





# ADDRESSING EMPLOYER UNDERINVESTMENT IN TRAINING

The case for a  
broader training levy

**Report**  
July 2019



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## Report

# Addressing employer underinvestment in training: the case for a broader training levy

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## 1 Introduction

In today's competitive and fast-changing world, the skills and capabilities of the workforce are vital to economic sustainability and growth. Yet, despite the central importance of skills development in the workplace, there has been a substantial and long-term decline in the volume of employer training and investment in training in the UK.

The reasons behind this decline are not entirely well understood, but commentators<sup>1</sup> have pointed to factors such as the expansion of the higher education system, which has reduced the need for employers to train, or increased efficiency in training investment. Less optimistic, but just as likely a contributing factor, is the shift towards business models and competitive strategies requiring lower levels of skills. While the drivers aren't fully known, what is clear is that greater investment in workforce skills is needed and that relying on employers to voluntarily provide adequate training opportunities has clearly failed.

It was against this background that the Government justified the introduction of the apprenticeship levy, a payroll tax on large businesses, which, after being topped up by the Government, organisations could then draw down to pay for apprenticeship training and assessment. Yet, as this report sets out, levies do not always have the desired effect of increasing employer investment in training, and there is evidence that the current arrangements are not working in the way that was initially intended.

While more high-quality apprenticeships are certainly needed, they are only one small aspect of high-performing workplaces, and other forms of training are equally as valuable. Furthermore, without sustained intervention on the demand side – to address issues related to leadership and management failings and low-skill business models – it is unlikely that the decline in training volume and investment can be arrested, let alone reversed.

In this report we provide:

- an overview of what's been happening with training in the UK
- analysis of the impact that the apprenticeship levy and reforms have had so far
- the case for a broader training levy to:
  - support apprenticeships, as well as other forms of accredited learning
  - fund the creation of a sustainable, long-term fund to address local skills supply and demand issues.

## 2 What's been happening with training in the UK?

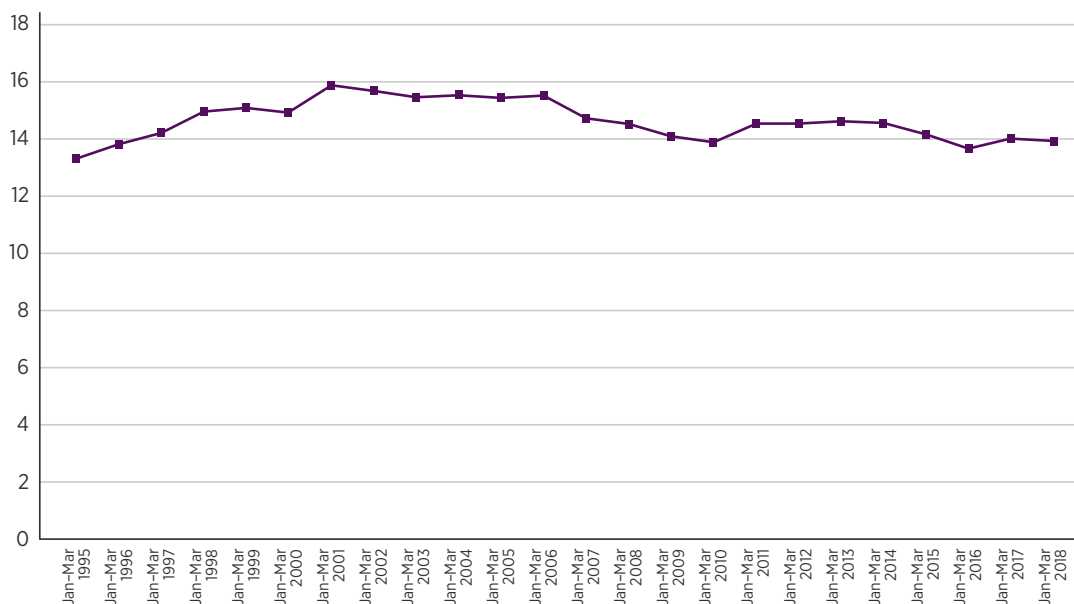
The world of work is rapidly changing, and the need to develop the skills and capabilities of the workforce to respond is more important than ever before. Investing in training and development is a key way to fill skill gaps and address skill shortages within organisations, yet despite its importance, evidence suggests that employers in the UK are training less and investing less in their workforce than they were 20 years ago.

### **Declining participation in training**

Headline measures of training participation mask worrying trends in employer investment and training volume, with the available evidence suggesting that formal workplace training has been on the decline on key measures for many years.

The quarterly Labour Force Survey (QLFS) provides the most timely, and the longest available, series of data on training participation in the UK. The most commonly reported statistic is the proportion of employees who have received work-related learning in the last four weeks. This data is presented in Figure 1 and shows that participation rates have remained relatively stable over the last few decades, with roughly 14-16% of the workforce receiving some type of training over the previous four-week period.

**Figure 1: Participation in work-related learning in the last four weeks, employees aged 16-64 (%)**

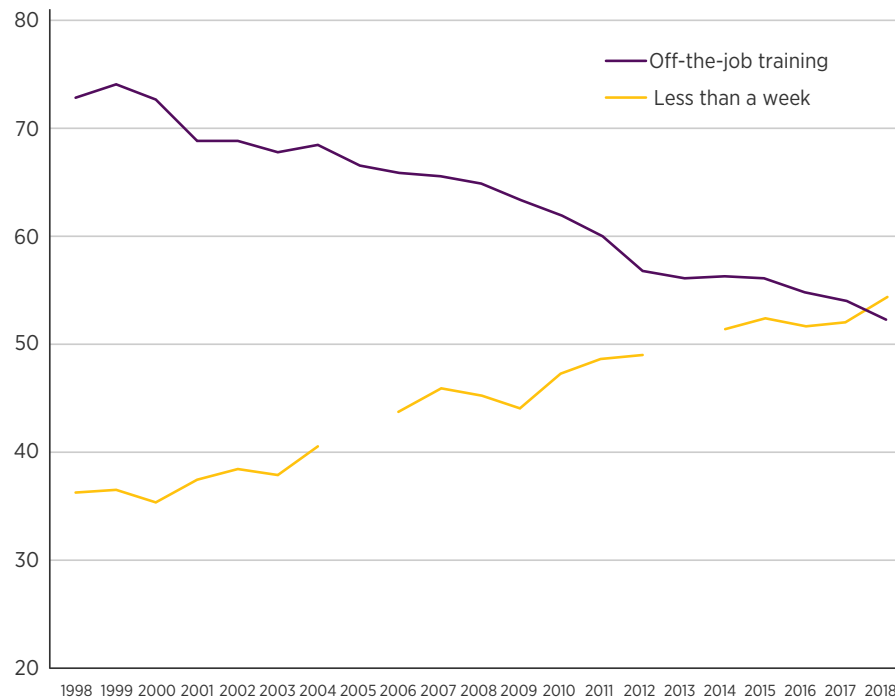


Source: Quarterly Labour Force Survey (January-March)<sup>2</sup>

However, these headline figures on training participation mask worrying underlying trends, both in training intensity (the amount of time spent training) and training quality. Figure 2 provides trend data on the length and location of training episodes since 1998, for employees who received training in the last four weeks. In 1998 just over a third (36%) of training episodes lasted less than a week; the figure has steadily increased over two decades and now stands at over half (54%) of all training courses. Table 1 also shows the proportion of training courses that are either wholly, or partially, undertaken ‘away from your job’. Off-the-job training tends to be longer in duration<sup>3</sup> and provides another indicator of a fall in training times, with the proportion of training taking place away from work dropping from 73% in 1998 to 53% in 2018.

The Employer Skills Survey (ESS)<sup>4</sup> confirms a fall in the amount of time employees spend in workplace training – with the number of training days per employee falling from 7.8 days per year in 2011 to 6.4 days in 2017.

**Figure 2: Work-related learning in last four weeks, by location and duration (%)**



Source: Quarterly Labour Force Survey (January-March)

**Table 1: Hours spent in continuous vocational training across the EU, 2005-15**

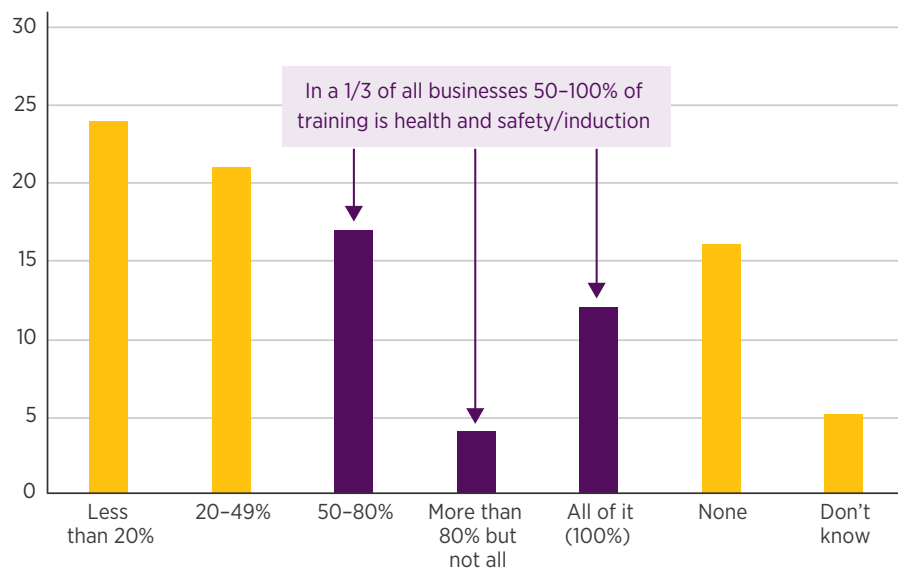
	per 1,000 work hours			hours per employee			hours per participant		
	2005	2010	2015	2005	2010	2015	2005	2010	2015
France	8.0	8.0	8.3	12.8	12.8	12.4	28.2	28.2	25.7
Germany	5.8	5.7	5.5	8.9	9.0	8.5	29.5	22.8	22.2
Italy	4.7	5.5	6.3	7.3	8.4	9.6	25.5	23.2	20.9
<b>UK</b>	<b>3.1</b>	<b>4.0</b>	<b>5.3</b>	<b>6.5</b>	<b>7.7</b>	<b>9.2</b>	<b>20.0</b>	<b>25.1</b>	<b>30.3</b>
EU28	5.3	5.8	6.2	8.9	9.6	10.0	27.1	25.5	24.5

Source: Continuous Vocational Training Survey<sup>5</sup>

Furthermore, much of the training that does occur in UK organisations is focused on health and safety and induction training. The most recent Employer Skills Survey (ESS) shows that while two-thirds (66%) of establishments have provided some sort of training in the last 12 months, for a third of those organisations (33%), between half and all of that training is either induction or health and safety related.

While it is important that organisations are compliant with health and safety legislation, and that employees are provided with support when starting in a new role, this type of training has very little impact on skill levels or tackling skills gaps and shortages.

**Figure 3: Proportion of training that is health and safety or induction-related (%)**



Source: Employer Skills Survey (ESS) 2017, Department of Education<sup>6</sup>

### Declining employer investment in workforce training

The best source of data available on employer investment in training comes from the Employment and Skills Survey (ESS).<sup>7</sup> This shows that there has been a modest increase in overall investment in training by employers, from £43.8 billion in 2011 to £44.2 billion in 2017, representing a rise of 0.9%. Yet, at the same time the size of the workforce has grown rapidly, which means that there has been a real-term cut over the same period of 16.7% per trainee (or a fall of 6.3% per employee).<sup>8</sup>

The Continuous Vocational Training Survey (CVTS) appears to support the ESS and shows that while there has been a slight overall increase in expenditure – as a share of labour costs – spend per employee and training cost per hour has fallen between 2005 and 2015. The survey shows a marked decline of 23% over the decade in training investment per employee; this is in contrast to growth across the EU of 22%.

**Table 2: Investment in vocational training across the EU, 2005-15**

	Cost per hour			Cost per employee			Share of labour costs		
	2005	2010	2015	2005	2010	2015	2005	2010	2015
France	71	79	91	928	1,036	1,154	1.2	1.6	1.8
Germany	59	69	81	526	617	686	1.4	1.5	1.4
Italy	56	52	55	435	458	544	1.2	1.1	1.3
<b>UK</b>	<b>59</b>	<b>35</b>	<b>32</b>	<b>383</b>	<b>267</b>	<b>293</b>	<b>1.3</b>	<b>1.1</b>	<b>1.8</b>
EU28	53	55	58	478	545	585	1.6	1.6	1.7

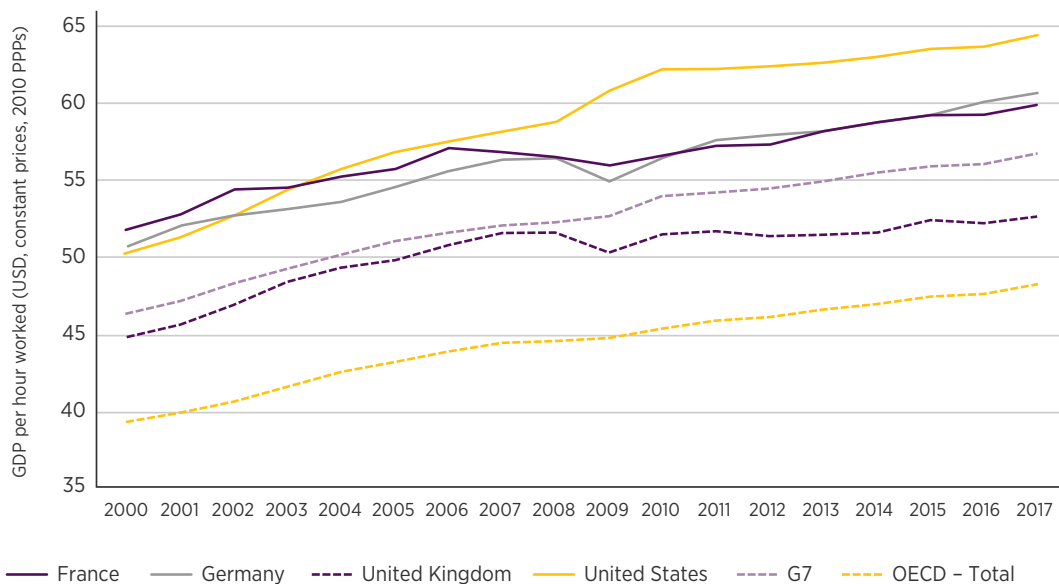
Note: all figures in euros at purchasing power parities  
Source: Continuous Vocational Training Survey<sup>9</sup>

### Contributing to poor productivity performance

The UK has a productivity problem. Figure 4 highlights the considerable gap in labour productivity performance compared with Germany, the United States and France. The reasons behind this are not entirely well understood; however, a number of commentators<sup>10</sup> have pointed to both the long tail of poorly managed firms in the UK, relative to other countries, and poor skills development and skills use in the workplace, as key contributing factors.

This analysis suggests that increasing the amount and quality of training and development in firms is likely to support efforts to improve productivity. Although, it should be recognised that evidence for a causal link between firm productivity and training levels is not that well established.

**Figure 4: GDP per hour worked in selected countries, 2000–17**



Source: OECD Compendium of Productivity Indicators, OECD Statbase<sup>11</sup>

### What's driving the decline?

The reasons behind this decline are not entirely well understood, but commentators<sup>12</sup> have pointed to factors such as the expansion of the higher education system reducing the need for employers to train and/or increased efficiency in training investment. Less optimistic, but just as likely a contributing factor, is the shift towards business models and competitive strategies requiring lower levels of skills. Evidence from the latest Skills and Employment Survey<sup>13</sup> lends some weight behind this final explanation, highlighting a concerning fall in the generic high-level skills requirements of roles, as well as a fall in the learning and training times to become proficient in a job:

- From 1986 until 2012, there was steady growth in the proportion of roles that required degree-level qualifications and a fall in the proportion that required no qualifications; however, since 2012 the qualification requirements for roles have stagnated.
- The SES (1986 to 2017) provides an indication of how the generic skills requirements of roles have changed over time and point to a worrying fall in the use of high-level literacy and numeracy at work and a stagnation in social skills and self-planning skills, which *'indicate a slowdown in the demand for high level generic skills since 2012'*.



- Worryingly, the downward trend in qualification requirements and many high-level generic skills is mirrored by a downward movement, since 2006, in the learning and training times requirement of roles (that is, the length of time and the training required to become proficient), with the learning time to become proficient now below that observed in the mid-1980s.

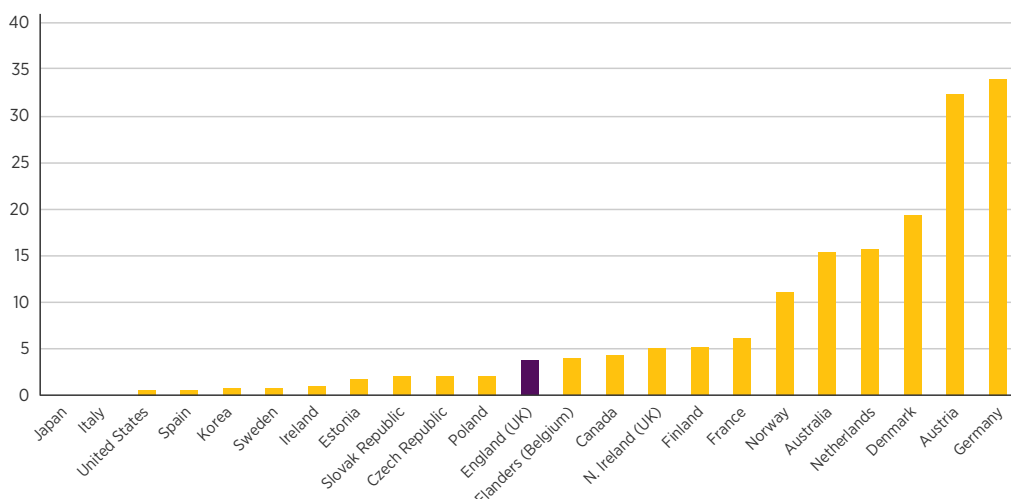
However, if a shift towards business models that require a lower level of skill is a likely driver behind the fall in training volume and investment, the solutions to tackling it lie outside the remit of traditional skills policy and instead sit within the broader context of economic development, business support, innovation policy and industrial strategy. It is also a complex area in which to intervene; for instance, the first step would need to focus on changing an organisation’s competitive and product market strategies, then how the organisation is designed to deliver these strategies, and then change how work is organised and jobs designed to fit, and then finally, put in place the training and development offer that supports all of this.

### 3 The government response – the apprenticeship levy

The UK Government recognised the need to address the fall in the volume, and level of investment, in employer training in the UK. In response, the apprenticeship levy was introduced in 2017 as a means of reversing *‘the long-term trend of employer underinvestment in training’* and improving productivity by boosting the quality and quantity of apprenticeships.<sup>14</sup> By shifting more of the cost to employers, the aim was to inspire them to either expand existing, or introduce new, apprenticeship programmes and help counteract the long-term decline in employer investment in training in the UK.

The Government justified the need for an apprentice levy, in particular, rather than a broader training levy, on the low levels of apprenticeship take-up by employers compared with other countries, as well as on the need to address skills gaps and shortages at intermediate/technical level.<sup>15</sup> As demonstrated by Figure 5, the UK does indeed have a low share of apprentices – as a proportion of all those in post-secondary education – compared with other countries.

**Figure 5: Current apprentices in programmes as a share of all students enrolled in upper-secondary and shorter post-secondary education (ISCED 3 and ISCED 4C), 16–65-year-olds (2012)**



Source: OECD (2016), Survey of Adult Skills (PIAAC) (Database 2012, 2015)<sup>16</sup>  
[www.oecd.org/skills/piaac/publicdataandanalysis/](http://www.oecd.org/skills/piaac/publicdataandanalysis/)

Starting in April 2017 all UK employers in the public and private sector with a pay bill of over £3 million have had to contribute to the apprenticeship levy (0.5% of their annual pay bill). It was estimated to raise a total of £2.6 billion in 2017/18, rising to £2.8 billion in 2019/20 (according to the OBR).

Employers who contribute to the levy are then able to sign up to a digital account to access funding to pay for apprenticeship training and assessment. Funds are entered into the digital accounts on a monthly basis, with a 10% top-up applied at the same time, so that for every £1, employers will have £1.10 to spend on apprenticeship training. Employers who are not liable for levy payments have also experienced changes in apprenticeship funding and are required to co-invest: the Government will contribute 95% of the cost of training and assessment with employers paying the remaining 5% (co-investment was initially set at 10%).<sup>17</sup>

Recognising longstanding issues with quality, following the Richards Review<sup>18</sup> the Government also embarked on a series of wide-ranging reforms to address quality concerns. These included: setting minimum standards on duration and off-the-job training; employer-led new apprenticeship standards; and the launch of a new body, the Institute for Apprenticeship and Technical Education (IFATE), to oversee the quality of the new system. However, despite these welcome reforms, commentators have argued that we still lag behind the best apprenticeship systems in Europe.<sup>19</sup>

**The Budget Statement in July 2015 set out the Government's rationale for the levy:**

*The most successful and productive economies in the world are committed to developing vocational skills. That is why the government has committed to significantly increase the quantity and quality of apprenticeships in England to 3 million starts this Parliament, putting control of funding in the hands of employers.*

*This goal will require funding from employers. In recognition of this, the government will introduce a levy on large UK employers to fund the new apprenticeships. This approach will reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014.*

*The levy will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual needs. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review.*

(HM Treasury 2015: para. 1.269–1.271)<sup>20</sup>

## 4 How effective are skills/training levies in raising employer investment in training?

Training levies are not a new concept; France, for instance, has had an apprenticeship tax in place since 1925, and they are also relatively widespread, with a review identifying levy mechanisms in over 60 countries.<sup>21</sup> However, they are not uniform in design and schemes vary considerably by:

- the recipient of funds, as well as who is targeted
- their coverage (that is, sector, region or universal)
- the collection method used
- whether the schemes are mandatory or voluntary
- whether the scheme is revenue-raising, levy exemption or levy grant, or cost reimbursement
- which types of training are eligible.

However, it is worthwhile noting that while levies are occasionally used to fund apprenticeships, in the vast majority of cases this is only a small part of their function.

The rationale for using a training levy also varies by country. Some countries justify levy schemes by citing market failures which result in firms under-providing training; given the mobility of labour, and therefore concerns over poaching, firms tend to not invest in general or transferable training, instead focusing on the provision of firm-specific skills. Others justify levying employer contributions on the basis that firms benefit from state investment in education and training through the provision of a well-trained and qualified pool of recruits.<sup>22</sup>

Despite the central role they play in many training systems, and the length for which they have been around as a policy instrument, there is very limited international evaluation evidence of the impact of levies on employer training behaviour. According to the most comprehensive, and oft cited, review by the World Bank, *'rigorous evaluations of the effectiveness of levy programs are extremely uncommon'*.<sup>23</sup> However, Dar et al<sup>24</sup> did manage to identify 13 schemes that had been evaluated, with varying levels of robustness, and found that:

- Some levy schemes have managed to increase the *volume* of training. France's levy exemption scheme and Singapore's Skills Development Fund led to an increase in the amount of training being undertaken. However, this outcome is not universal; for instance, Korea's levy exemption scheme, on introduction, led to a steep fall in the number of trainees.
- Levies may result in firms who, in the absence of a levy, would have invested more, reducing the amount they train to meet the minimum requirements for rebate or tax credit – described as a 'levelling effect'. Their review also found some evidence of firms, particularly those who trained less, organising training that did not meet their needs just to gain the rebate/credit.
- Levies are more effective when there are favourable economic conditions, as employer demand for training increases during a period of economic growth. The review cited that the success of Singapore's Skills Development Fund was related to the fact that the economy was growing strongly, and that skills policy was linked to economic development efforts.

- Levies tend to benefit firms and individuals unevenly. The review found that *'small and mid-sized employers have rarely benefited from payroll levies in any country for which we have available evidence'*. Higher-skilled/qualified individuals were also found to be more likely to benefit from levy schemes. The reasons for small firm non-participation varied, and included factors such as administration costs, that the training offered was not relevant to need, as well as low initial training rates amongst smaller employers.

The review also highlighted the importance of securing employer buy-in to the success of levy schemes. This was also recognised in a recent OECD report, which noted that training funds based on sector-specific or local levies are relatively more effective since they are typically negotiated as part of collective agreements and give employers more control over the fund; however, the success of such schemes relies on pre-existing strong tripartite relationships.<sup>25</sup> Interestingly, from a UK perspective, the OECD has also noted that *'employers tend to be more sceptical of universal levy schemes, often perceived by employers as a tax, and where companies have little control over how the money is used and spent'*.<sup>26</sup> While others<sup>27</sup> have gone further and argued that universal levies may be detrimental and actually erode employer investment in training.

## 5 What has been the impact of the apprenticeship levy so far?

The previous sections provided a clear rationale that additional investment is required in the skills system. Yet, as demonstrated in section 4, there is limited robust international evidence on the impact of employer levies on employer training behaviour: while some have managed to boost the volume of training, they don't always achieve the desired outcome, and there can be negative unintended consequences.

There are three potential ways that the apprenticeship levy, and associated apprenticeship reforms, could influence employer training behaviour:

- 1 Employers are incentivised by the levy to increase overall investment in apprenticeships, leading to an overall increase in employer training levels.
- 2 Employers write off the apprenticeship levy as a tax, leading to no overall change, or potentially a fall, in overall training levels.
- 3 Employers rebadge existing training activity into apprenticeships, leading to no overall increase in training activity (and possible inefficiencies).

This section looks at the impact the levy, alongside other apprenticeship reforms, has had so far on: apprenticeship uptake by employers; whether the programme is driving an overall increase in employer training; and considers if the reforms are driving improvements in apprenticeship quality.

### Is the apprenticeship levy increasing the volume of apprenticeships?

**Verdict: Not yet.** Apprenticeship starts have fallen considerably compared with the pre-levy figure. While there are emerging signs that starts are picking up again, it is likely that given the current trajectory, the Government's target of 3 million apprenticeship starts by 2020 will be missed.

One of the key objectives of the Government’s apprenticeship reforms was to drive up the volume of apprenticeships, in recognition of the UK’s gap in the provision of intermediate and technical skills. To this aim the Government introduced a challenging target of 3 million apprenticeship starts by 2020 and confirmed its commitment to this in their 2017 manifesto:

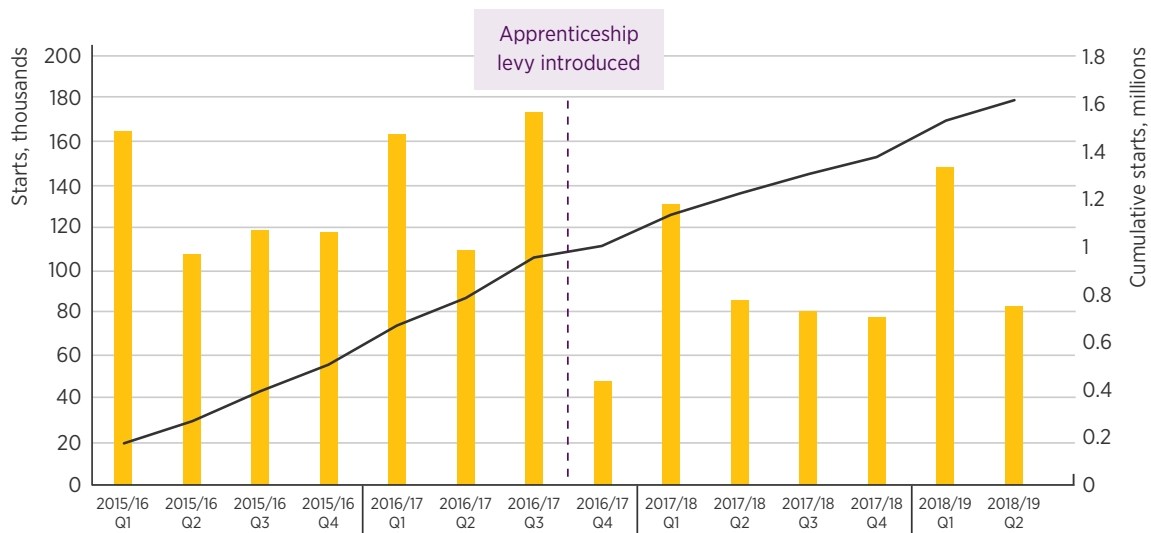
*‘We will deliver our commitment to create **3 million apprenticeships for young people** by 2020 and in doing so we will drive up the quality of apprenticeships to ensure they deliver the skills employers need.’<sup>28</sup>*

Yet, since the introduction of the apprenticeship levy, apprenticeship starts have fallen considerably, and there remain concerns that the current system is still not delivering effectively for young people.

Figure 6 shows quarterly apprenticeship starts (left axis) as well as cumulative starts (right axis) from the 2015/16 academic year to the first two quarters of 2018/19. There have been 231,000 apprenticeship starts reported in the first two quarters of the 2018/19 academic year (August 2018 – January 2019). This compares with 269,800 reported in the equivalent period in 2015/16 before the introduction of the levy – a fall of 14%.

While figures are still lower than pre-levy starts, this represents an improvement on previous periods, which recorded even steeper declines. For instance, annual data for 2017/18 compared with pre-levy data from 2015/16 shows a 26% fall in starts, with only 375,800 apprenticeship starts in 2017/18 compared with 509,400 for 2015/16.

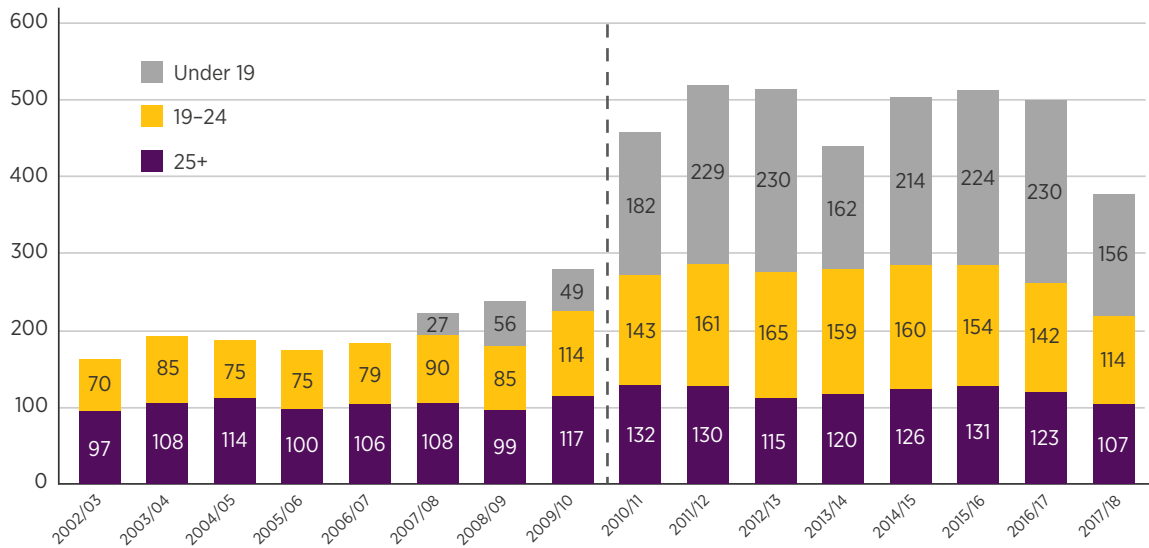
**Figure 6: Quarterly apprenticeship starts**



Source: Apprenticeship and levy statistics, Department for Education<sup>29</sup>

Figure 7 shows the age profile of apprentices since 2002/03 and emphasises that almost all pre-levy apprenticeship growth was driven by increases in the number of starts for the over-25s, except for 2013/14, where there was a large drop in the number of apprentices aged over 25, attributed to the Government’s attempts to make these apprentices pay for part of their apprenticeship. The number of younger apprentices – aged 19 and under – on the other hand, has remained relatively static over the period. It should also be noted that most apprenticeships (62%) go to existing employees<sup>30</sup> rather than new labour market entrants.

**Figure 7: Apprenticeship starts in England, by age since 2002/03 (thousands)**



Note: The dotted line denotes where changes have been made to how information on apprenticeships is collected. Data either side of the dotted lines are not directly comparable.  
 Source: Apprenticeship and levy statistics, Department for Education<sup>31</sup>

### Is the quality of apprenticeship training increasing?

**Verdict: Insufficient evidence.** The Government has pointed to the growth in higher and advanced apprenticeships as an indication of quality improvements. Yet, there remain serious concerns around narrow and overlapping apprenticeship standards and the quality of the off-the-job training being provided.

A key ambition of the apprenticeship levy, and associated reforms, is to boost the quality of apprenticeships. New employer-led standards have been introduced to ensure that apprenticeships meet employer need, and the Government introduced new minimum standards for duration and off-the-job training, to align apprenticeship provision with international standards.

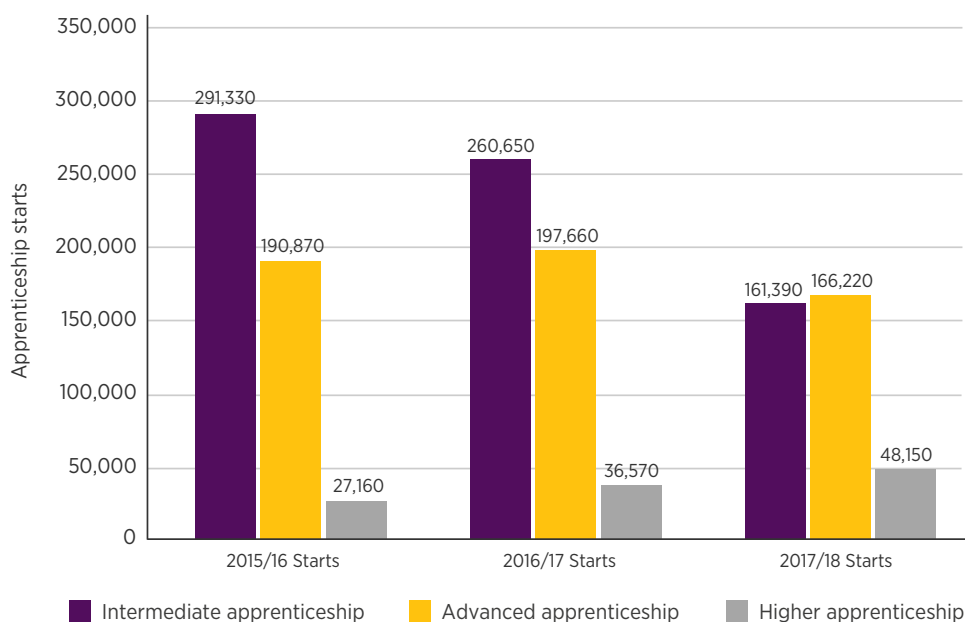
On balance, apprenticeship provision in England is still weighted towards intermediate/level 2. Of the 375,800 apprenticeship starts in 2017/18, 161,400 (43%) were at intermediate level (or Level 2, equivalent to GCSE level), 197,700 (44%) were at advanced level (Level 3, equivalent to A level) and 48,200 (13%) were higher-level apprenticeships (Level 4 and above). This means that we still lag considerably behind the best systems in Europe – such as Germany, Switzerland and Austria – where nearly all apprenticeships are at advanced or higher level.

However, recent policy reforms have started to shift provision to higher-level apprenticeships. Figure 8 shows annual apprenticeship starts by level for 2015/16, 2016/17 and 2017/18. This data shows that the biggest falls in apprenticeship starts have been at intermediate level, with a large decline of 129,900, or -45%, over the period 2015/16 and 2017/18. Advanced apprenticeship starts have also contracted over the same period; however, the fall has been less pronounced than that seen in intermediate apprenticeships, a decline of 24,650 (or -13%). In contrast, the number of starts at higher level (Level 4+) increased by 21,000 between 2015/16 and 2017/18, a growth rate of 77%.

The growth in higher-level apprenticeship has meant that despite the large overall fall in starts, the number of overall training hours expected has fallen by a much smaller amount. The average expected duration of an apprenticeship increased from 511 days in 2016/17 to 581 days in 2017/18, and the average associated expected off-the-job training hours have increased by 26.3% from 490 to 630 hours.<sup>32</sup> Yet, despite these improvements, the apprenticeship system still lags considerably behind the best international systems, where the vast majority of apprenticeships last for three years or more on average.

The shift towards more expensive apprenticeship standards has raised concerns regarding the long-term financial sustainability of the programme.<sup>33</sup> The National Audit Office has reported that despite employers only drawing down 9% (£191 million) of the funds available to them to pay for new apprenticeships, the average cost of training an apprentice on a standard apprenticeship is around double what was expected, making the programme likely to overspend in the future.

**Figure 8: Apprenticeship starts, by level, for academic years 2015/16, 2016/17 and 2017/18**



Source: Apprenticeship and levy statistics, Department for Education<sup>34</sup>

Despite a marked shift towards higher-level apprenticeships, several quality concerns remain. These include concerns relating to: the occupational breadth of new standards; the quality of training providers; and the proliferation of apprenticeship standards.

In terms of the standards themselves, it has been reported that too many are narrow and overlapping, restricting the extent to which apprentices gain transferable skills.<sup>35</sup> A report published last year suggests that almost 40% of new standards approved by the Government since 2012 would not meet the international<sup>36</sup> or historical definition of an apprenticeship.<sup>37</sup> Further concerns have been raised around the removal of the requirement for apprenticeships to include specified vocational qualifications, which may weaken the ability of apprentices to signal their learning to other employers.<sup>38</sup>

Other commentators<sup>39</sup> have also pointed to the proliferation of apprenticeship standards as an indicator of a lack of 'occupational breadth': as of May 2019 there are now 449



apprenticeship standards approved for delivery, with 150 in development. The National Audit Office has suggested that there might be as many as 1,600 standards in place by 2020;<sup>40</sup> this compares with just 200 apprenticeship occupations in Austria, 320 in Germany, 230 in Switzerland, and around 100 in Denmark.<sup>41</sup>

Alongside this there remain serious concerns about the quality of the off-the-job training provided by some apprenticeship providers. In 2017/18 Ofsted rated just 58% of the 113 established providers as good or outstanding for their apprenticeship training, although it should be noted that this represented an improvement in previous figures: in 2016/17, just 49% achieved a good or outstanding rating. For the remaining third of apprenticeship providers who were rated inadequate or requiring improvement, Ofsted found that: apprentices were not spending 20% of their time doing off-the-job training; apprenticeships were only accrediting existing skills; and prior learning was not reflected in planning apprentices' training.<sup>42</sup>

### Is the apprenticeship levy increasing employer investment in training?

**Verdict: Inconclusive.** The apprenticeship levy, in an ideal world, would provide a much-needed boost to skills investment in the workplace. However, this will only happen if it doesn't displace existing training effort. New survey evidence suggests that there may be a considerable level of dead weight, displacement and substitution of training occurring; however, as yet, there is insufficient evidence to estimate the scale of this at the present time.

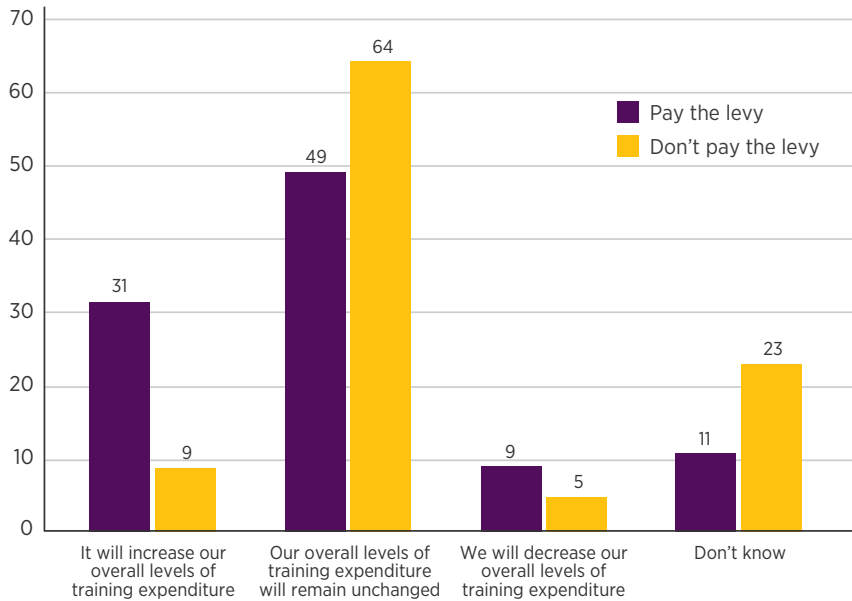
One of the key reasons for the introduction of the apprenticeship levy was to reverse the long-run decline in employer investment in training. However, the levy will only boost overall investment in training if it doesn't lead to dead weight, displacement or substitution, either through the Government subsidising training that would have happened anyway (dead weight), employers reducing expenditure on other forms of workplace training (displacement) and/or leading to employers rebadging existing training activity into apprenticeships (substitution). While there could still be some value from this, for instance providing employees with portable/transferable skills rather than company-specific, if it occurs widely it would not increase the overall volume of training.

Data from the CIPD's spring 2019 employer survey, shown in Figure 9, suggest that less than a third (31%) of levy-paying organisations believe that the levy will have the net effect of increasing the amount of training they offer in terms of number of staff receiving training. This represents a significant fall in the proportion from our last survey in 2017, where 45% reported that they expected overall training levels to increase.<sup>43</sup>

On the other hand, almost half (49%) of levy-paying employers believe that the policy will have no impact on overall training expenditure in their organisations, while 9% report that it will decrease overall levels of spending.



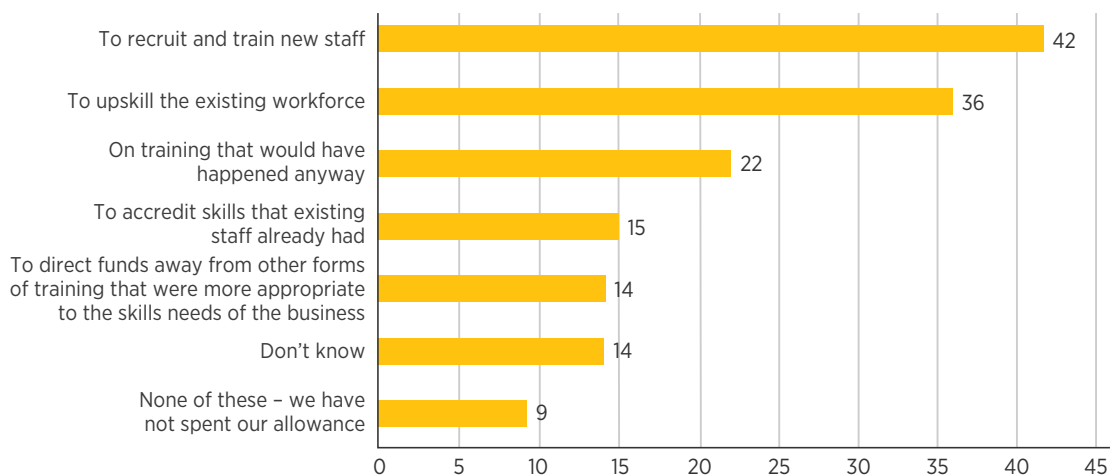
**Figure 9: Employers' perspective of impact of the levy on training levels (%)**



Base: employers who pay the levy (n=784); employers who don't pay the levy (n=769)<sup>44</sup>  
 Source: CIPD (2019)<sup>44</sup>

Levy-paying employers were also asked about how they had mainly used the levy; the responses are presented in Figure 10. Encouragingly, 42% said they had mostly used levy funding to recruit and train new staff, while over a third (36%) had used it to upskill their existing workforce. However, over a fifth (22%) stated that they had used it on training that would have happened anyway, while 15% stated that it had been used to accredit skills that existing employees already have, and 14% reported that it had directed funds away from other, more appropriate forms of training.

**Figure 10: Which of the following best describe how you have used the levy? (choose multiple) (%)**



Base: Spring 2018-19, employers who pay the levy (n=784) - multiple choice  
 Source: CIPD (2019)<sup>45</sup>

A number of recent reports<sup>47,48</sup> have also raised concerns that employers may not be responding in the intended way to the reforms. The NAO report *The Apprenticeships Programme* has reviewed the progress made on apprenticeships since 2016 and provided an assessment on whether the programme is providing value for money. The report highlighted that some employers were converting their graduate trainee and professional development programmes into apprenticeships, casting doubt on the added value to the economy, as such training would have been provided in the absence of government funding.

These findings echoed those of Ofsted's<sup>49</sup> earlier report, where they warned that they were *'concerned that in many cases, levy money is not being spent in the intended way. We have seen examples where existing graduate schemes are in essence being rebadged as apprenticeships.'* They also raised concerns that some providers were simply accrediting existing skills of apprentices and reported ongoing problems with the quality of teaching, the amount of time provided for off-the-job training, and issues of poor governance amongst some providers.

Another indicator of potential rebadging of existing training into apprenticeships is the widely reported rapid rise in the number of leadership and management apprenticeships.<sup>50</sup> In our previous report, *Assessing the Early Impact of the Apprenticeship Levy*,<sup>51</sup> we raised concerns regarding the use of apprenticeship funding for generic leadership and management training – our survey of employers found that more than a third were looking to use their levy pot in this way. Analysis of apprenticeship starts since the reforms were put into place clearly shows that our concerns were justified: the team leader/supervisor had the most starts of any standard for 2017/18, and together with four other management apprenticeships made up a total of 17% of all apprenticeship starts last year.

While the increase in higher-level apprenticeships is a welcome shift, extensive rebadging of graduate, professional and management training into apprenticeships risks both undermining the added value of the programme as well as access to apprenticeships for lower-skilled and younger individuals. Going forward it is clear that we need to have a serious rethink about the apprenticeship levy – so that it really does drive up overall investment in training – as well as the wider apprenticeship system, to ensure that both are delivering for the UK economy, providing value for money, and generating the outcomes that we need for individuals, organisations and society.

It should also be recognised that incentives to increase the proportion of apprentices – that is, the collection and disbursement of the levy fund – only affect a very small proportion of UK employers. Few small and medium-sized employers contribute to the apprenticeship levy and instead are required to co-invest with the Government to fund apprenticeships. This represents a significant change in incentives – in 2015, only just over a quarter (27%) of employers paid fees to a training provider for apprentices' training.<sup>52</sup> It has been argued that the move towards co-investment, alongside reforms to improve quality – in particular, the 20% off-the-job training requirements – has created barriers to SME engagement in the apprenticeship system.<sup>53</sup>

## 6 Recommendations for reforming the apprenticeship levy

The Government's rationale for introducing an apprenticeship levy – poor productivity, declining investment in training and the need to boost the numbers of high-quality apprenticeships – is clearly justified. Yet, while the Government's efforts to boost employer demand for training are welcome, the apprenticeship levy, alongside associated reforms to the system, alone is unlikely to have the desired effect.

While reforms are beginning to shift provision in a positive direction, there is evidence that changes to the system have led to a fall in the number of apprenticeship starts and emerging evidence of rebadging of training effort, which risks undermining the ambitions of the programme.

In addition, there are concerns over the financial sustainability of the apprenticeship programme, with Ofsted warning that the money raised from the levy could run out, as a result of employers choosing more expensive standards than expected. All of this points to a serious need to rethink the scope and purpose of the apprenticeship levy. To this end we suggest action is required on a number of fronts, including, but not limited to:

- 1 reforming the levy into a broader training levy
- 2 sustainable funding to address local skills supply and demand.

### **The case for a broader training levy**

The UK levy scheme stands out in comparison with other international examples in that it covers only a very small number of UK employers (around 2%) and is small in terms of scale, amounting to only 0.5% of payroll bills. The other way the UK stands out is that few countries have levies that are specifically designed to support apprenticeships, with a recent OECD report identifying only two other countries, France and Denmark.<sup>54</sup>

It should also be noted that the amount raised by the apprenticeship levy is considerably lower than the gap in employer contributions caused by the long-term decline in employer investment, and, as previously noted in this report, there are concerns that, given the current pattern of employer spending, it is likely that the programme as it stands will prove financially unsustainable.

To address these issues, we recommend creating a broader training levy. This would involve widening the scope of the levy to all employers with more than 50 staff, at a rate of 0.5% of payroll for small and medium-sized firms and 1% for those with 250 or more staff. The IPPR estimated that reforming the levy in this way would raise double the amount of the apprenticeship levy, an estimated £5 billion.<sup>55</sup>

Our research findings suggest that the levy has displaced budgets for other essential forms of skills development and that the reforms have led to employers rebadging existing training schemes as apprenticeships, creating inefficiencies. To tackle this, we are calling for a reformed system, which should include other accredited quality training, as well as apprenticeships, in the scope of the fund. The types of accredited training to attract funding should be allocated primarily on a strategic national basis in line with industrial strategy priorities. Previous CIPD research demonstrated employer support for a broader training levy, with 53% of employers who currently pay the levy reporting that they would prefer a training levy compared with just 17% who supported an apprenticeship levy.<sup>56</sup>

There are some advocates of the apprenticeship levy<sup>57</sup> who argue against the case for a broader training levy because it would not support the creation of more and better apprenticeships and would lead to significant dead weight as employers would draw down funding for training they would do anyway. However, the CIPD's research suggests that the apprenticeship levy has similar dead weight impact and creates other problems, such as the rebadging of existing training, and the displacement of other forms of training. The apprenticeship levy forces employers to consider apprenticeships as a way of delivering all forms of workplace training, and while apprenticeships are a very important and valuable form of training for many people and businesses, they are also rigid and expensive programmes that don't always meet employers' skills or workforce development demands. A training levy could also be used by employers to fund apprenticeships but would be much more flexible and more responsive to organisations' other skills needs.

We also recommend, as proposed by the IPPR, that the training fund should be top-sliced from contributions from the largest employers, to create a £1.1 billion regional skills fund to address local skills and demand-side challenges, such as interventions and management and leadership initiatives to help boost workforce productivity. This would help address demand-side weaknesses, such as too many businesses operating low-road business models, and help boost the overall demand for, and use of, skills in England's regions. It would also provide a sustainable funding source to strengthen local capacity, which we have previously identified as a significant barrier to the ability of Local Enterprise Partnerships to address both skills supply and demand challenges.<sup>58</sup>

Alongside investment at the local level there is a need for action at national and sectoral level too. Almost every other country sees the need to organise employers around skills, work and economic development. Without collective organisation to support skills forecasting, co-production, and efforts to deliver economic development/business improvement and productivity improvement, most policies in these areas are doomed to operate sub-optimally.

In the case of apprenticeships, for instance, we have previously argued that issues around quality are compounded in the UK, and in particular in England, by the lack of an institutional framework and industry-led institutions that can support collective commitment to skills and apprenticeships.<sup>59</sup> An increasingly employer-led system, in this context, means that demand is often weak and poorly articulated and is driven by the needs of individual employers rather than addressing sector-wide skills gaps/shortages. There is a clear need to develop strong institutions to better articulate demand and shape provision. Our next report, which will be available in autumn 2019, will set out a blueprint for the future of the skills system.

Summary of recommendations:

- Reform the levy into a broader skills and training levy, and include in scope other forms of accredited training, as well as apprenticeships, aligned to industrial sector priorities.
- Widen the scope of the levy to include all employers with over 50 staff to raise additional investment.
- Top-slice the contributions to the fund, from the largest employers, to create a regional skills fund to provide long-term sustainable funding to address local weakness in skills supply and demand-side failings.

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# CIPD

Chartered Institute of Personnel and Development  
151 The Broadway London SW19 1JQ United Kingdom  
**T** +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201  
**E** [cipd@cipd.co.uk](mailto:cipd@cipd.co.uk) **W** [cipd.co.uk](http://cipd.co.uk)

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