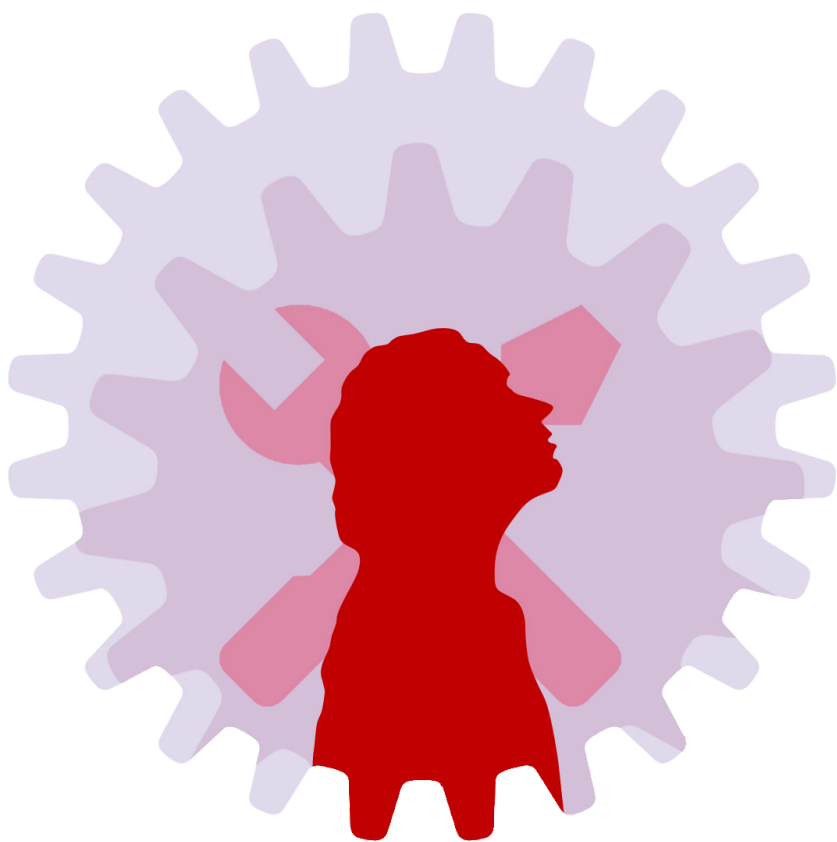


Apprenticeships

Proposals for a Labour government



Industrial Communities **Alliance**



Summary

If a Labour government is to deliver the highest sustained growth in the G7, a robust apprenticeship system is vital.

The present apprenticeship system is flawed. It disincentivises businesses, limits opportunities, lacks capacity and has an unacceptably high drop-out rate. These failings are especially damaging in Britain's older industrial areas, where the need for apprentice-level skills is greatest.

Reforms are needed:

- *Place apprenticeships and vocational training on an equal footing with academic qualifications*
- *Ensure careers guidance and work experience offers an understanding of apprenticeship opportunities*
- *Remodel the Apprenticeship Levy as a skills fund to support the upskilling of existing employees*
- *Outline a clear, robust and rigorously enforced definition of an apprenticeship*
- *Deploy more of the funds so that the increased demand created by the flexible levy can be met*
- *Abolish the pitifully low rate for apprenticeships in the National Minimum Wage*
- *Establish a national partnership bringing together employers, unions and government*

The UK's skill shortage

A robust apprenticeship system is vital to UK economic growth. An effective training system is especially important in Britain's older industrial areas, where the economy is often weakest and the need for apprentice-level skills greatest.

The output of any economy, local or national, depends on how many people are employed and how much they each produce. Other things being equal, a more highly skilled workforce is a more productive workforce.

The expansion of higher education in recent decades has squeezed the share of young people taking up apprenticeships and other forms of on-the-job training. This has led to a notable skills shortage and a fundamental imbalance between the skills of the UK workforce and the jobs being created.

At present, around one-in-eight UK workers are employed in positions for which they are overqualified. But more than twice as many work in positions for which they are underqualified¹. This shortfall has led to a reliance on migrant labour to fill skills shortages – hardly a ringing endorsement of the UK's training systems.

The economy of **older industrial Britain**, more than anywhere else in the country, is reliant on a well-functioning apprenticeship system.

Britain's older industrial areas – mainly though not exclusively in the North, Midlands, Scotland, and Wales – make up a substantial portion of the country. They were once at the heart of the industrial revolution but over the years they have been hit hard by job losses and in some cases the disappearance of the industries that once underpinned their prosperity.

¹ Industrial Strategy Council (2019) *UK Skills Mismatch 2030*, Research Paper.

Nevertheless, this part of Britain remains '*most-industrial, not post-industrial*':

- In Britain's older industrial towns, the proportion of jobs in manufacturing, energy and water is double the proportion in the main regional cities².
- In the former coalfields, more than half of all employed residents still work in manual jobs³.

Jobs in industry and manual jobs more generally are more likely to require skills learned through apprenticeships rather than university.

Since 2017, all employers with an annual wage bill of over £3m have been required to pay the **Apprenticeship Levy**. This is a tax, currently levied at 0.5 per cent of the employer's payroll. However, unlike other taxes the employer can then draw down this money from government to pay for apprenticeships. After 24 months any unspent funds are recycled via the Department for Education to pay for apprenticeships in small and medium-sized firms.

Apprenticeships must last at least 12 months, although some may take up to five years. Apprentices are legally entitled to a salary of at least the national apprentice minimum wage and holiday pay.

In the devolved nations, the Apprenticeship Levy works differently. Here the funding is devolved via the Barnett formula and responsibility for apprenticeship spending lies with the devolved governments, which can also choose to dedicate additional funding to apprenticeships.

² Industrial Communities Alliance (2024) *More Jobs, Better Jobs, Closer to Home*

³ S. Fothergill, T. Gore and D. Leather (2024) *State of the Coalfields 2024*, CRESR, Sheffield Hallam University

Despite the notion of apprenticeships remaining popular, there is a consensus the current system is failing.

- More than half of all 'apprenticeships' in fact appear to be training for existing employees, rebadged to gain access to funds
- As a result, the over-25s now make up double the number of under-19s starting apprenticeships
- The amount raised by the Apprenticeship Levy is starting to far outstrip the amount used to fund apprenticeships – an excess of £700m in 2023/24, providing the Treasury with an unwarranted cash cow
- The most recent completion rate for apprenticeships in England is only 56 per cent – a drop-out rate of almost one-in-two that represents an appallingly poor return on investment
- One reason for the high drop-out rate is the low rate of pay for many apprentices
- The underfunding of courses, resulting from the focus on university education, has led to a shortage of high-quality technical institutions

Taken together, these flaws amount to an apprenticeship system that:

- **Disincentivises business**
- **Limits opportunities for young people**
- **Lacks capacity to train enough workers**
- **Undermines economic growth.**

Proposals for a Labour government

PROPOSAL 1: ***Vocation, Vocation, Vocation***

Place apprenticeships and vocational training on an equal footing with academic qualifications

Vocational routes have in recent times become viewed as a fallback for those who do not go on to university. The focus on encouraging young people to pursue higher education means that too few have looked carefully at the alternatives and the result is a trickle of young people into vocational training and a skill shortage in many occupations.

What's more, the old promise that doing well at school and getting a degree guarantees a well-paid job no longer holds true.

Businesses, training providers and trade unions are increasingly vocal about the need to place greater emphasis on alternatives to academic qualifications.

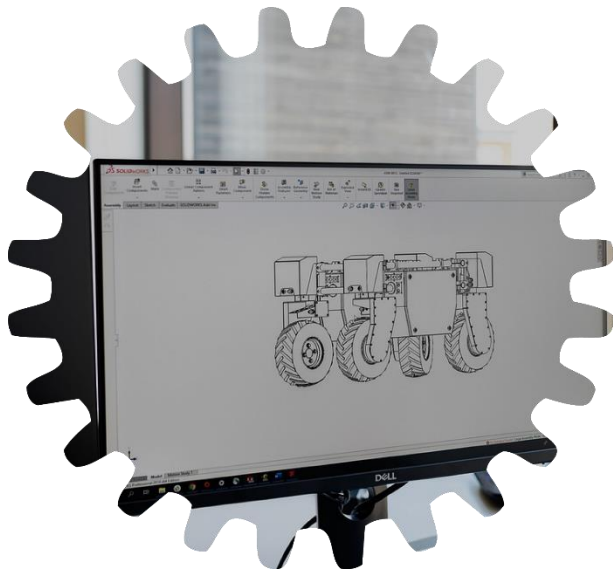
What is required is a cultural shift. Apprenticeships, and skills training more generally beyond the university sector, should no longer be seen as 'second-best'. It's what the economy needs. It's what Britain's older industrial areas need. And it's what can deliver meaningful and properly rewarded employment for the apprentices and trainees themselves.

For a cultural shift to happen, there needs to be a fundamental change in priorities:

- Schools need to be driven less by purely academic attainment and offer training in practical skills as well. The collapse in the number of students taking subjects such as design and technology at GCSE – a fall of nearly 70 per cent in the last decade – is particularly concerning.
- The FE sector needs to be better funded and stop aspiring to move quite so many on to university.
- Employers need to take greater responsibility for training up their workforce rather than poaching skilled workers that are already out there.

At the highest level, ministers need to signal that the era of more and more graduates is over, and that a wider range of high-quality skills and training is now the priority.

In short, Britain now needs a dual-track education system that firmly places apprenticeships and skills training on a par with academia.



PROPOSAL 2: *Careers guidance*

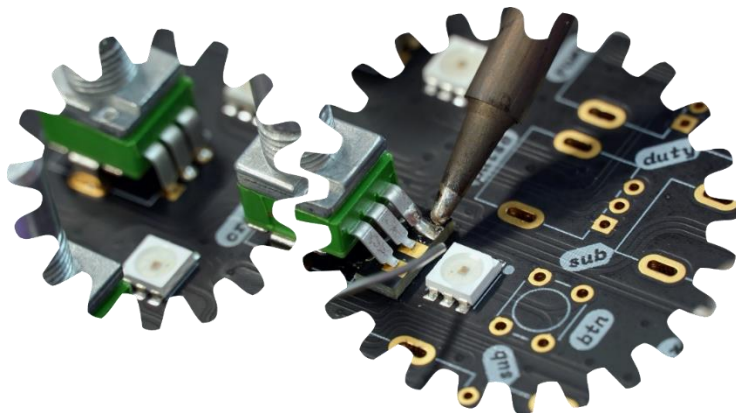
Ensure careers guidance and work experience offers an understanding of apprenticeship opportunities

Reasserting the value of apprenticeships must be driven by schools. Students, teachers and parents need to be aware of the range of apprenticeship opportunities as well as university options.

At the present time, careers guidance is strongly weighted towards providing information on universities over advice on apprenticeships, and students are often unaware of the vocational opportunities available.

Labour's aspiration to deliver professional careers advice and to provide encounters with employers during secondary school is an essential step. Work experience helps school leavers have an awareness of a wide range of job types and career opportunities.

To help create the cultural shift that's needed, advice to students and school-leavers should place as much emphasis on apprenticeships and vocational training as on academic routes.



PROPOSAL 3: *The Apprenticeship Levy*

Remodel the Apprenticeship Levy as a skills fund to support the upskilling of existing employees

It's widely recognised that the present funding model is not fit for purpose. The use-it-or-lose-it nature of the Apprenticeship Levy means that instead of creating new apprenticeship roles much of the funding either goes unspent – and viewed by businesses as an additional tax – or directed toward 'apprenticeships' that are in fact professional development for existing staff.

To close the skills gap and develop the talent required it is essential for workers to retrain and upskill to enable them to keep pace with changing needs and technologies. The Levy should be properly structured to enable employers to use funds for the development and training of existing staff. This is already the case in Scotland.

This would formalise what to a large extent is already happening. However, it wouldn't increase the flow of apprenticeship places for school-leavers. The principle behind Labour's proposed *Growth and Skills Levy*, by which contributions would be divided 50:50 between apprenticeship and non-apprenticeship training, is therefore essential.

Remodelling the Levy as a flexible skills fund recognises the importance of providing skills training to existing employees. Ringfencing part of the Levy for newly-created apprenticeship roles would protect existing provision and ensure that apprenticeships are used for new employees as well.

PROPOSAL 4: *Clarity about apprenticeships*

Outline a clear, robust and rigorously enforced definition of an apprenticeship

Historically, apprenticeships were regarded as an aspirational career path. However, in recent decades they have become associated in the eyes of many with a lower standard of training and the badge of quality has been lost.

If apprenticeships are to be taken seriously by young people, their parents and future employers, the current practice of allowing such a wide range of training courses and professional development to be labelled as an ‘apprenticeship’ is untenable.

Transforming the Apprenticeship Levy into a flexible Growth and Skills Levy presents an ideal opportunity to clarify what can – and therefore what cannot – be classed as an apprenticeship. The new definition needs to be one that is widely understood and can be applied robustly to existing and new apprenticeships.

The principle that for training to constitute an apprenticeship *‘there must be a job and the job role must be new’* was outlined a decade ago in the Richard Review⁴. This position is supported by training providers, think tanks and employers’ associations.

There are recognised standards, such as those set out by the International Labour Organisation, against which UK apprenticeships could be benchmarked as a mark of quality.

⁴ D. Richard (2012) *The Richard Review of Apprenticeships*, Department for Business, Innovation and Skills, London.

PROPOSAL 5: *Deploy more of the Levy*

Deploy more of the funds so that the increased demand created by the flexible levy can be met

Labour's plans to allow the Apprenticeship Levy to be used more flexibly are welcome. But under the present system, apprenticeships in small and medium sized businesses are funded by left-over funds from larger levy-payers.

A natural consequence of enabling levy-payers to use their contributions for a wider range of training would be a reduction in the amount that goes unspent and therefore be available for use by SMEs.

For the first few years the Levy was in place the total amount spent, including the money recycled to SMEs and the funding going to the devolved administrations, roughly matched the amount collected from employers. This is no longer the case. The Office for Budget Responsibility estimates that in 2023-24 the amount raised by the Apprenticeship Levy exceeded the amount spent by £727m, and the figure has been rising year by year.

Rather than simply being a boon to the Treasury this money – which is after all intended to fund training – should be used to ensure that the volume of SME apprenticeships is not limited and that smaller businesses too can take advantage of flexible skills training for their existing employees.

PROPOSAL 6: *Fair pay for apprentices*

Abolish the pitifully low rate for apprenticeships in the National Minimum Wage

To raise the standing of apprenticeships and increase completion rates, talk of their value needs to be matched by fair pay.

There has always been an age-related element in the National Minimum Wage: 18-20 year olds are entitled to a lower hourly rate, and under-18s even less. Since 2010 there has also been a lower rate for apprentices.

In April 2024, the minimum wage for employees aged 21 and over was raised to £11.44 an hour and for 18-20 year olds it was set at £8.60. For apprentices aged under 19, or aged 19 or over in the first year of their apprenticeship, the minimum wage was set at just £6.40 an hour.

Small wonder, perhaps, that so many young people drop out of apprenticeships to take up better-paid jobs elsewhere.

Moreover, the separate and lower minimum wage for apprenticeships helps perpetuate illegally low rates of pay when through ignorance, ineptitude or greed employers fail to move up apprentices to the correct rate of pay after completing their first year and/or turning 19.

It has been repeatedly reported that low pay is a barrier to young people applying for opportunities, and while many apprentices are paid more than the minimum wage the existence of a lower rate tarnishes the apprenticeship brand.

PROPOSAL 7: *A national partnership*

Establish a national partnership bringing together employers, unions and government

In most advanced economies, the roles of government, employers and trade unions are intertwined when it comes to policy on apprenticeships and training. These constructive relationships also bring to bear professional expertise, greatly benefiting the quality and stability of the skills system.

However, the UK presently lacks the institutional partnerships to govern skills effectively. This is a major missed opportunity. Across a range of players, there is recognition that there has been a lack of direction and consistency in policy making.

Labour's proposal to establish a new expert body, *Skills England*, "to oversee the national effort to meet the skills needs of the coming decade across all the regions" is welcome. Skills policy is devolved in Scotland, Wales and Northern Ireland, but the principle is just as applicable in the devolved nations.

A national partnership of this kind wouldn't usurp the powers of others, such as regulators and the devolved governments. But it has the potential to become a focal point for developing a shared understanding of the labour market and training needs, and to deliver a clear plan for the skills needed in future decades.





Industrial Communities Alliance

The Industrial Communities Alliance is the all-party association representing local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

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