This chapter compares the apprenticeship levy in England with other levy models around the world. It argues that the apprenticeship levy may have incentive effects, particularly on larger levy-paying employers, encouraging them to fund more apprenticeships. This raises two strategic challenges. The first is ensuring that the newly introduced apprentice standards, alongside other reforms, represent high quality, so that they fully deserve to be incentivised at the expense of other forms of training and skills development. The second linked challenge is to ensure that the funding rules, and other sources of public expenditure, provide effective funding for the apprenticeship system taken as a whole, so as to underpin the quality of individual apprenticeships.
Introduction: The apprenticeship levy in England

*England shares with other countries some rationales for training levies*

Levies on employers to pay for training – training levies – are found in more than 60 countries (OECD, 2017), while in the United Kingdom, sectoral training levies have existed for many years in the construction and engineering industries. In England, Wolf (2015), in an influential paper, argued that improvements in the quality and quantity of apprenticeships could not be realised without the much stronger funding that could be achieved through a training levy. One other factor driving the introduction of the levy was evidence of a decline in employer-provided training, suggesting that employers, if left to themselves, would not do enough to invest in workforce skills. Green et al. (2013), estimate that training hours halved between 1997 and 2011, while productivity growth remained low during the same period (Dolphin and Hatfield, 2015). The reasons for this decline in training are not entirely clear, and this evidence has been challenged (see Amin-Smith et al., 2017) but they may relate to casualization of employment, and an associated reduction in longer-term career entry positions that in the past would have attracted more substantial employer investment in training.

*Larger employers pay into the levy*

The levy is collected alongside national insurance at the rate of 0.5% of all payroll over GBP 3M – so that smaller employers with less than GBP 3M in payroll are exempted. While the requirement for employers to pay the levy is UK-wide, spending its proceeds involves devolved responsibilities, so the apprenticeship funding arrangements discussed here apply only to England.

*These funds can then be accessed to pay for apprenticeships*

Levy-paying employers are given a digital training account where they can see ‘their’ levy contributions accumulating in a fund topped up by a 10% contribution from the government. For apprentices in their workforce, employers may use this account to pay registered training providers to offer training, and (necessarily separate) registered assessment bodies to undertake end-point assessments. Funds entering the account must be used within 24 months. Employers who cannot call on these funds (either because they are small employers who pay nothing or little into the levy, or because they have exhausted the training account) must pay 10% of the training and assessment costs, with the government, through levy contributions, paying the remaining 90% (DfE, 2017).

*Apprenticeships provided to young people attract higher funding*

When a 16-18-year-old apprentice is taken on, both the employer and the training provider receive an additional GBP 1 000, and apprentices under 25 attract no national insurance contributions. Small businesses (with fewer than 50 employees) will also get 100% of the funding band for an apprentice aged 16-18 from the government rather than 90% as in the case of older apprentices for non-levy-paying employers as explained above. For employers who hire apprentices aged 19-24 who have previously been in care or who have a Local Authority Education, Health and Care plan, the government will pay for all the training costs and for apprentices with a learning or physical disability, the government will give an additional GBP 150 each month to cover extra learning costs (Powell, 2017).
How the apprenticeship levy in England compares with training levies around the world

The rationale for training levies

Training levies are used in many countries, with different rationales and target groups of trainees

There is a large concentration of training levies in Latin America and Africa, while sectoral levies for enterprise training (see Box 4.1) are common in Europe (see CEDEFOP, 2008; Whalley and Ziderman, 1990; Dar et al., 2003; Johanson, 2009; Ziderman, 2003). While occasionally training levies are used to fund apprenticeships, in most cases this is a relatively small part of their role. Levies are typically used to fund training for some combination of the existing workforce and new recruits. The policy rationale for levies varies between these groups.

- **For the existing workforce, market failures mean that employers tend to underprovide training.** While providing firm-specific skills, employers are more reluctant to train for the broader skills where, given the mobility of workers, workers themselves and other employers will be the main beneficiaries. Levy funding can correct this market failure, by supporting training that is in the collective interest of employers.

- **For the purposes of recruitment, employers benefit from a well-trained pool of potential recruits,** and should therefore contribute to the cost of the training through a levy (rather than, or in addition to, contributions from general taxation). This point may apply to the training of two potential groups:
  - Young labour market entrants receiving initial vocational education and training in schools and sometimes in apprenticeships. Some labour market levies, particularly in Latin America are primarily focused on this group, and have been used to support initial vocational training systems.
  - Adults in need of new skills, including the unemployed and those seeking career change. While the individuals concerned will benefit from the training, they can often not afford the full costs, and, on equity grounds, and in the collective economic interest, their training should be funded.

Sectoral levies

Levies limited to a single industrial sector are common, particularly in Europe. They are normally disbursement schemes, driven by employers in an industrial sector where employers see collective advantages from pooling training efforts. They can foster a close relationship between training and employer-defined skills needs in the sector, but such levies tend to be concentrated in sectors where employers are well organised and have a strong commitment to training (such as construction and engineering), so the capacity of sectoral arrangements to address skills weaknesses in other areas – for example retail and other service industries, is weaker. Sectoral funding may also neglect common core skills which are transferable across industries, and may be ill-adapted to regional needs (Ziderman, 2003; CEDEFOP, 2008).

Despite administrative challenges, levies should provide a stable pool of training resources

The collection of levies is an administrative burden on government, although it can be minimised by linking it to payroll taxes such as national insurance in the United Kingdom. There is an administrative burden on employers either seeking levy exemptions or funding...
for training, and if these are onerous some smaller employers may not seek funding (Dar et al. 2003; Johanson, 2009). But levies should provide a protected pool of training resources, with reserves to balance the pro-cyclical flow of income from the training levy (Johanson, 2009; Villalobos, Barria and Klasen, 2014).

Table 4.1. The dimensions of training levies

<table>
<thead>
<tr>
<th>Governance</th>
<th>How funds are collected</th>
<th>How funds are spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>- initiative (public initiative based on national or local law / (inter)sectoral agreement between social partners / tripartite agreement / employer initiative), - coverage of levy scheme (universal / sectoral / regional) - funds management/governance (public sector, employer-led, bipartite, tripartite)</td>
<td>- source of funds (firm contributions only / government contribution) - collection method (social security agency / funds managing agency / tax administration) - type of levy (percentage of payroll / fixed amount per worker or working hour / percentage of profit / - links to payments by levy-paying employers – as in levy exemption or other arrangements</td>
<td>- recipients of funds (employer, training providers, training participants) - prioritised individuals (apprentices / unemployed / employees / disadvantaged groups) - location of training (within company / outside of company) - eligibility of training /approved training providers / recognised qualifications / approved programmes</td>
</tr>
</tbody>
</table>


Disbursement and revenue-raising levies

Training levies are diverse in terms of governance, how funds are collected, and how they are spent (see Table 4.1). There are two main types – disbursement and revenue-raising.

Disbursement levies allow employers to call on levy funds to support their training efforts

Under disbursement schemes, employers are reimbursed from the fund for approved training (as in the new apprenticeship levy in England, and in, for example, the levy scheme in Malaysia). Some schemes allow employers to reduce their levy payment obligations by training (‘train or pay’, as in France). Disbursement levies are typically designed to increase employer demand for training. They offer a financial incentive for employers to train, while leaving them some control over what type of training to provide. The main disadvantage is the other side of the same coin - since employers decide when and where to train; the training provided might not always correspond to the broader needs of the economy (Johanson, 2009).

Revenue-raising levies aim to improve the supply of skills.

Revenue-raising levies (also referred to as ‘traditional’ or ‘Latin American’ schemes) are designed to increase the funding of training institutions, and in that way, increase the supply of skills. In contrast to disbursement schemes, they typically confer few or no rights on the levy-paying employer to access levy funds. Funds collected are used to support initial vocational training for young school leavers and labour market entrants to prepare them for jobs, and in-service training for the workforce (Dar, et al., 2003; Dougherty and Tan, 1991; Gasskov, 1994). Such schemes have played an important role in Latin America in developing vocational education and training systems. But they are sometimes associated with large bureaucracies, and the accumulation of unnecessary surpluses. It may be difficult to sustain employer interest, in the absence of direct incentives for enterprise training (Ziderman, 2003; CEDEFOP, 2008).
England uses a blend of approaches

While the levy in England is primarily a disbursement levy, since levy-paying employers can draw on levy funds to support training, it also has some elements of a 'revenue-raising' levy given the levy's role in funding initial apprenticeships for some part of the youth cohort. In fact, a blend of approaches is not uncommon in many countries (see Box 4.2). It is worth noting that the apprenticeship levy in England is not necessarily limited to the funding of apprenticeships by employers, but can be used for other purposes by the Department for Education.

Box 4.1. Singapore: A multipurpose training levy aligned with economic development

The Singapore Skills Development Fund (SDF), funded by a levy, provides financial incentives for training those in the workforce, as well as those joining the workforce. The Fund supports approved training plans through the Total Company Training Plan Scheme, and promotes special upskilling programmes such as the Training Assistance Scheme. It promotes a systematic approach to skills certification through a plan for training at least a third of a company’s workforce in certifiable skills over a three-year period. The SDF also supports a training leave scheme for older workers and a special programme for IT training for SMEs.

A distinctive feature of the levy is that it is imposed only on the payroll for lower-wage workers earning SGD 4 500 (roughly EUR 3 000) or less a month. The current levy rate is 0.25% of monthly remuneration, or SGD 2, whichever is greater. Employers have a major role: 7 of the 15 members of the Singapore Workforce Development Authority (WDA), that controls the SDF, represent employers (including the Chairman and Vice-Chairman), with four for government and three for workers. Incentives for training are offered through cost-sharing, and the training must be relevant to the economic development of Singapore. The funding a company can obtain is not tied to the levy contribution. By 2013, WDA had trained over 1 million persons under the Workforce Skills Qualification (WSQ) system. The success of the system lies in the fact that skills and training were linked to economic development, and later on to foreign investment.


Implementing the apprenticeship levy: Messages from international experience

Taking account of the English context

There is a rationale for a training levy in England, but implementation challenges are multiple

In England, several factors, including skills gaps, barriers to school to work transition and high NEET (Not in Education, Employment or Training) rates, weak employer investment in training and poor productivity growth, argue for measures to enhance employer investment in skills. Levies represent an attractive means of addressing this challenge, given that they can support training both for school leavers and the existing workforce. But implementation presents many hurdles: under the wrong conditions, training levies can become bureaucratic, remote from employers, funding the training that would have taken place anyway. While systematic evidence from countries around the world is lacking,
experience points to the major issues and challenges which need to be addressed when implementing levies. A recent OECD review (Kuczera, 2017) examines the broader evidence on financial incentives and apprenticeship.

**How can training levies incentivise apprenticeship?**

*Both employer payments into the levy and levy funding of training have economic effects*

Levies have two potential economic effects – depending on how they raise funds, and how these funds are spent. On the fund-raising side, a levy acts like a wage tax, but it can have distributional or incentive effects according to the fund-raising rules. For example, in Singapore, because the levy falls only on employers paying low wages, it may encourage an increase in wages to evade the levy, (and in skills to justify the higher wages), and/or it might, by increasing the cost of employing the low-skilled, raise their unemployment risk. If (as is often the case, including in the United Kingdom) smaller employers are exempt from a levy, the levy may help smaller employers if they also benefit from training levy expenditure.

*Some important incentive effects are not strictly economic*

Training levies are often intended to give employers a sense of ownership of, and involvement in training, as in England. This may be because employers see ‘their’ money being channelled into training, but it may also be because employers are directly involved in managing the training fund and identifying training priorities, or, at an individual employer level, because developing a training plan is sometimes necessary to receive funding. Rather few countries have levy systems specifically designed, as in the new levy in England, to support apprenticeships. Two countries that do have such systems, with some quite special characteristics that differentiate them from the levy in England, are Denmark and France (see Box 4.2).

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**Box 4.2. Employer levies to support apprenticeship in France and Denmark**

France maintains a complex mix of incentives encouraging employers to offer apprenticeships. A training levy in the form of an apprenticeship tax is set at 0.5% of the wage bill, plus an additional 0.18% tax contribution to a separate ‘apprenticeship development’ fund, and, for businesses with 250 employees or more, a further contribution which varies with the percentage of their employees in work-based vocational training (apprenticeships and some other schemes). Most funds from these taxes are funnelled through intermediary bodies and the regions to offer employers a tax credit of EUR 1 600 per apprentice and an allowance of at least EUR 1 000 per apprentice. Employers are also largely exempt from social security contributions on their apprentices (a substantial benefit in France where such contributions are much higher than in the United Kingdom). Employers may also opt for some of their contributions to the apprentice tax to go directly to the local training institutions that they designate, including higher education institutions, independently of the apprenticeship training role of these institutions, although following recent reforms, only around 23% of the apprenticeship tax is now so allocated.

Denmark maintains a dual apprenticeship system supported by an employer levy system. All employers, public and private, contribute to the Employers’ Reimbursement Fund a fixed amount for each employee (in 2016, around EUR 370 per year). Levy funds are used primarily to pay apprentice salaries while apprentices are pursuing off-the-job training.
Reimbursements may exceed the wage in some cases. There are bonuses for youth who find a paid apprenticeship without assistance. Apprentice wages are set at the sector level through collective agreements and typically reach 40 to 50% of the minimum wage. Apprenticeship programmes consist in a basic (academic) and a main (practical) programme. For the main programme, the student must find a training agreement with a company approved by the social partners. When undertaking the main programme, students alternate between training periods in the company and practical education at the college. Overall, 50 to 70% of practical education takes place in a company. Social partners are closely involved in the organisation of the system,


Funding from government and levies can support different aspects of apprenticeship

The funding of apprenticeships, by government or through a levy, can take different forms, including:

- **Direct financial contributions or tax breaks** for employers providing apprenticeships - the most common form of support. In Norway, the government provides companies a subsidy per apprentice of around EUR 14 800 per year of work placement. In Austria, employers receive a subsidy per apprentice in the first year that is equivalent to three gross apprentice wages, an equivalent of two gross apprentice wages in the 2nd year, and an equivalent of one gross apprentice wage in the 3rd and 4th year (Federal Ministry of Science, Research and Economy 2014). In France employers receive an allowance and a tax credit for each apprentice (see Box 4.2).

- **Paying for off-the-job training – as in the levy in England.** In nearly all countries with apprenticeship systems, including most apprenticeship systems in continental Europe, off-the-job training is funded through state funding of the vocational training providers. In that respect, the English apprenticeship levy is unusual. Although there is an economic argument that the levy is an employment tax, there are some important behavioural differences emerging. One of them is that large employers state that they intend to use their funds if they possible can. This means that they do not treat their levy payments as a sunk cost in the way they would treat a normal employment tax.

- **Paying wages to apprentices when they are pursuing off-the-job training.** In most countries, employers bear this cost directly, although it may be factored into the negotiated pay of apprentices, which is usually below the minimum wage. But this is the specific function of the employer’s levy in Denmark (see Box 4.2), while in Ireland the government pays a training allowance to apprentices while they are being trained off the job. Implicitly these are (quite substantial) subsidies to employers providing apprenticeships.
### Table 4.2. Financial incentives to companies providing apprenticeships

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax incentives*</th>
<th>Subsidy</th>
<th>Levy scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Tax incentives depend on the qualifications the programme leads to</td>
<td>Subsidy in specific cases e.g. person being trained has a disability</td>
<td>No</td>
</tr>
<tr>
<td>Austria</td>
<td>Tax incentives abolished in 2008 and replaced by targeted subsidies</td>
<td>From 2008, targeted subsidies have been available per apprentice (the amount depends on the year of apprenticeship), for additional training, for training of instructors, for apprentices excelling on final assessment, for measures supporting apprentices with learning difficulties, and equal access for women to apprenticeships</td>
<td>A levy fund in the construction sector covers all regions and a levy fund in the electro-metallic industry covers one province (Vorarlberg). Both negotiated by employers and Trade Unions</td>
</tr>
<tr>
<td>Belgium – Flanders</td>
<td>Payroll tax deduction</td>
<td>Direct subsidy depending on the number of apprentices and programme duration</td>
<td>No</td>
</tr>
<tr>
<td>Germany</td>
<td>No</td>
<td>No</td>
<td>In the construction sector. Negotiated by employers and trade unions</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Tax exemptions (abolished in 2014)</td>
<td>From 2014, subsidy to employers up to EUR 2,700 per apprentice per year (depending on the duration of the apprenticeship)</td>
<td>No</td>
</tr>
<tr>
<td>Norway</td>
<td>No</td>
<td>Direct subsidy depending on the number of training places, equity role (e.g. to encourage enterprises to take up disadvantaged trainees), and sector</td>
<td>No</td>
</tr>
<tr>
<td>Switzerland</td>
<td>No</td>
<td>No</td>
<td>All companies within certain economic sectors can decide to contribute to a corresponding vocational fund (to develop training, organise courses and qualifications procedures, and promote specific occupations)</td>
</tr>
</tbody>
</table>

**Note:** Tax incentives include: (a) tax allowances (deducted from the gross income to arrive at the taxable income); (b) tax exemptions (some income is exempted from the tax base); (c) tax credits (sums deducted from the tax due); (d) tax relief (some classes of taxpayers or activities benefit from lower rates); (e) tax deferrals (postponement of tax payments).


Different subsidy arrangements in other countries may reflect different apprenticeship systems

So, in summary, countries offer a wide variety of subsidies for apprenticeships (see Table 4.2), only occasionally supported by levy arrangements. Often, they involve a direct transfer or subsidy to employers to encourage them to take on apprentices, perhaps recognising the role of employers in delivering training on the job.

**How effective are apprenticeship subsidies: deadweight and displacement?**

Most evidence suggests the direct effects of apprenticeship subsidies for employers are modest

Westergaard and Rasmussen (1999) report a modest positive effect of public subsidies on the offer of apprenticeship places in Danish firms, but only in manufacturing, office and retailing. In Austria, the subsidies appear to have had a limited impact (Wacker, 2007). In
Switzerland (where there are no subsidies of this type) a simulation exercise suggested that subsidies would have an impact on firms not currently involved in apprenticeships but no effect on the supply of apprenticeship training in firms that train already (Muehlemann, 2016). An evaluation of the Australian scheme shows that the subsidy had only a small impact on the decision of employers to train, mainly because the subsidy covered only a small part of the employer cost of offering an apprenticeship (Deloitte, 2012). One reason for the modest impact may be the ‘deadweight’ involved.

Apprenticeship subsidies often involve substantial deadweight

‘Deadweight’ is training that employers would have funded anyway, even in the absence of the relevant incentive. Deadweight can be most effectively minimised when the target group is homogeneous in terms of the cost-benefit balance, so that a given incentive can be calculated to be just sufficient to reach a tipping point, where it will push a large proportion of the target group to alter their behaviour, minimising deadweight. But the cost-benefit balance of apprenticeships may be heterogeneous – implying substantial deadweight. While in England the costs and benefits of apprenticeship to employers will be different because of different design features, a similar level of heterogeneity in net benefits is plausible, again implying a substantial amount of deadweight.

There is a tension between employer buy-in and the minimisation of deadweight

The aim of levy funding is to change behaviour. By definition, this is not what employers would do, if left to themselves. This means that there is always going to be some degree of tension between the minimisation of deadweight and employer buy-in. This tension may be managed most effectively if the training levy achieves what employers collectively want to see, recognising that employers may collectively want to have, and even pay for, a well-skilled labour force, even if, at individual employer level, they might not see a direct return from investing in their own workers.

Measures to reduce deadweight focus on additionality

Sometimes attempts are made to avoid deadweight by limiting subsidies to additional apprenticeships. In Austria there is a subsidy for employers providing ‘new’ apprenticeship places (Federal Ministry of Science, Research and Economy, 2014). A tax allowance for training introduced in Flanders was limited to companies that could show they were increasing overall training (Muller and Behringer, 2012). In England, a special payment of GBP 1,500 per apprentice is made available to smaller employers who have not recruited an apprentice in the last 12 months and want to take an apprentice aged 16-24 (Skills Funding Agency, 2017). But additionality tests can be hard to enforce, and may be seen as unfair if funding is denied to employers with a stable and longstanding commitment to apprenticeships, in favour of companies which qualify for funding simply because they are expanding and are therefore taking on more apprentices.

Well-structured incentives may improve the quality, as well as the quantity of training

Evaluation of incentive effects merely in terms of the quantity of deadweight can be simplistic. Often the effect of incentives and subsidies will be to reconfigure the mix of training, by substituting or displacing one form of training not eligible for subsidy with a related or similar form of training which is so eligible. This is sometimes distortionary: in the Netherlands, a 1998 tax law allowed firms to claim 120% of their training expenditure as a tax deduction for workers under 40, and 140% for those over 40, with the objective of encouraging training of older workers. But the effect was that training was redistributed from workers slightly below the age of 40 to those just over 40 (Leuven and Oosterbeek,
2004). But if, for example, funding incentives make quality assurance of training a requirement, the effect may be to substitute training of variable quality with good quality training. So, when measuring additionality, qualitative as well as quantitative additionality needs to be assessed – a point of key relevance to England.

The effects of the levy in England

No employer has to meet much of the cost of off-the-job training in apprenticeship

With the levy in place, no employer – levy-paying or not – ever has to contribute more than 10% of the direct cost of apprentice training should they choose to take an apprentice (over and above any mandatory levy payments, which do not directly affect the incentives to take apprentices). The only exceptions would be employers who choose an apprenticeship costing more than the standard funding bands. Although employers face other costs, including the opportunity cost of releasing apprentices for training at least 20% of their working time, this is balanced by other incentives such as no national insurance contributions for the under-25s, lower wages, plus direct financial incentives to employers when they take apprentices aged 16-18, and in some other cases. This means that employers will usually have incentives to use apprenticeship training as long as they can obtain modest returns to them, recognising the points made above, that financial incentives usually have limited impact, and deadweight is substantial.

The incentive effects of the levy create two challenges

The apprenticeship levy could have incentive effects, particularly on larger levy-paying employers, encouraging them to use the levy, particularly where it may be used to replace other forms of training and skills development. This raises two strategic challenges. The first is that of ensuring that the newly introduced apprentice standards, alongside other reforms, represent high quality, so that they fully deserve to be incentivised at the expense of other forms of training and skills development. The second linked challenge is to ensure that the funding rules, and other sources of public expenditure, provide effective funding for the apprenticeship system taken as a whole, so as to underpin the quality of individual apprenticeships. These challenges form the substance of discussion below, and provide a backdrop to the analysis of later chapters in this review.

The number of people starting apprenticeships dropped after the introduction of the apprenticeship levy

First evaluations show a drop in apprenticeship starts after introduction of the levy (GOV.UK, 2016). There is some evidence showing that employers do not understand the new system and find it difficult to navigate (Butler, 2018). More demanding requirements for apprenticeship may also deter some employers from providing it. This is not necessarily a bad thing if it removes from the market low quality apprenticeships. Recognising that the apprentice levy was only introduced in 2017, further evaluation is required to fully appreciate its impact on apprenticeship provision. Some of the encountered challenges such as the low level of understanding of the new apprenticeship by employers can be easily addressed by making the system more user-friendly.
Policy issue 4.1: Giving priority to quality

Challenge: The incentive effects of the apprenticeship levy

How positive these effects will be will depend on the quality of the apprenticeship system

The levy will reconfigure other forms of skills development as apprenticeships, a reconfiguration that will be desirable where loosely organised training is replaced by quality apprenticeships, delivering skills of relevance to the industry, not just to the individual employer. But in other contexts the substitution will be undesirable, where training that might be more efficiently handled on an ad hoc basis, is artificially restructured into an apprenticeship. In some cases, additional incentive effects will be important, in the case of degree apprenticeships (where avoiding student loans is a powerful driver) and in the public sector, given new targets. These cases are discussed in Chapter 7.

Policy pointer 4.1: Giving priority to quality

Evidence suggests that the introduction of the levy may have significant incentive effects on levy-paying employers, who will seek to increase apprentice numbers to spend their levy contributions. Often this will involve restructuring other training and replacing other means of recruiting skilled workers. To ensure that the levy incentives work constructively, the strongest possible quality assurance measures will be needed so that apprenticeship training is of high quality, so that the restructuring involved adds value.

Analysis: Quality as the most essential element of apprenticeship reform

This policy pointer is deliberately broad

It is designed to underpin the more detailed analysis of quality issues in the chapters which follow, including not only the specific points on quality in Chapter 5, but also all the other suggestions put forward in other chapters. Quality is always important, but at a time when England is seeking to increase the numbers of apprenticeships directly, and through incentives that will replace other means of skills development, quality becomes the priority of priorities. 'Adequate' apprenticeship quality is not good enough when it replaces another form of skills development which may also be adequate. Realising the target of 3 million apprenticeship starts by 2020 will be of no value unless they correspond to high-quality apprenticeships.

Policy issue 4.2: Funding for an effective apprenticeship system

Challenge: Levy funding is only currently available for limited parts of an effective apprenticeship system

Some parts of an effective apprenticeship system are not currently supported by the levy

An effective apprenticeship system, as illustrated in international experience, is a system with multiple vital elements, all of which demand resources. For young people, still teenagers, it will, as discussed in Chapter 2, include a broad education, equipping them as citizens, as well as for a career. As discussed in Chapter 3, it will include on-the-job training, delivered by experienced workplace practitioners, who have received professional training in how to train apprentices. It will, as discussed in Chapter 6, include support for apprentices who struggle to complete their programmes, and need independent advice and mentoring to do so, and guidance and support if they do drop out; it will also include
effective pre-apprenticeship programmes, in diverse forms which prepare young people with limited skills and attainment for entry into demanding apprenticeship programmes. It will, as discussed in Chapter 7, include arrangements to support employers in seeing how to make best use of apprenticeships, and facilitate co-ordination that will allow smaller employers to work together locally to support apprenticeship. Most of these elements are already found in England in the strongest apprenticeships, but in at least some other countries, they are supported more systematically. The levy supports important but incomplete elements of an effective apprenticeship system – namely training delivered primarily by external training providers, and the associated assessments. While the levy is not appropriate for funding many other aspects of the apprenticeship system, such as general education, it may be explored whether public funds or action could support other elements of an effective apprenticeship such as stronger regulations setting out the employers obligations for developing the apprentices while in work.

The levy is designed to ensure that more training takes place

In the past, as noted in Richard (2012), and in many other contexts, some formally recognised, ‘apprenticeships’ were delivered with very little training, as they corresponded to certifications of existing skills, and this seriously damaged the apprenticeship brand. One argument for limiting the apprenticeship levy to the funding of clearly recognisable training, alongside assessments, is that it avoids the leakage of levy funds into a host of other activities of questionable desirability which employers or providers might like to pursue, all of which would be difficult to audit. This is a strong argument, but it needs to be balanced by recognition of the importance of the other elements of a quality apprenticeship system, set out above. These elements need to be supported in one way or another.

Policy pointer 4.2: Funding for an effective apprenticeship system

Under current rules, the apprenticeship levy provides funding for apprentice training and assessments delivered by registered training providers and assessment bodies, but not to other bodies or for other purposes. Quality assurance in the system primarily follows the funding, and therefore looks at these activities and bodies. However, an effective apprenticeship system involves a wide range of broader functions, including the development of the apprentice in the workplace by the employer (in parallel to any off-the-job training), the broader education of young apprentices, preparation for apprenticeship through traineeship and other pre-apprenticeship schemes, support and advice for apprentices and training employers seeking to get the best out of the apprenticeship system. While it may not be appropriate to fund these activities through the levy, they do need to be supported, funded where necessary and their quality assured.

Analysis: Supporting wider elements of an effective apprenticeship system

Support will be necessary for other parts of an effective apprenticeship system

One significant risk is that the effect of the levy will be to expand apprenticeships through a too exclusive focus on off-the-job training and assessments, but without an adequate complement and infrastructure in all the other elements of quality apprenticeship, which are not open to levy funding. Larger employers may, for example, use levy funding 'creatively' to replace some existing high-quality employer-delivered and employer-funded work-based training with an apprenticeship programme, largely delivered off the job by an external training provider, simply because of the availability of levy funding for this purpose. The risks that this may occur and its potential undesirability have been identified for example by OECD (2017). The wider issues involved in supporting work-based training delivered by
employers are addressed in Chapter 3. Funds, and other support, could also be made available to support wider elements of an effective apprenticeship system, including the support for traineeships and pre-apprenticeship programmes, training of workplace trainers (perhaps through an apprenticeship programme), and by providing local support for individual apprentices at risk of dropout.

Note

1 Based on currency NOR/EUR exchange rate, 5 April 2016.
References


OECD (forthcoming), "Training levies in Southeast Asia: What do they offer and how should they be organised? Lessons from global experience", *OECD Working papers*.


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