and 4 apprentices must achieve level 2 in English and maths prior to taking their end-point assessment.

⁴⁴ The Future of Apprenticeships in England, HM Government, 2015.

What are the main changes being introduced?

The Government has pledged to increase the number of apprenticeship starts to 3 million over the course of the 2015-2020 parliament – implying an annual increase of 20 per cent over 2014-15 levels – and to continue the transition to employer-led apprenticeship standards. The stated intention is that apprenticeships have:

- An emphasis on quality and rigour, with a new Institute for Apprenticeships to be established from April 2017 to oversee the continued production of new standards, Ofsted to inspect providers, and Ofqual to regulate associated qualifications;
- Training that is trusted and transferable, legally reserving the term ‘apprenticeship’ and tasking the Skills Funding Agency with maintaining Registers of approved training and assessment organisations;
- The relationship between employer and apprentice at the core, with mandatory Apprenticeship Agreements to bind both parties;
- Employers at the heart of apprenticeships design and delivery, leading the design of standards; and
- A focus on what apprentices can do at the end of an apprenticeship, not how they get there.⁴⁵

To finance an increase in apprenticeships, the Apprenticeship Levy is being introduced in April 2017. Employers will contribute 0.5 per cent of their paybill over £3m in excess of this amount: 2 per cent of employers will be affected but it has been estimated that this group accounts for a majority of UK employees.⁴⁶ The Levy is expected to raise £2.8 billion per year by 2019–20, though apprenticeships spending is forecast to increase initially by only £642m on 2016-17’s level to £2.45bn in 2019-20.⁴⁷

Employers will have their Levy payments put into a digital account which can be used to pay training providers, only for off-the-job training and account funds need to be spent within two years. The majority of Government subsidy for apprenticeships from May 2017 will be provided via three key mechanisms:

1. Levy-paying employers will have their digital accounts topped up by 10 per cent of their value by the Government;
2. Non-Levy-paying employers, or Levy-paying employers wanting to spend more than the value of their account on off-the-job training, will pay only 10 per cent of the costs (or none of the costs for those with fewer than 50 employees for a 16- to 18-year old apprentice); and
3. Employers and training providers will both be awarded a £1,000 grant for training a 16- to 18-year old apprentice, or one aged 19 to 24 and has previously been in care or who has a local authority Education, Health and Care plan (EHCP).

The total price of co-funded training cannot exceed set amounts per apprentice. There will be 15 associated funding bands, with upper limits ranging from £1,500 to £27,000. These are set according

⁴⁵ English Apprenticeships: Our 2020 Vision, HM Government, 2015

⁴⁶ The IFS Green Budget: February 2017 - Reforms to apprenticeship funding in England, Institute for Fiscal Studies, 2017

⁴⁷ Information on apprenticeship Levy: Data broken down by size and sector and the total apprenticeship budget, Department for Education, 2016.

to the expected costs of the relevant training and vary across apprenticeships standards and frameworks, but employers are free to purchase further training for their apprentices, fully at their own expense.⁴⁸

The Government intends to move to a simpler arrangement with uniform funding rates from providers' perspectives but, at least in the short term, it will give training providers a further 20 per cent of the funding band maximum for the training of apprentices aged 16-18 on frameworks (not standards). It will also provide extra funding for apprentices from deprived areas. These additions will be kept under review.

To support its ambition of reaching 3 million apprenticeships over the parliament, the Government plans to require every public sector body with at least 250 employees in England to start an equivalent of 2.3 per cent of their total headcount on apprenticeships per year.⁴⁹

Wider regulation continues to encourage the recruitment of apprentices: by April 2017 the minimum wage for apprentices, applying to those 16-18 and in the first year of an apprenticeship if older, will be £3.50 compared with the National Minimum Wage of £7.05. Employers are also exempt from National Insurance Contributions on apprentices between 21 and 25, with contributions already not applying for all employees under 21.

As part of the Post-16 Skills Plan, the Government intends that apprenticeships will form an alternative to college-based technical training within each of the proposed 15 occupation-based 'routes' for study at ages 16 to 18, implemented from September 2019.⁵⁰ From 2018, the Institute for Apprenticeships will become the Institute for Apprenticeships and Technical Education and will assume responsibility for ensuring coherence between apprenticeship provision and full time technical education.

Employer perspectives on the Apprenticeship Levy

When asked in the CBI/Pearson *Education and Skills Survey 2016* about a series of potential effects of the Levy, a significant minority of firms tended to suggest that there would be significant impacts. As Figure 15 shows, employers in the North seemed as likely as those of other regions to expect it to lead to the creation of new apprenticeship programmes, with 47 per cent anticipating this along with 40 per cent expecting an overall increase in apprenticeships as a result. Alongside this, 28 per cent expected a decrease in graduate recruitment.

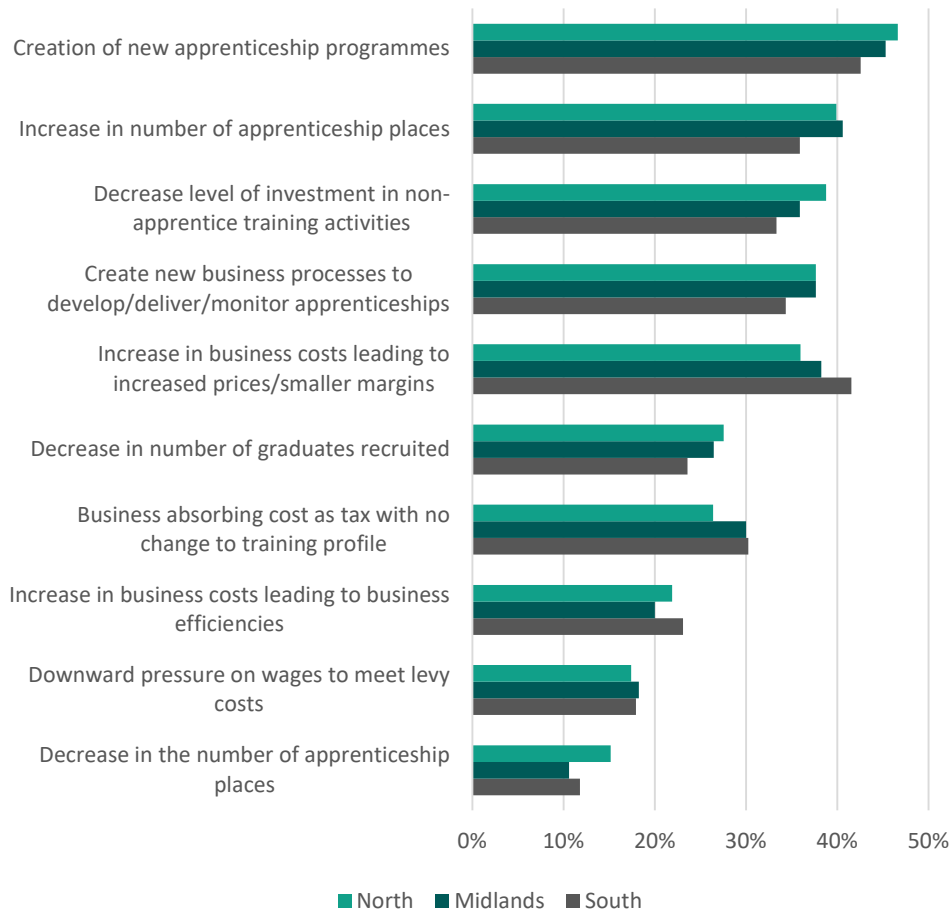
However, 39 per cent of employers anticipated reductions in non-apprenticeship training, suggesting that the substitution between different forms of subsidised training that have occurred in the past may be being expected again. Meanwhile 15 per cent expected a reduction in apprenticeship places.

⁴⁸ Apprenticeship Funding, Department for Education, 2016.

⁴⁹ Apprenticeship targets for public sector bodies: Government consultation response, Department for Education, 2017.

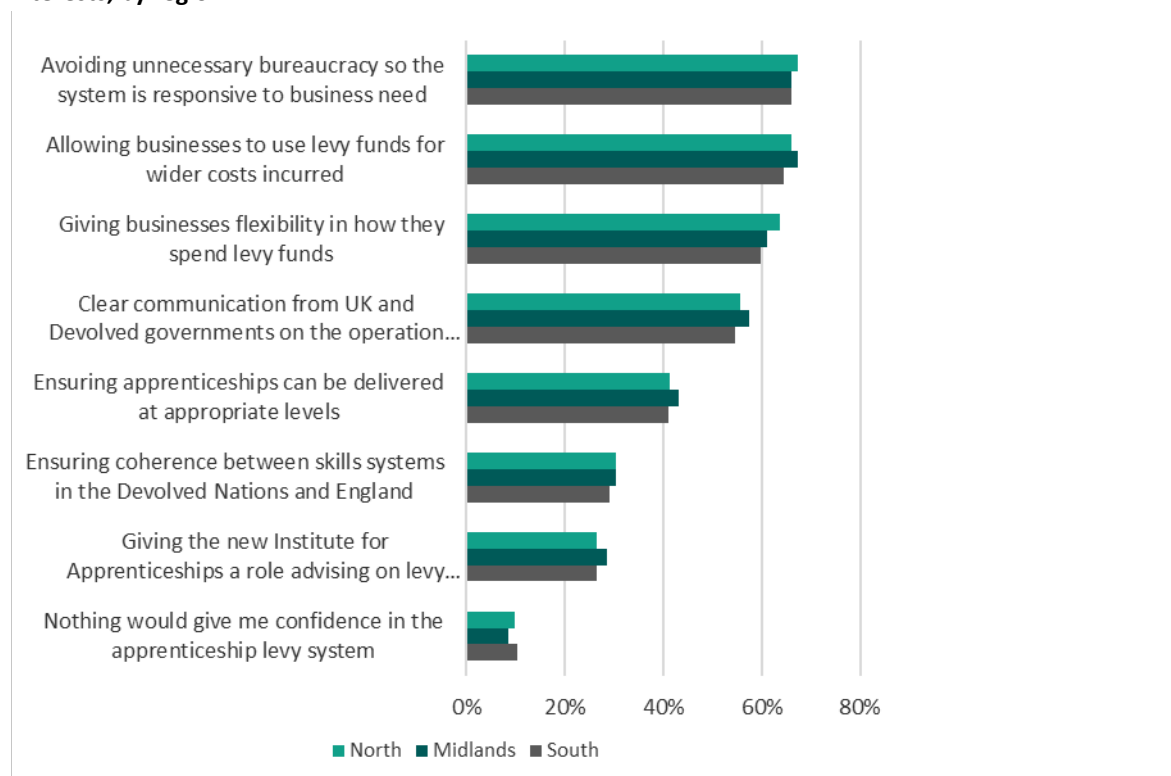
⁵⁰ Post-16 Skills Plan, Department for Education, 2016.

Figure 15: Proportion of employers expecting the Levy to have certain impacts, by region



Employers tended to agree that several actions would be required to smooth the transition to the new funding system and avoid its potential downsides (see Figure 16). Around two in three employers in the North thought that the Government should give businesses flexibility in how they spend the Levy, and 67 per cent thought the new system should avoid unnecessary bureaucracy so that it is responsive to businesses’ needs. These sentiments were common across the country. In addition, a large proportion of employers nationwide thought that ensuring a clear communication from UK and devolved governments on the operation of the new system could help make the system work to better the interests of the employers.

Figure 16: Proportion of employers expecting certain actions to improve the Levy with regards to businesses' interests, by region



Will the reforms work?

The evidence presented above and that cited by Government supports a renewed focus on vocational education: it appears crucial that the country develops further its technical and intermediate skills to support productivity and employment. International examples have shown that apprenticeship programmes can form the basis of successful training systems, and despite the positive perceptions of recent apprenticeships highlighted above, it is important to maintain and improve their quality given the range of outcomes experienced by apprentices. The Education Policy Institute's recent research has highlighted that in recent years there has been a disparity in funding between those taking bachelor's degrees and other forms of training, with wider adult education becoming focused on small, low-level qualifications.⁵¹ Therefore, in times of constrained public finances it may be sensible to attempt to improve the quality and public value of apprenticeships whilst generating additional funding for their provision.

However, the likely impacts of these reforms are uncertain. Firstly, it is unclear whether the changes will achieve a significant increase in training provision. As highlighted above, many firms believe there will be some negative impacts for other forms of training, and the Institute for Fiscal Studies have highlighted a range of ways in which different forms of training might make way for apprentices in response to funding incentives, and the risks of distorting public sector training provision with new targets.⁵² The new funding system may change the distribution of funding for training across different parts of the country and across different occupations. With many firms being required to directly co-fund off-the-job training under the new system, some will see a

⁵¹ Remaking tertiary education, Education Policy Institute, 2016.

⁵² The IFS Green Budget: February 2017 - Reforms to apprenticeship funding in England, Institute for Fiscal Studies, 2017.

significant change in incentives; in 2015 only 27 per cent of relevant employers paid fees to a training provider for their apprentices' training.⁵³

Further, as shown above, a large proportion of employers understandably seek flexibility to decide what to spend the Levy on, or how to use the funds. However, there may exist tensions between such flexibility and the functioning of the new apprenticeship system as a whole. Recent literature suggests that some of the standards designed by employer-led Trailblazer groups so far may compromise quality. For example, an analysis by Policy Exchange of approved standards concluded that some of them were too broad and generic, while others were too specific or did not address a specific skill shortage. Similarly, the fact that a training plan is not required may undermine the consistency of the off-the-job training element, which is crucial to apprenticeships as it sets them apart from actual employment.⁵⁴ Likewise, a recent report by the IPPR suggested that standards risk turning out unconnected and therefore hamper progression to higher levels of skills, recommending the Government to tighten up standards by strengthening the role of the Institute for Apprenticeships – something that Figure 16 suggests employers may not often be enthusiastic about.⁵⁵

The Levy has been designed to put incentives in place for employers to offer apprenticeships, so that the three million apprenticeship starts by 2020 target is met. Nonetheless, as we have seen, there may be a tension between quantity and quality. More apprenticeships can help address employer's dissatisfaction with young peoples, and others', skills regarding customer awareness, knowledge of the job or career, or lack of relevant work experience. To that end, however, standards will need to be clear and consistent and help apprentices develop transferable skills alongside occupation and sector-specific knowledge. This means that employers have an important role to play: the next section outlines how they can get involved to help shape an apprenticeships system that meets their immediate recruitment needs and supports the wider productivity of the economy.

⁵³ Apprenticeships Evaluation 2015 – Employers, Department for Education 2016

⁵⁴ The skills we need, and why we don't have them. How apprenticeships should be reformed to make the UK compete on the global stage, Policy Exchange, 2016

⁵⁵ England's apprenticeship. Assessing the new system, IPPR, 2016

6. How employers can get involved in shaping the new system of apprenticeships

Developing standards

The document *The Future of Apprenticeships in England. Guidance for Trailblazers – from standards to starts* sets out the procedure for employers to engage in the development of apprenticeship standards.⁵⁶

A group of 10 or more employers can work to develop an apprenticeship ‘standard’, along with specifications for end-point assessment of apprentices. The approval and quality assurance of these standards will be determined by the Institute for Apprenticeships, while the Skills Funding Agency will assign standards to funding bands. Employers can apply to develop an apprenticeship standard for an occupation in their sector. If the standard for that occupation is already being developed, the employer should contact either DfE or the relevant Trailblazer group; otherwise, employers can submit expressions of interest (EOIs), subject to monthly deadlines.

EOIs are required to meet two sets of criteria:

- Occupational criteria: the proposed occupation must be unique and there must not be no existing standard for it; it should not overlap with other occupations to a high degree; it should require substantial learning (at least one year) with an end-point assessment and at least 20 per cent off-the-job training; an occupation should not be so niche that apprentices cannot transfer skills to other occupations within the sector.
- Employer-related criteria: at least ten employers need to be involved, which must be representative of the sector; other organisations must be invited to support the process; they have to commit to a minimum number of starts.

Employers need to identify the Knowledge, Skills, and Behaviours (KSBs) needed for a given occupation, and they should state if they want a bid to be considered for a degree apprenticeship. A degree apprenticeship can either be created from scratch with involvement from employers, universities and professional bodies, or use existing degree programmes and introducing the missing requirements for it to become an apprenticeship.

Hiring an apprentice

As soon as the new system is established, employers will have to choose a standard or a framework, delivered by a government-approved provider. Frameworks are going to be progressively phased out and expected to disappear in 2020.

Employers taking on apprentices, or putting existing employees onto apprenticeships, will have to choose a provider from the Register of Apprenticeship Training Providers. Employers can apply to join the Register as training providers and, so receive government subsidy for providing their own ‘off-the-job’ training. Employers will also need to choose an end-point assessor from the Register of Apprenticeship Assessment Organisations, and cannot assess their own apprentices.

⁵⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487350/BIS-15-632-apprenticeships-guidance-for-trailblazers-december-2015.pdf

The provider will post the vacancy on the *find an apprenticeship* service on behalf of the company. The employer will be able to manage its account on the portal and assess applications.

Once the apprentice is hired, funds from Levy-paying employers will be periodically withdrawn from their digital accounts.

If the employer does not pay the Levy, then it will have to claim funding from the Government on a one-to-one basis. These employers will be asked to contribute with 10 per cent of the training costs.

7. Useful links for employers

Government homepage for apprenticeships information:

<https://www.gov.uk/topic/further-education-skills/apprenticeships>

How to get involved in developing apprenticeship standards:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487350/BIS-15-632-apprenticeships-guidance-for-trailblazers-december-2015.pdf

How to recruit an apprentice:

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work#buying-apprenticeship-training>

<https://www.gov.uk/government/collections/apprenticeship-vacancies>

Funding rules:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562401/Apprenticeship_funding_from_May_2017.pdf

List of apprenticeship standards under development/developed:

<https://www.gov.uk/government/publications/apprenticeship-standards-list-of-occupations-available>

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Apprenticeships for Northern Growth

Challenges, trends and current reforms

To mark the UK Northern Powerhouse Conference and Exhibition 2017, this report gives a high level overview of some of the key trends in economic outcomes, education and skills, focusing on the North of England in particular.

It outlines the key changes to apprenticeships being brought in by the Government and highlights the views of employers on skills issues.

The report is supported by Pearson and uses data kindly provided by the CBI and Pearson from their Education and Skills Survey 2016.



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