



CEP POLICY ANALYSIS

Apprenticeship policy in England: Increasing skills versus boosting young people's job prospects

- There is cross-party consensus in Britain that increasing the number of apprenticeships is an important way of dealing with the country's deficit in intermediate skills. In addition to raising skill levels, there has been a further aim of apprenticeship policy: to improve the job prospects of young people (which have been deteriorating since the mid-2000s). But although these two policy aims should be mutually reinforcing, they have often been in conflict.
- Successive British governments have developed a dysfunctional funding and delivery model for apprenticeship. Government agencies and private providers have been used to design apprenticeship programmes and procure places, and a substantial proportion of government funding for apprenticeship training is swallowed up by the processes required to account for it.
- This model deters employers and stifles the growth of apprenticeships. Fewer than one in ten employers in England train apprentices compared with a quarter or more in countries where the apprenticeship system works well – for example, Germany, Austria and Switzerland.
- Compared with many other European countries, apprenticeships in England are relatively highly paid and, unsurprisingly, in generally low demand by employers. They are also of shorter duration than most continental European apprenticeships – one year rather than three – and they are more geared towards adults.
- The Labour government's policies expanded apprenticeships to lower skill groups and enacted legislation to provide an entitlement to apprenticeship for all qualified young people who wanted one.
- Since it came to power in 2010, the coalition government has focused on expanding adult apprenticeships and dropping the entitlement to an apprenticeship offer to the young. This apprenticeship policy has created an unprecedented number of adult (over-25) apprenticeships.
- Adults' share of apprenticeship places is now larger than that of the under-19s. This is likely to weaken the ability of apprenticeships to improve the failing youth labour market.
- Despite the commitment of substantial public resources over many years to apprentice training, far too few young people benefit and not enough high value skills have been developed. The coalition government should develop a simpler model that prioritises high skills and directs public funds for apprenticeship to any employer who can give young people long-duration, high-quality training.

Introduction

Apprenticeships improve the employment prospects of young people by raising their skill levels (Ryan, 2001). They provide craft, technician and associate professional skills that are valued by employers. And in England, there are substantial wage returns to apprenticeships: an average premium of 18% for those at Level 3 (equivalent to A-level standard) compared with people whose highest qualification is Level 2; and a premium of 16% for those at Level 2 (equivalent to GCSE standard) compared with people whose highest qualification is Level 1 (McIntosh, 2007).

Demand for apprenticeships from employers may be constrained by fears that young workers they have trained may be ‘poached’ by another firm that has not paid the training costs. In England, weak employer demand for skill has been identified as a key challenge for policy-makers promoting apprenticeships (Payne and Keep, 2011).

As the issues of skills and youth unemployment have moved steadily up the policy agenda in Britain over the past 30 years, apprenticeships have been supported by all parties. Youth unemployment is currently almost one million, but it had started to rise in 2004, well ahead of the latest recession (Petrongolo and Van Reenen, 2011).

Labour and Conservative governments have differed in the priority they have given to policy aims for apprenticeships. Labour has focused on increasing the numbers of young people in apprenticeships whereas the Conservatives have focused more on using apprenticeships to generate higher skills. It has proved difficult to shape apprenticeship policy to achieve these two outcomes simultaneously.

With sufficient employer demand for apprentices, there should be no need to choose between these two highly desirable policy objectives. But successive governments have developed a dysfunctional funding and delivery model for apprenticeship.

This model has failed to provide the appropriate incentives to encourage employers to engage with apprenticeship. The limitations of the model have meant that no government in recent times has succeeded in raising the employer offer of apprentice places for young people at the higher skill levels routinely offered in other European countries.

The 1994 Conservative vision: Modern Apprenticeships

In 1994, the Conservative government revived and reinvented apprenticeship. The 1993 Competitiveness White Paper made clear that apprenticeship was to be focused on growth through investment in skills.¹ It introduced ‘Modern Apprenticeships’ as a major plank in this policy, developing skills comparable to those of other developed countries:

‘These will offer work-based training to NVQ Level 3... The aim is that by the end of the decade there will be 150,000 new apprentices in England at any one time and over 40,000 young people each year achieving qualifications at NVQ Level 3 or above.’

The 1993 White Paper cited skills levels – in particular in science and mathematics – in Germany, Scandinavia and Switzerland as benchmarks for the British skills drive. It can be

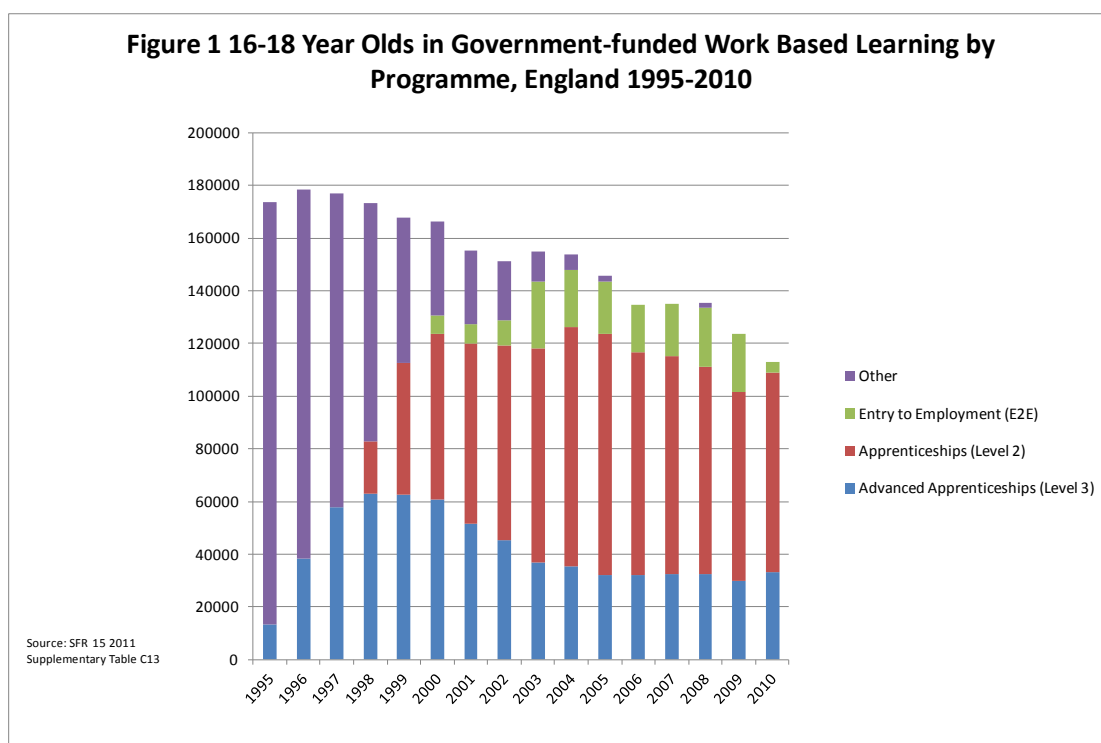
¹ Cmd 2563 Competitiveness: Helping Business to Win

assumed that this was the reason for setting the minimum qualification level for the Modern Apprenticeship at NVQ Level 3 and apprenticeship duration of three years. The White Paper also provided for the continuation of the Youth Training Scheme (YTS) with a guarantee of work-based training – but without specified skill level outcomes – for all 16 and 17 year olds who needed a place.

The Labour government 1997-2010: prioritising social inclusion over skills

When it came to power in 1997, the Labour government carried forward the model established by the Conservatives but found that the Level 3 target was an obstacle to increasing numbers of young people in apprenticeship. Employers claimed that the young people applying for apprenticeships lacked the educational prerequisites for Level 3 apprenticeship.

The solution adopted was for government training programmes (formerly YTS) to be rebranded as Level 2 apprenticeships. The numbers of 16-18 year olds in apprenticeships rose dramatically between 1996 and 2009 but only at Level 2. The numbers in Level 3 apprenticeships actually fell – see Figure 1. All this was against a background of rising numbers of 16-18 year olds and a fall in total government-funded work-based training for young people.



The Labour government succeeded in switching young people from work-based programmes to apprenticeships, and thereby improved training quality for those who had previously been on lower level programmes. But it failed to increase the number of firms employing apprentices. Employers showed little interest in offering Advanced Apprenticeships to under-19s, and fewer under-19s were taken on to Advanced Apprenticeships in 2010 than in 1997 – see Figure 1.

In 2009, the Labour government passed the Apprenticeships, Skills, Children and Learning Act. This provided for the creation of a National Apprenticeship Service, which was given the task of convincing employers to offer increased numbers of places. The same Act provided for an entitlement to an apprenticeship for every school-leaver who was appropriately qualified (defined as five or more GCSE passes at any grade). The Education Act introduced to Parliament by the coalition government in January 2011 removes this entitlement.

The origins of England’s apprenticeship model

The origins of the current apprenticeship model in England stem from the 1994 revival of apprenticeship, when the model used to develop YTS in the early 1980s was reinstated (Fuller and Unwin, 2003). Growth in apprentice numbers and revised training content was driven not by employers but by government initiatives and funding.

Lack of employer interest and commitment meant that apprenticeship, as developed in England post-1994, failed to capitalise on apprenticeship’s traditional strengths as provided by employers, which include:

- using the workplace as a place of learning;
- providing transferable training in a way that fitted the employer’s work organisation;
- and ensuring that the employer could benefit from a ‘payback period’ during which the apprentice’s productivity in the second period repaid the cost of lost output due to training in the first period.

In other countries, legislation guarantees the quality of apprentice training and sets a minimum duration for apprenticeship, which allows the apprentice to practice and gain confidence in the skills acquired. The minimum duration – usually three years – allows the employer to recoup some or all of the costs of training incurred in the first year or so of the apprenticeship. Public funding for off-the-job apprentice education and training is provided for a fixed period – usually three years.

Apprenticeship in England turns the European model on its head. As Table 1 shows, the latter is based on modest apprentice wages, long-duration apprenticeships, work-based training and government-funded off-the-job vocational training.

Table 1: Comparing apprenticeship models in England and other European countries

Apprenticeship – England 2011	Apprenticeship – Austria, Germany, Switzerland 2011
Employed status	Trainee status
Wage (high relative to other countries)	Trainee allowance
Short duration (average one year)	Long duration (average three years)
Most at lower skill level (Level 2)	Most at higher skill level (Level 3)
Outside providers train	Employers train on-the-job
Only 60% of apprentices are under 25	Apprentices are normally under 25
Minimum 100 hours off-the-job training	Minimum 900 hours off-the-job training
4-8% of employers train apprentices	25-30% of employers train apprentices

Note: For further information, see Steedman (2010).

In the absence of employer commitment to apprenticeships, it has fallen to government to take the lead in reviving them. Responsibility for meeting government targets is delegated to government agencies, awarding bodies and government-funded sector skills agencies supposedly ‘representing’ employers. Day-to-day responsibility for meeting apprenticeship targets for all but the largest employers is further delegated to training providers.

Providers act as brokers between government agencies and apprentice employers:

- they contract directly with the government funding agency to ‘deliver’ a given number of apprenticeships and claim funding calculated according to complex funding regulations set by the funding agency;
- they seek out employers willing to employ an apprentice or alternatively they may offer apprenticeships to the company’s employees;
- and they provide and assess the required elements of the apprenticeship framework and manage the associated data recording requirements.

This system marginalises most employers who have no formal training responsibilities or involvement in the apprenticeship process. Understandably, employers have often proved reluctant to treat apprentices differently by paying a low trainee wage or by allowing the apprentice time off for training.

Apprenticeship in England: ‘many builders but no architect’

Employers are now finding that they are paying the price for failure to take ownership of apprenticeship. A recent report from an employer-led Commission, which was published by a government agency, identified the plethora of government agencies with which apprentice employers are required to liaise as a major obstacle to participation. The report revealed a truly staggering amount of submission writing, documentation, data recording and data returns required of employers receiving public funding for apprentice training (Learning and Skills Improvement Service, 2011).

Multiple government agencies with overlapping responsibilities impose this burden as a condition of the receipt of public funding for providing apprentice training. Training programmes are highly prescriptive and the competency-based assessment model adds to the burden of data recording, reporting and storage. A substantial proportion of government funding for apprenticeship training is thereby swallowed up by the processes required to account for it. The employer-led Commission complained that the system had ‘many builders but no architect’.

The coalition government: prioritising skills over social inclusion

The coalition government has made no fundamental changes to the dysfunctional apprenticeship delivery model that it inherited.

For example, a 2007 report (House of Lords Economic Affairs Committee, 2007) had strongly criticised the Labour government’s decision to split responsibility for apprenticeships between two government departments: the Department for Children, Schools and Families (now the Department for Education, DfE) and the Department for Industry, Universities and Skills (now the Department for Business, Innovation and Skills (BIS)). But

this decision was not reversed by the coalition and has led to neglect of the apprenticeship prospects of under-19s who, under this arrangement, are the responsibility of the DfE.

Apprenticeships are not mentioned in the DfE's six policy priorities set in 2010² while BIS is clearly claiming ownership of apprenticeships with a stated commitment to 'expand and improve the quality of apprenticeship programmes'. But closer examination reveals that the expansion envisaged is adult apprenticeships together with a commitment to increasing the numbers of Levels 3 and 4 apprenticeships. An additional commitment to expand apprenticeships in the retail sector (a sector with notoriously low apprenticeship standards) is hard to reconcile with this goal.³

The coalition government's Education Act abolishes the entitlement to an apprenticeship place for all suitably qualified young people as provided for in the Labour government's 2009 Apprenticeship Act. This decision signals that the emphasis of apprenticeship policy has switched from enabling young people to access skills and jobs through apprenticeships to raising workforce skill levels without special regard to age.

Given these priorities and the reluctance of the DfE to fight the corner of the under-19s, it is unsurprising to find that the latest figures for apprenticeship starts in both 2010 and 2011 show a huge rise in adult apprenticeships.

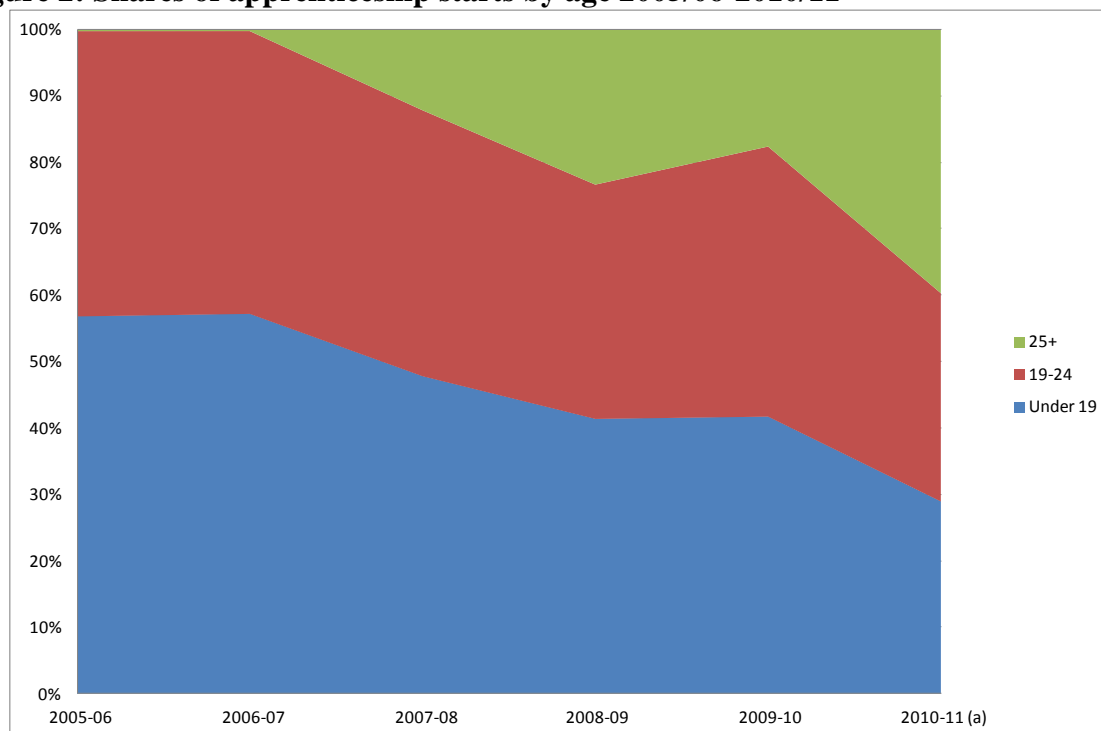
Adult apprenticeships attract a smaller government contribution to training costs compared with the under-19s, and they therefore provide the places to meet target numbers at lower cost to government. Employers like them because, in many cases, adult apprenticeships help to train their own employees.

The coalition government has increased adult apprenticeships, actually overshooting their own target. While overall apprenticeship starts have increased from 280,000 in 2009/10 to 443,000 in 2010/11 (an increase of 58%), under-19 starts have increased by just 10%. The under-19s now get a smaller share (29%) of apprenticeship places than do the over-25s (40%) – see Figure 2.

² <http://transparency.number10.gov.uk/transparency/srp/view-srp/37>

³ <http://transparency.number10.gov.uk/transparency/srp/view-srp/44/94>

Figure 2: Shares of apprenticeship starts by age 2005/06-2010/11



Source: DS/SFR 12 October 2011 Table 8.1 and p. 13.

Note: (a) Provisional.

The coalition government deserves credit for expanding the numbers achieving Level 3. But while in 2010, there were 60,000 Level 3 apprenticeship completions, under-19s accounted for only one third of these – just 20,000.⁴ Indeed, the 1994 Conservative government’s target of 40,000 young people a year qualifying at Level 3 has still not been achieved.

The failure to ensure that each cohort of young people gains the skills needed for productive employment ensures that we will continue to struggle to make good this deficiency in their later working lives. Adult apprenticeships may be needed now to make good the deficiencies of the past. But if good quality apprenticeships were also there for young people in the numbers needed, adult retraining would no longer be so necessary.

Conclusions

Successive governments have committed substantial public resources to apprentice training, but far too few young people benefit and not enough high value skills have been developed. In the absence of employer leadership, government has assumed responsibility for driving the policy forward. This has produced a system obsessed with accountability and unfriendly to employers who should be key players. The system fails to provide incentives for training young people to high (Level 3) skill levels.

In a fast-changing economic environment, apprenticeships need frequent adjustment to function well. Both the German and Swiss governments have recently acted to redress imbalances that had arisen between the different partners in apprenticeship. Employer

⁴ DS/SFR 12, October 2011 Table 8.2

organisations in Germany have entered into direct agreements with the government to raise demand for apprentices. At the same time, employer proposals for reducing the costs of apprenticeship to employers by increasing flexibility have been accepted as a quid pro quo for providing more places.

Like other governments in Europe, the British government should be prepared to change an apprenticeship model that is not functioning to produce high skills for young people. The aim of the new model should be to direct public funds so as to:

- maximise incentives for employer participation and management of training;
- ensure that young people are not 'crowded out' by adults;
- and create conditions that encourage high value-added training.⁵

Policy levers that could be deployed to implement these aims include:

- extending current pilots of simplified direct funding to medium-sized employers;
- introducing a sector levy to contribute to the cost of sector skills bodies and thereby increase employer commitment;
- switching funding for adult (over-25) apprentices to under-25s to release resources for Level 3;
- re-introducing the entitlement to an apprenticeship place for 16-19 year olds – but at Level 3, with Level 2 as a prerequisite;
- and funding employers of 16-19 apprentices for providing the transferable (education) elements of the apprenticeship programme – recommendation 14 of the Wolf Report (DfE, 2011).

Investment in apprenticeship by government, individuals and employers has already shown substantial returns. A nucleus of committed employers, offering high value-added apprenticeships, has grown up despite the heavy bureaucratic burden associated with government funding. Unfortunately, more young people apply for each of these apprentice places than for a place at an Oxbridge college.

It may not be realistic to aim for apprentice numbers on the scale of Germany. But with a clear strategy, some nudging and flexibility, we could realistically aim for the prize that has so far eluded us – higher skills and high youth participation.

December 2011

For further information

Contact Hilary Steedman: H.Steedman@lse.ac.uk; or Romesh Vaitilingam on 07768-661095 (romesh@vaitilingam.com)

⁵ Examples of what can be done already exist in the results of pilot schemes and ongoing pilots. A pilot, now ended, provided modest incentive payments (ranging from £1,000 to £2,500) to employers to offer an apprenticeship to a young (16-19) person. These produced a greatly increased place offer (BMG Research, 2011). Simplification of payment to large employers who are directly contracted to provide apprenticeships is currently being piloted, and could, if successful, be extended to medium-sized employers, according to a speech by the Minister for Skills, John Hayes (6 September 2011 CBI London).

References

BMG Research (2011) *An Evaluation of the Apprentice Grant for Employers (AGE) Programme*, National Apprenticeship Service

Department for Education (2011) Review of Vocational Education – The Wolf Report (<http://www.education.gov.uk/16to19/qualificationsandlearning/a0074953/review-of-vocational-education-the-wolf-report>)

Alison Fuller and Lorna Unwin (2003) ‘Creating a Modern Apprenticeship: A critique of the UK’s multi-sector, social inclusion approach’, *Journal of Education and Work* 16(1): 5-25

Learning and Skills Improvement Service (2011) *Simplifying End-to-end Apprenticeship Processes for Employers* (<http://www.lsis.org.uk/Services/Publications/Documents/LSIS2011-05-SimplifyingApprenticeshipProcesses.pdf>)

House of Lords Economic Affairs Committee (2007) *Apprenticeship: A Key Route to Skills*, HL Paper 138-I

Steven McIntosh (2007) *A Cost-Benefit Analysis of Apprenticeship and Other Vocational Qualifications*, Department for Education and Skills Research Report No. 834

Jonathan Payne and Ewart Keep (2011) ‘One Step Forward, Two Steps Back? Skills policy in England under the coalition government’, SKOPE Research Paper No. 102 (July), SKOPE, Cardiff University

Barbara Petrongolo and John van Reenen (2011) ‘Youth Unemployment’, *CentrePiece* (June), CEP

Paul Ryan (2001) ‘The School-to-Work Transition’, *Journal of Economic Literature* XXXIX (March)

Hilary Steedman (2010) *The State of Apprenticeship in 2010: International Comparisons* (<http://cep.lse.ac.uk/pubs/download/special/cepsp22.pdf>)