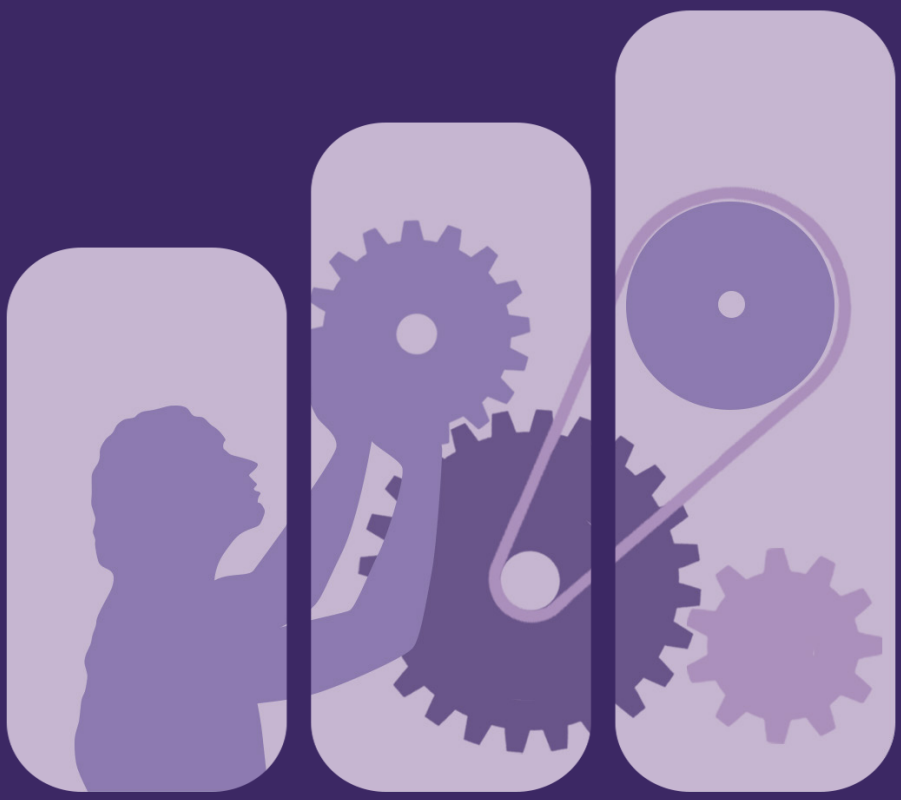
Apprenticeships

NEETs and the £700m Treasury rake-off



Industrial Communities **Alliance**

APPRENTICESHIPS

NEETs and the £700m Treasury rake-off

- The Treasury presently collects £700m a year more from the Apprenticeship Levy on businesses than it spends on apprenticeships.

- Yet almost a million 16-24 year olds are NEETs (not in education, employment or training).

- And it's the less prosperous parts of the country – especially older industrial areas – that have the highest risk of NEETs.

- Meanwhile the UK faces an acute shortage of skilled workers.

- If the Treasury relinquished its rake-off from the Levy it would be enough to fund an additional 85,000 apprenticeship starts every year.

- That's an average of 130 additional apprenticeship starts each year in every parliamentary constituency.


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An avoidable shambles

Every year, the Treasury pockets hundreds of millions of pounds from the Apprenticeship Levy that it doesn't allocate to fund apprenticeships.

Since 2020, the Treasury has raked off a cumulative total of almost £3.5bn.

This is **bad news for the UK economy** because the money that could be spent on apprenticeships and skills would address skill shortages and help raise output and productivity.

This is **bad news for Britain's older industrial areas**, which include many of the less prosperous parts of the country, because these places generally have a higher share of manual jobs and are more reliant on the skills learned through apprenticeships.

Above all this is **bad news for young people** who would benefit from the opportunities apprenticeships offer. Nearly a million young people are not in education, employment or training (NEET).

Multiple factors underpin why a young person might become NEET. The Milburn report[1] was however quite clear on one point:

> "*The geography of where young people are most likely to be NEET maps onto the geography of labour market weakness with an almost perfect symmetry.*"

Addressing NEETs, boosting the UK's economy and delivering good growth in every postcode requires the money collected to fund apprenticeships and training to be spent on these activities – not pocketed by the Treasury.

[1] *Young People and Work*, the interim report of an inquiry led by former Secretary of State Alan Milburn, June 2026, para.45.

The UK's skills shortage

Britain is facing a skills shortage. This is not a recent problem but one that has been growing over the years.

The expansion of higher education and emphasis on university degrees over other qualifications has led to a fundamental imbalance between the skills of the UK workforce and the jobs being created.

A 2024 OECD study[2] found that more than one in three graduates are overqualified for the job they do, yet firms are simultaneously struggling to fill shortfalls in technical and vocational skills.

In response, the UK Governments has begun to signal a shift away from the era of more and more graduates, to be replaced by a new emphasis on apprenticeships, technical education and vocational courses. Indeed, only a week after becoming Prime Minister, Andy Burnham declared:

> *"From today, Britain will value the hard hat as much as the graduation cap."*

Making good this ambition would have substantial benefits. It would:

- Deliver the practical skills that many businesses need
- Boost productivity
- Tackle youth unemployment
- Help narrow the gaps in prosperity between local economies
- Expand the economy and increase tax revenue

But to deliver more apprenticeships, more technical training and more vocational courses requires funding. The obvious source is the money already collected for this purpose.

[2] OECD (2024) *Do Adults Have the Skills They Need to Thrive in a Changing World?*

The Treasury's rake-off

The Treasury's rake-off is the difference between what it collects from businesses via the Apprenticeship Levy (recently renamed the *Growth and Skills Levy*) and how much it actually spends on apprenticeships.

Since 2017, apprenticeships across the UK have been funded by a 0.5% levy on the wage bill of employers with a total payroll of over £3m. Public and private organisations, including local authorities, all pay the Levy if their payroll is above the threshold. In 2025/26 the Levy collected £4,391m[3].

Unlike other taxes, employers are able to draw down their contributions – in this case to pay for apprenticeships or (under the new Growth and Skills Levy) to pay for a wider range of training. A portion of what doesn't get spent by larger employers is also recycled to pay for apprenticeships in small and medium-sized firms who don't pay the Levy. Firms pay the apprentice's wages; government funding meets the costs of the training.

In England, the budget line for apprenticeships sat with the Department for Education (DfE) until September 2025, when it was transferred to the Department for Work and Pensions (DWP). In 2025/26, the departmental budget for apprenticeships in England was £3.1bn.

In Scotland, Wales and Northern Ireland, the delivery of apprenticeships is a devolved responsibility. Funding raised through the Levy is allocated to the devolved governments via the Barnett formula as part of the block grant, to be spent as they see fit (and not necessarily on apprenticeships). The amount added to the block grant is calculated as a percentage of the apprenticeship budget for England. In 2025/26 that meant £300m for Scotland, £170m for Wales and £100m for Northern Ireland

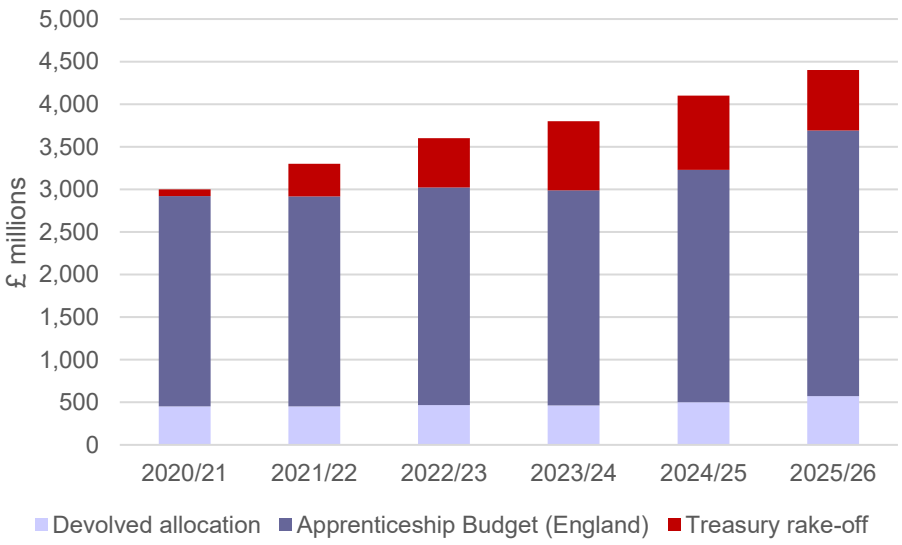
Adding everything up, that meant in 2025/26 the Treasury allocated a total of £3,690m to apprenticeships – £700m short of what it collected via the Levy.

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[3] Source: HMRC (October 2026).

For the first few years after the Apprenticeship Levy was introduced, the amount allocated to the DfE apprenticeship budget and the devolved administrations broadly corresponded to the revenue raised by the Levy. However, more recently the amount collected from employers has begun to significantly outstrip the amount being spent on apprenticeships.

- In 2020/21, the amount collected by the Apprenticeship Levy exceeded the combined apprenticeship allocations by just £80m.
- In 2024/25, the excess of revenue over apprenticeship spending reached £870m.
- In 2025/26, rising apprenticeship numbers meant that the Treasury's rake-off was reduced but it still remained £700m.



Sources: DfE and OBR data, ICA calculations

In total, since 2020 almost £3.5bn has been raked off from the Apprenticeship Levy by the Treasury.

The case for releasing the money

Let's be clear: the money from the Apprenticeship Levy that the Treasury fails to spend on apprenticeships doesn't just sit in coffers accumulating interest. It's spent on other things, not necessarily at all related to apprenticeships, training, education or indeed the economy and jobs.

There is a strong case, however, for arguing that the money supposedly collected for apprenticeships should be spent on apprenticeships:

- **It's what businesses would expect**. The Levy is a substantial charge on businesses for a purpose they understand and from which they would expect to benefit through an improved supply of skilled labour.

- **It's what the economy needs.** A skills shortage can be a bottleneck to firms' growth and a drag on the productivity increases that underpin rising living standards.

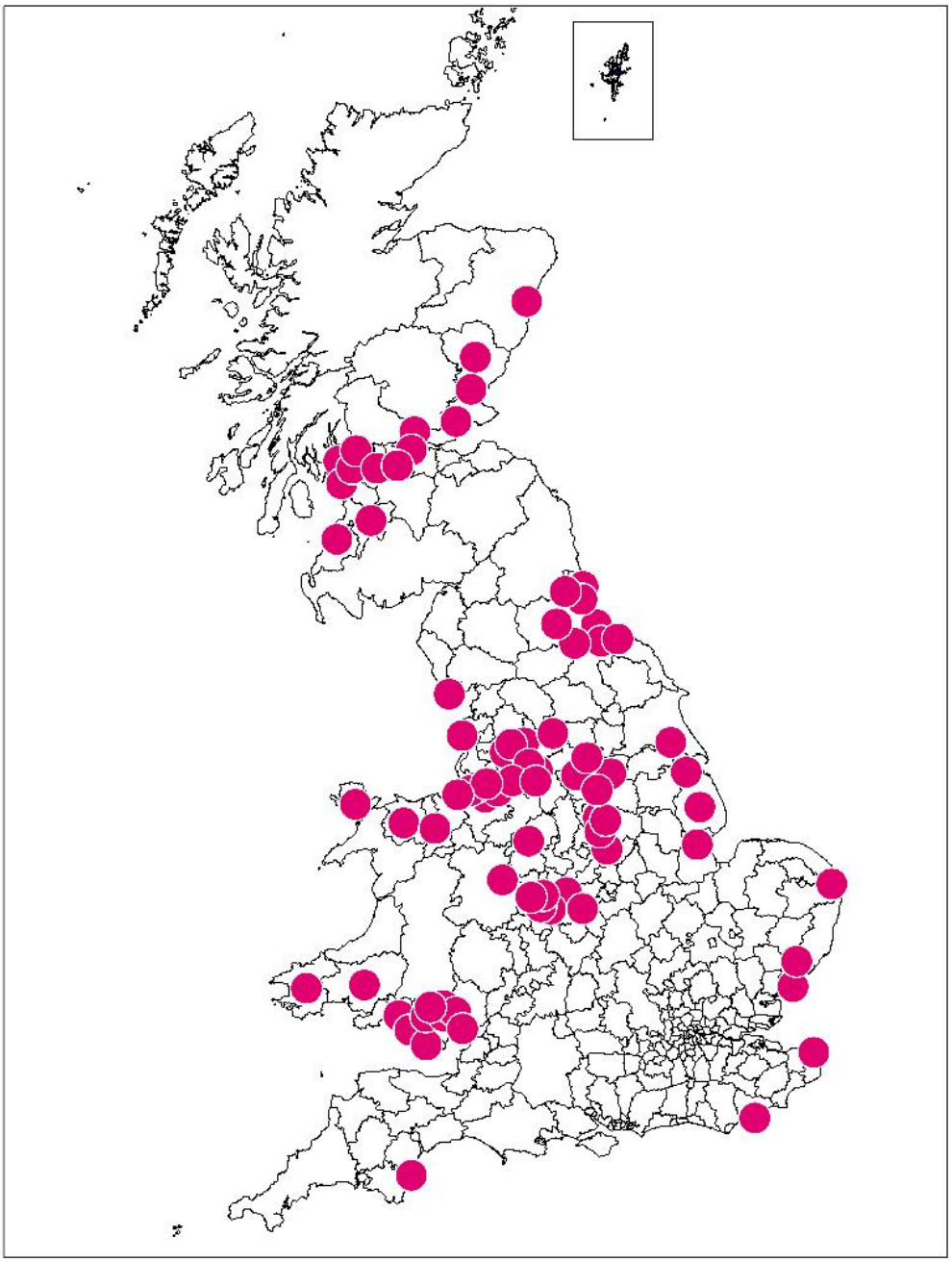
- **It would help integrate young people into the workforce.** NEETs are arguably the single largest group that would stand to benefit from an expansion of apprenticeship opportunities.

- **It would be particularly valuable in less prosperous parts of the country.** The geography of NEETs and the structure of local economies indicates that it's older industrial areas that would have most to gain from extra spending on apprenticeships.

- **It would help deliver UK Government targets.** Unless the government spends more on training for the construction industry, for example, it's hard to see how it will hit its housebuilding targets.

- **It would help curb international migration.** If Britain trains more of its own skilled workers there will be less need to rely on workers from abroad to plug the gaps.

Local authorities with highest risk of NEETs



Sources: Youth Futures Foundation, DWP, ONS

Tackling NEETs

Young people not in education, employment or training (NEETs) are a prime target for the expansion of apprenticeships.

Across the UK as a whole, almost a million 16-24 year olds are NEETs. The Milburn report noted that they are more likely to be found in some places than others, with the weakest local economies most likely to have the highest rates.

The map opposite shows the local authorities across England, Scotland and Wales with the highest risk of NEETs[4].

There is a distinctive pattern here which anyone familiar with Britain's geography will recognise. It is the older industrial areas of the North, Midlands, Scotland and Wales, plus a handful of disadvantaged seaside towns, that are most likely to have the highest share of young people not in education, employment or training.

These older industrial areas, plus a number of seaside towns, would benefit most from an expansion of apprenticeship provision.

Whilst it would be wrong to characterise present-day apprenticeships as being only about providing trained manual workers – welders, builders, engineers and the like – it remains the case that these types of manual skills and the industries that depend on them are more likely to be supplied by apprenticeships than by university degrees.

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[4] The map combines two datasets. In England, the figures come from a study commissioned by the Youth Futures Foundation drawing on indicators such as child poverty, health and school outcomes, and the map shows the 50 local authorities ranking highest on an 'at risk NEET' index. In Scotland and Wales, the map shows the local authorities where in August 2026 the share of 15-24 year olds claiming Universal Credit with a requirement to look for work exceeded 4%. Because of limited sample sizes, the UK Government's Labour Force Survey cannot directly measure NEET rates for small areas such as local authorities.

Britain's older industrial areas have an industrial and occupational mix that points strongly towards the merits of apprenticeships:

- In large parts of the North and Midlands, 10-15% of residents in employment work in skilled trades occupations, compared to just 5-8% in most of London[5].

- In Britain's older industrial towns, the proportion of jobs in manufacturing, energy and water is double the proportion in the main regional cities[6].

- In the former coalfields, more than half of all employed residents still work in manual jobs[7].

The economy of these places, more than anywhere else, is reliant on a well-functioning and well-funded apprenticeship system. And it is in these places that NEETs are concentrated.

It is fortunate that in England apprenticeship starts are already skewed towards the industrial towns of the North and Midlands, where official figures for 2024/25 show that there were typically 1,000-1,200 apprenticeship starts per 100,000 adults of working age compared to just 500-600 in London and an England average of 960[8]. If apprenticeship funding were to be expanded by the release of the Treasury's rake off, it is reasonable to expect this skew to continue.

In Scotland and Wales there is a similar skew in the rate of apprenticeship starts towards older industrial areas, for example the Welsh Valleys. In Wales the overall rate – 970 per 100,000[9] – is roughly the same as in England but in Scotland it is a little lower – 880 per 100,000[10]. Education and training are devolved matters, and the apprenticeship systems differ in detail across the UK nations.

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[5] Source: Census of Population
[6] Source: ONS Business Register and Employment Survey
[7] Source: *State of the Coalfields 2024*, CRESR, Sheffield Hallam University
[8] Source: Department for Education
[9] Source: Welsh Government
[10] Source: Skills Development Scotland (modern apprenticeships, foundation apprenticeships and graduate apprenticeships)

What would the money buy?

Releasing the Treasury's rake-off would fund huge numbers of additional apprenticeships.

In the most recent year for which outturn figures are available (2024/25), just over £2.7bn of government spending in England funded 354,000 apprenticeship starts – an average spend per apprentice of £7,700. Assuming £8,000 per apprentice as a more up to date figure and using the Treasury's £700m rake-off in 2025-26 as a guide, releasing the whole of the rake-off would fund **85-90,000 additional starts every year**, or just over a 20% increase.

That's an average of 130 additional starts in every parliamentary constituency across the UK.

If release of the Treasury's rake-off led to a flat-rate 20% increase in the number of starts across the country, **the additional number of starts each year in England's combined authorities would be**:

Greater Manchester	5,900
West Midlands	5,500
West Yorkshire	5,000
East Midlands	4,600
North East	4.400
Liverpool City Region	3,200
South Yorkshire	2,800
York & North Yorkshire	2,200
West of England	1,800
Tees Valley	1,600
Cambridge & Peterborough	1,600

Source: based on DfE data on apprenticeship starts in 2024-25

In Wales there would be 3,800 additional apprenticeship starts each year. In Scotland there would be 6,200.

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Of course, expanding the number of available apprenticeships begs two questions: will there be enough firms willing to take on trainees, and will there be enough young people available and willing to take up these opportunities?

The answer in both cases is clearly 'yes'. There is a large unmet demand for apprenticeship training and there are mechanism being put in place to flush out more businesses willing to take people on.

In his speech to the 2026 Labour Party Conference, for example, the Chancellor John Healey announced the creation of local apprenticeship teams, "acting like football scouts", to help firms that have never taken on trainees to do so, and to match out-of-work young people to opportunities. This proposal is to be funded by £100m in savings from DWP.

In recent years, too, the apprenticeship budget has been either fully-spent or over-spent. In 2022/23 the Department for Education spent 99% of its allocated apprenticeship budget and in the following two years, despite funding increases, the entire budget was used up and the government was forced to top up the budget line.

This is clear evidence that businesses are willing to take on apprentices if the funding is made available. The Treasury's traditional argument that apprenticeship spending is based on demand doesn't stack up. It is a system that has hitherto been financially constrained.

The UK Government's rhetoric about youth employment opportunities, support for businesses, reindustrialisation and a new emphasis on vocational training is encouraging. A key challenge is to deliver an apprenticeship system that is fit for purpose, and an end to the Treasury's rake-off would be a major step in the right direction,



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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