

## BUMPY ROAD AHEAD FOR ENGLISH APPRENTICESHIPS?



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## FOREWORD

Following a number of reviews of English apprenticeships in the last parliament, notably the 2012 Richard Review, the Coalition government launched an ambitious apprenticeship reform policy with employers ‘in the driving seat’. The 2015 Conservative Party election manifesto commits the current government to increasing new apprenticeship starts to three million by 2020 while simultaneously effectively creating a completely new apprenticeship system. The scale of the ambition and the pace of change required to implement it are breath-taking. This paper considers the rationale for current English apprenticeship reform policy and investigates the underpinning evidence, and assesses progress towards delivering three million new apprenticeships by the end of this parliament.

This paper suggests, based upon the evidence available, that the reforms underway are unlikely to address the reasons for an endemically low level of apprenticeship adoption by employers, that the apprenticeship system will remain insufficiently appealing to small businesses, who are crucial to the England reaching its apprenticeship targets, and that the target will therefore remain unattainable on this trajectory. It also suggests four items that need to be addressed if England is to improve the quality and quantity of its apprenticeships.

As ever, we would be very pleased to receive your views.

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### THE VIEWPOINT SERIES

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The aim of the Viewpoint series is to share our thoughts on key topical issues in the arena of sustainable economic and social development, public policy, innovation and enterprise with our clients, partners and others with an interest in the particular subject area of each paper. In each Viewpoint, we will draw on our policy research and implementation experience to consider key topical issues, and provide suggestions for strategic and practical solutions.

## INTRODUCTION

The 2015 Conservative Party [election manifesto](#) commits the government to delivering three million new apprenticeships by 2020, so 'young people have the skills to succeed' and employers get the skills they need. Reforming English apprenticeships is both the centrepiece and main measure of success of this government's skills policy.

This paper looks at the coherence or otherwise of current apprenticeship policy in England. The dominant long-standing issue of low employer engagement is addressed, and evidence of employer dissatisfaction with (and progress in the take up of) apprenticeships is investigated. Anticipating the Summer 2016 publication of the [National Audit Office](#) (NAO) report on the government's management of apprenticeship reforms, we consider whether the current policy is diverting attention away from central to marginal issues, and question the likely impact of the government's rapid root and branch reform programme.

We conclude that the current English apprenticeship reform policy is insufficiently employer-led and evidence based to overturn decades of weak employer engagement or to deliver three million high quality new apprenticeships by 2020. Further, our examination of the evidence suggests the reform policy should address four central issues:

- Changing the proposition for smaller businesses
- Revisiting what employers value about apprenticeship frameworks and trailblazer standards
- Taking a more sectoral approach to apprenticeships
- Examining the offer for training providers for whom the current system offers a poor blend of risk and return.

## POLICY

### *Reform*

It is the government's ambition to create a completely new apprenticeship system while scaling up the number of new apprenticeships to three million by 2020. To achieve this, new structures and systems are intended to be fully operational by April 2017, and new starts on apprenticeships must increase by 20% each year on current levels. By April 2017 the following are due to be in place:

- a new employer-led **Institute for Apprenticeships** ([IfA](#)) that will assume responsibility for setting quality criteria for the development of apprenticeship standards and assessment plans, setting maximum levels of government funding for apprenticeships, and quality assuring some end-point assessments
- **new funding mechanisms** centred on an [apprenticeship levy](#) for large employers (with a payroll greater than £3 million) and co-investment contributions by all employers equalling £1 for every £2 provided by the Skills Funding Agency (SFA);
- new systems for employers to select **approved training providers** and negotiate apprenticeship delivery prices and payment schedules
- **new systems for SFA payments** to training providers triggered by evidence of employer cash co-investments recorded in a new **Digital Apprenticeship Service** (DAS).

How the UK-wide [levy](#) will fund apprenticeships in the Devolved Administrations and for cross-border firms, whether the [apprenticeship levy](#) increase over time to pay for smaller employers' apprenticeships, and who will pay for the new [end-point assessments](#), are issues that will need to be resolved before April 2017.

One important element in the reform programme has already been postponed. The [Future of Apprenticeships in England: Implementation Plan](#) (October 2013) announced that 'from 2017/18, all new Apprenticeship starts will be based on the new [apprenticeship] standards'. However the government's latest reform implementation plan,

[English Apprenticeships: Our 2020 Vision](#)

(December 2015), instead foresaw 'migration from apprenticeship frameworks to standards over the course of the Parliament', in order to accommodate the introduction of the apprenticeship levy in April 2017. Rather than stop funding altogether in April 2017 (as suggested in October 2013), a staggered withdrawal of SFA funding for new starts on apprenticeship frameworks is now proposed 'as employers take on apprentices on the new standards'.

The impact of the resulting mixed model for apprenticeship delivery should not be underestimated. From April 2017, further education (FE) colleges and independent training providers will have to operate multiple funding systems for legacy and new starts on apprenticeship frameworks and apprenticeship standards without the certainty of direct SFA contract funding (and likely less [sub-contracting](#)). They will incur additional costs arising from increased competition for new business from employers who are being encouraged to set up as [training organisations](#) themselves, and who are being asked to pay more for their apprenticeships. Apprenticeship providers will also have to negotiate with each employer apprenticeship prices and payment schedules, and (crucially) secure employer cash contributions in order to release SFA funding through the new DAS. Such complexity could be perceived as burdensome by an overstretched FE sector charged with implementing the government's wide-ranging [FE and skills reform programme](#). For many apprenticeship providers serving smaller and medium sized businesses, the system is already of dubious economic viability. These reforms make it more likely that the risk/return equation will worsen.

**Rationale**

Employer dissatisfaction with current apprenticeship frameworks is one of the main justifications for the current root and branch reform programme. Yet according to the [UK Commission for Employment and Skills](#) (UKCES), apprenticeship frameworks are designed by 'independent, employer-led, UK-wide organisations designed to build a skills system that is driven by employer demand'. Members of the [Federation for Industry Sector Skills and Standards](#)

claim to represent 90% of the UK workforce and work with 'over 550,000 employers to define skills needs and skills standards for their industry'. Through their Sector Skills Councils and predecessor bodies (including National Training Organisations, Industry Training Organisations and Industry Lead Bodies), it would appear that employers have been involved in the design of apprenticeships for decades, supported by vast amounts of public funding. What is it about the current apprenticeship frameworks they now do not like?

The November 2012 [Richard Review of Apprenticeships](#) report suggested that not all apprenticeship frameworks have been designed by employers, and argued they should all be replaced by new qualifications based on new apprenticeship standards (emphasis added):

These new apprenticeship qualifications should replace today's apprenticeship frameworks. They should be set by those who know best: employers. That is not the case today, or certainly not as directly and consistently as it needs to be, and *many employers complain that the frameworks are not fit for purpose.*

This view is repeated in the government's subsequent apprenticeship reform implementation plan, [The future of apprenticeships in England](#) (October 2013), and in the Minister for Skills' most recent [Skills Funding Letter 2016-2017](#) (December 2015):

In future, Apprenticeships will be based on standards designed by employers to meet their needs, the needs of their sector and the economy more widely. (October 2013)

Employers are already driving forward with the new standards, which are higher quality and better meet their needs than the frameworks they replace. (December 2015)

The government's latest reform implementation plan [English Apprenticeships: Our 2020 Vision](#) (December 2015) moderated earlier views of employer dissatisfaction while announcing the continuation of SFA funding for new starts on

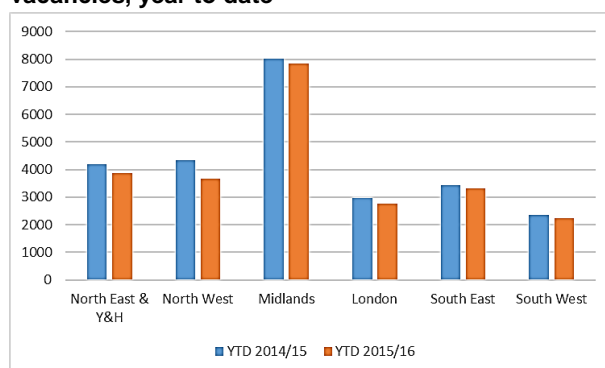
apprenticeship frameworks beyond April 2017 (emphasis added):

Apprenticeships are already well respected by those who offer them, but *many businesses who do not yet offer apprenticeships say that this is because they do not feel that the programme offers exactly what is needed for their industry or size of business.*

According to these statements, apprenticeship frameworks must be replaced because employers have not been sufficiently involved in their design and they do not offer employers exactly what they need for their industry or size of business. From 2012 onwards the policy rationale has been clear: apprenticeship frameworks must be replaced because *many employers and businesses are dissatisfied with them.*

In 2014, only 15% of [employers offered apprenticeships](#) and three quarters of these apprenticeships were offered by small businesses in England. This is an increase from 12% in 2012, with notable growth among small businesses and in sectors without a history of offering apprenticeships. Nevertheless, in the first nine months of 2015/16 there was a 7% decrease in the number of employers posting [online apprenticeship vacancies](#) compared with the same period in 2014/15, as Figure 1 shows

**Figure 1: Employers posting online apprenticeship vacancies, year to date**



The London results presented in Figure 1 reflect findings from two recent SQW projects. In our report for the Greater London Authority, [Further Education Colleges Meeting the Needs of London's Economy](#) (September 2015), London colleges identified lack of employer demand as the biggest barrier to increasing the number of apprenticeship starts. Our recent analysis of

employers' workforce skills needs at London's largest industrial estate, Park Royal, confirmed the challenges training providers face engaging micro and small enterprises in particular who may have little interest in higher-level technical and professional skills or apprenticeships. Figure 1 suggest these views are widely held.

### Evidence

Could dissatisfaction with apprenticeship frameworks explain low employer engagement? In the months leading up to the publication of the Richard Review in November 2012, three additional enquiries addressed this issue. The [NAO](#) report on *Adult Apprenticeships* (February 2012) revealed the concentration of new starts in relatively few apprenticeship frameworks, and recommended better targeting of government funding in particular frameworks, levels and age ranges likely to have most impact on the economy. The [Holt Review](#) (August 2012) of apprenticeships for small and medium-sized enterprises identified low employer awareness as a barrier to engagement and recommended better communication of the benefits and also greater involvement by small employers in the design and delivery of apprenticeship frameworks. The House of Commons [Business, Innovation and Skills](#) (BIS) Committee *Fifth Report on Apprenticeships* (November 2012) endorsed the introduction of statutory Specification of Standards for Apprenticeships in England ([SASE](#), January 2011, last updated in September 2015), which set standards for all apprenticeship frameworks to meet, and also recommended targeting government funding for apprenticeships most likely to improve value for money. None of these inquiries suggested low employer engagement was the result of widespread dissatisfaction with apprenticeship frameworks, or recommended their replacement.

Unfortunately, the Richard Review did not provide evidence to support its assertion that 'many employers complain that the frameworks are not fit for purpose'. The report was preceded in June 2012 by the [Richard Review of Apprenticeships Call for Evidence](#), which asked (amongst other things) 'How can we ensure the training offered really reflects employers' needs?' However, other than what appears in the Richard Review report



itself, evidence generated by the Call has not been published. The Call for Evidence was accompanied by the [Richard Review Call for Evidence Background](#) (June 2012) and the [Richard Review of Apprenticeships Background Evidence](#) (no date, URN 12/915). Neither provides evidence for employers complaining apprenticeship frameworks are not fit for purpose.

On the contrary, the Background Evidence (slide 21) reported employers who already use them were very satisfied with apprenticeships, drawing on the [Institute for Employment Research](#) report *Evaluation of Employers: apprenticeships* (BIS Research Report 77, May 2012). This found 88% of apprentice employers were satisfied or very satisfied with the 'relevance of training to their needs'. The most recent [Evaluation of Employers: apprenticeships](#) (BIS Research Paper 288, May 2016) and [FE Choices Employer Satisfaction Survey 2014/15](#) (March 2016) reports confirm continuing high levels of employer satisfaction with apprenticeships. With some sector variations and also differences with other forms of workplace learning, most apprentice employers today agree apprenticeship frameworks reflect up-to-date industry practices.

Even employers in the driving seat of apprenticeship reform, those involved in the 140 trailblazers designing the new apprenticeship standards, do not think there is anything fundamentally wrong with apprenticeship frameworks, as the [Institute for Employment Studies](#) (IES) found in its *Process Evaluation of Apprenticeships Trailblazers Final Report* (BIS Research Paper 256, November 2015):

Although the Richard Review recommended root and branch reform of Apprenticeships, many Trailblazers considered that the current model was largely fit for purpose and of good quality.

Of course this does not explain why so many employers choose not to offer apprenticeships. *How many* of these employers complain apprenticeship frameworks are not fit for purpose, or do not offer exactly what is needed for their industry or their size of business?

Two UKCES *Employer Perspective Survey* reports shed some light on this: UKCES Evidence Report 64, December [2012](#); and UKCES Evidence Report 88, November [2014](#). In 2014, the UKCES reported reasons why employers do not offer apprenticeships under three headings (based on 13,900 employers who do not offer apprenticeships):

- employers lack awareness of apprenticeships or how to offer them (10%)
- employers actively decide not to offer apprenticeships (e.g. their staff do not need training) (33%)
- employers perceive structural barriers preventing them from offering apprenticeships (56%).

[English Apprenticeships: Our 2020 Vision](#) (December 2015) focussed attention on two of the five structural barriers ranked in the following order by the UKCES in 2014 (emphasis added):

- *Not suitable due to size of establishment* (20%)
- Recruitment freeze / not recruiting (15%)
- Cannot currently afford to (8%)
- *Apprenticeships are not offered for your industry* (8%)
- Do not have time to train them (4%).

More than one quarter (28%) of employers reported they did not offer apprenticeships either because they were not suitable for their size of business (20%) or because they were not offered for their industry (8%). This leaves almost three quarters (72%) who did not offer apprenticeships for reasons other than those singled out in the government's latest reform implementation plan. Moreover, fewer employers reported apprenticeships were not offered in their industry in 2014 (8%) than in 2012 (14%), suggesting improvements in industry coverage and relevance.

It will also be observed that 8% of employers reported they could not afford to offer apprenticeships. It is surprising that [English Apprenticeships: Our 2020 Vision](#) (December 2015) is silent on this important issue, because it set out plans from for employers to pay more for

apprenticeships with cash co-investment starting in April 2017. [Concerns](#) have been raised about how the new funding arrangements will affect small employers in particular. According to the [IES Process Evaluation of Apprenticeships Trailblazers Final Report](#) (November 2015), trailblazer employers were particularly negative about co-investment because 'they felt this would be off-putting to businesses, with the cash flow constraints and administrative barriers likely to particularly deter small firms'. In this context it is worth remembering that according to the UKCES, the largest group of employers who did not offer apprenticeships in 2014 felt apprenticeships were not suitable for their size of (small) business (20%, up from 15% in 2012). With three quarters of apprenticeships currently offered by small employers, this is a major issue. It is unclear how replacing apprenticeship frameworks with standards will address it.

There appears to be little evidence to support the view that employers and businesses do not offer apprenticeships because 'many think that the frameworks are not fit for purpose' (Richard Review, November 2012) or do not meet their needs (Implementation plan, October 2013). There is strong evidence demonstrating 'apprenticeships are already well respected by those who offer them', but weak evidence showing 'many businesses who do not yet offer apprenticeships say that this is because they do not feel that the programme offers exactly what is needed for their industry' (Our 2020 Vision, December 2015). It remains a concern that one fifth of employers in 2014 did not think apprenticeships were suitable for their size of (small) business. This structural barrier is likely to be exacerbated by the introduction of employer cash co-investment in April 2017, potentially further weakening employer engagement.

## PROGRESS

On 18 March 2016, [Sue Husband](#), Director of the National Apprenticeship Service, told the 2016 FE Week Apprenticeship Conference in Birmingham that in order 'to achieve 3 million quality apprenticeship starts we need to increase the number of starts by 20% from current levels'. On 23 March 2016, the Skills Minister celebrated provisional Statistical First Release (SFR) figures

showing 'dramatic growth' in the number of Higher Apprenticeships. Noting 'strong growth in the number of apprenticeships at all levels', [Nick Boles](#) affirmed 'we are well on our way to creating 3 million apprenticeships by 2020'.

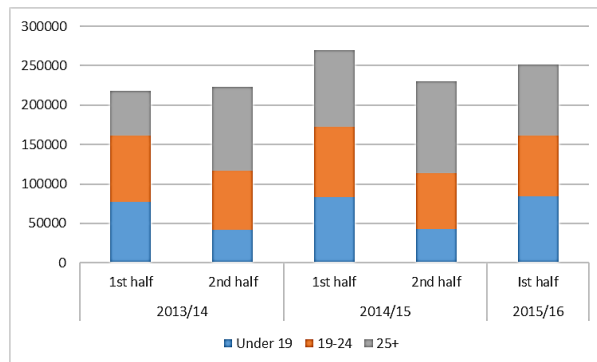
Closer examination of the [23 March 2016 SFR](#) data (Tables 7.1 and 21.1) tells a different story. In order to achieve three million apprenticeship starts by 2020, 600,000 starts will be required in each year of this parliament (or 300,000 in each half year). Provisional figures in the SFR show 251,100 apprenticeship starts in the first half of the 2015/16 academic year (August to January). Assuming the same number of starts are obtained in the second half of 2015/16 (optimistically, given there were fewer starts in the second half of the previous year), we arrive at an estimate of 502,200 apprenticeship starts for the whole of 2015/16. That is little more than the 499,990 starts for the whole of 2014/15, and suggests Sue Husband's 20% shortfall will remain in place for the first 15 months of the new parliament.

Our analysis of the 23 March 2016 SFR (Tables 7.1 and 21.1) compares provisional results for apprenticeship starts in the first half of 2015/16 with results for apprenticeship starts in the first half of 2014/15, in order to mitigate the evident seasonal effect of more young people starting at the beginning of each academic year. Overall new starts on apprenticeships decreased by 7% in the first half of 2015/16 compared to the first half of 2014/15, including 6% fewer starts by those under the age of 25 (Figure 2). New starts on Higher Apprenticeships did increase by 19% in the first half of 2015/16 compared to the first half of 2014/15, but comprised only 4% of all apprenticeship starts (Figure 3). New starts on Advanced Apprenticeships decreased by 5% in the first half of 2015/16 compared to the first half of 2014/15, including 4% fewer starts for those under the age of 25 (Figure 4). New starts on Intermediate Apprenticeships decreased by 10% in the first half of 2015/16 compared to the first half of 2014/15, including 8% fewer starts for those under the age of 25 (Figure 5).

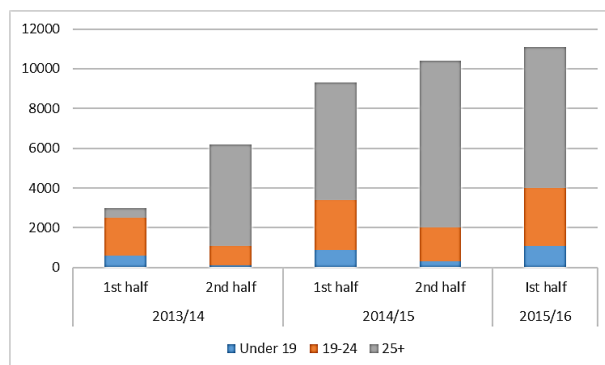
What contribution did the new apprenticeship standards make to the number of starts in the first two quarters of 2015/16? At the time of writing in May 2016, only a small number of [apprenticeship](#)

[standards](#) were 'ready for delivery' (i.e. had approved standards and assessment plans), for 82 occupations in 35 industry sectors. This compares with [333 apprenticeship frameworks](#) for 1,500 occupations in 170 industry sectors. Concern has been expressed over delays in the approval of new [apprenticeship standards](#) and [assessment organisations](#), so the small number of apprenticeship starts on the new standards is not surprising (Figure 6).

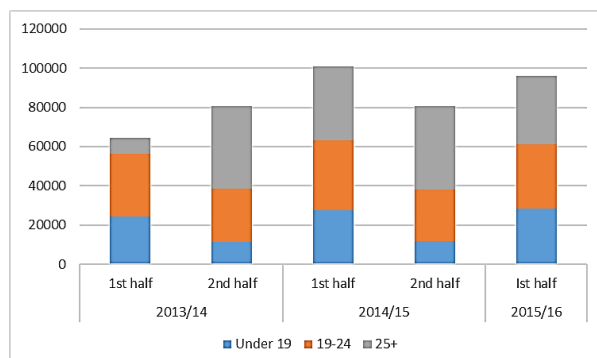
**Figure 2: Apprenticeship starts at all levels, 2013/14 – 2015/16**



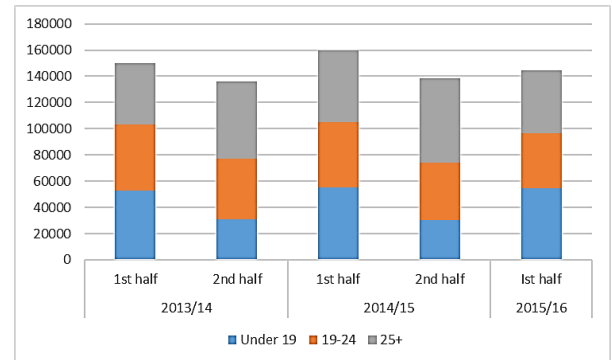
**Figure 3: Higher Apprenticeship starts, 2013/14 – 2015/16**



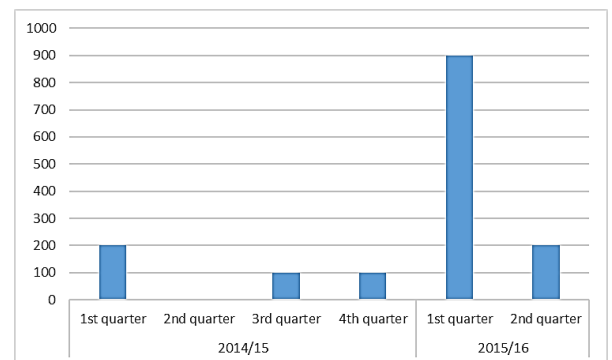
**Figure 4: Advanced Apprenticeship starts, 2013/14 – 2015/16**



**Figure 5: Intermediate Apprenticeship starts, 2013/14 – 2015/16**



**Figure 6: Apprenticeship starts on new standards, 2014/15 – 2015/16**



Note: volumes rounded to the nearest 100.

In the first half of 2015/16, apprentices under the age of 25 made almost all (91%) of the starts on new standards, hence the spike in the first quarter of 2015/16. However, the total number of 1,100 starts comprise only 0.4% of all apprenticeship starts. Even with the announcement of a new monthly cycle to [accelerate approval](#) of new standards and assessment plans from August 2016 (before standards approval moves to the IfA in April 2017), it seems unlikely that new apprenticeship standards will make more than a marginal contribution to Sue Husband's '3 million quality apprenticeship starts' by 2020.



The results for the first half of 2015/16 do not look promising. Compared to the first half of 2014/15, the most dramatic growth was for Higher Apprenticeships but they comprise only 4% of all starts and were mostly taken up by people aged 25+. Starts for young people under the age of 19 on Advanced and Intermediate Apprenticeships remained steady, but fell for those aged 19-24 and for older people aged 25+. The 'strong growth across all levels' from 2013/14 to 2014/15 celebrated by Nick Boles was not sustained in the first half of 2015/16. A spike in apprenticeship starts can be expected in 2016/17, as employers rush to avoid cash co-investment from April 2017. It remains to be seen whether the momentum this generates will continue under the new funding arrangements in 2017/18 and beyond.

### LEARNING?

Despite evidence to the contrary, current apprenticeship policy is based on the premise that employers think apprenticeship frameworks are not fit for purpose and should be replaced by new apprenticeship standards. Yet continuing employer support for the old frameworks combined with trivially few starts on the new standards, means the government has little choice but to rely on apprenticeship frameworks to deliver its election manifesto commitment for three million new apprenticeships by 2020. In this context the government's decision in December 2015 to continue SFA funding for new starts on apprenticeship frameworks after April 2017 makes sense. The same cannot be said for the original October 2013 announcement, that 'from 2017/18 all new Apprenticeship starts will be based on the new standards'.

What could be done differently? The process of designing a new apprenticeship system would benefit from a fuller understanding of the complex and historic reasons for endemically weak employer engagement, alongside an appreciation of what employers do value about existing apprenticeship frameworks and new apprenticeship standards. Rather than replacing apprenticeship frameworks altogether, more flexibility could be introduced in their design and delivery to accommodate the needs of smaller employers in particular, as suggested by the Holt

Review in 2012. This would enable training providers to offer a range of more responsive and flexible apprenticeship options, encouraging greater employer engagement.

Moreover, attempts to grow the number of apprenticeships could be better targeted for maximum impact. Instead of promoting apprenticeships for all ages, as proposed in the latest reform implementation plan, SFA funding could focus on ensuring all 'young people have the skills to succeed', as pledged in the 2015 election manifesto commitment. Rather than allocating SFA funding indiscriminately, sectors and locations most likely to yield the highest returns for productivity, employment and earnings for young people could be prioritised, as recommended by the NAO and BIS Committee in 2012.

More significant policy changes along the road towards a new apprenticeship system are likely to weaken employer engagement, dampen provider responsiveness, and put at risk the delivery of three million new apprenticeships by 2020. However, if starts on new apprenticeship standards do not pick up rapidly, if risk-adverse training providers favour known frameworks over unknown standards in their local apprenticeships offer, if employers drift away from standards development [trailblazers](#) and resist paying more for apprenticeships, and if the new [IfA](#) does not find its feet quickly, for how much longer can the government's rapid and radical reform of English apprenticeships be sustained?

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