

IFS Green Budget 2017

Reforms to apprenticeship funding in England

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Targeting more apprenticeships

Government commitment to 3 million new apprenticeship starts in England between 2015 and 2020

Range of new policies to help meet target

- Apprenticeship levy
- New funding system in England
- Public sector targets

What we do:

- How does this compare with current system?
- Is there a good case for reforms and targets?
- What are the likely effects on employers and workers?

What is an apprenticeship?

Apprenticeships have long history dating back to at least 12th century

- Young people learning skilled trade from more experienced workers

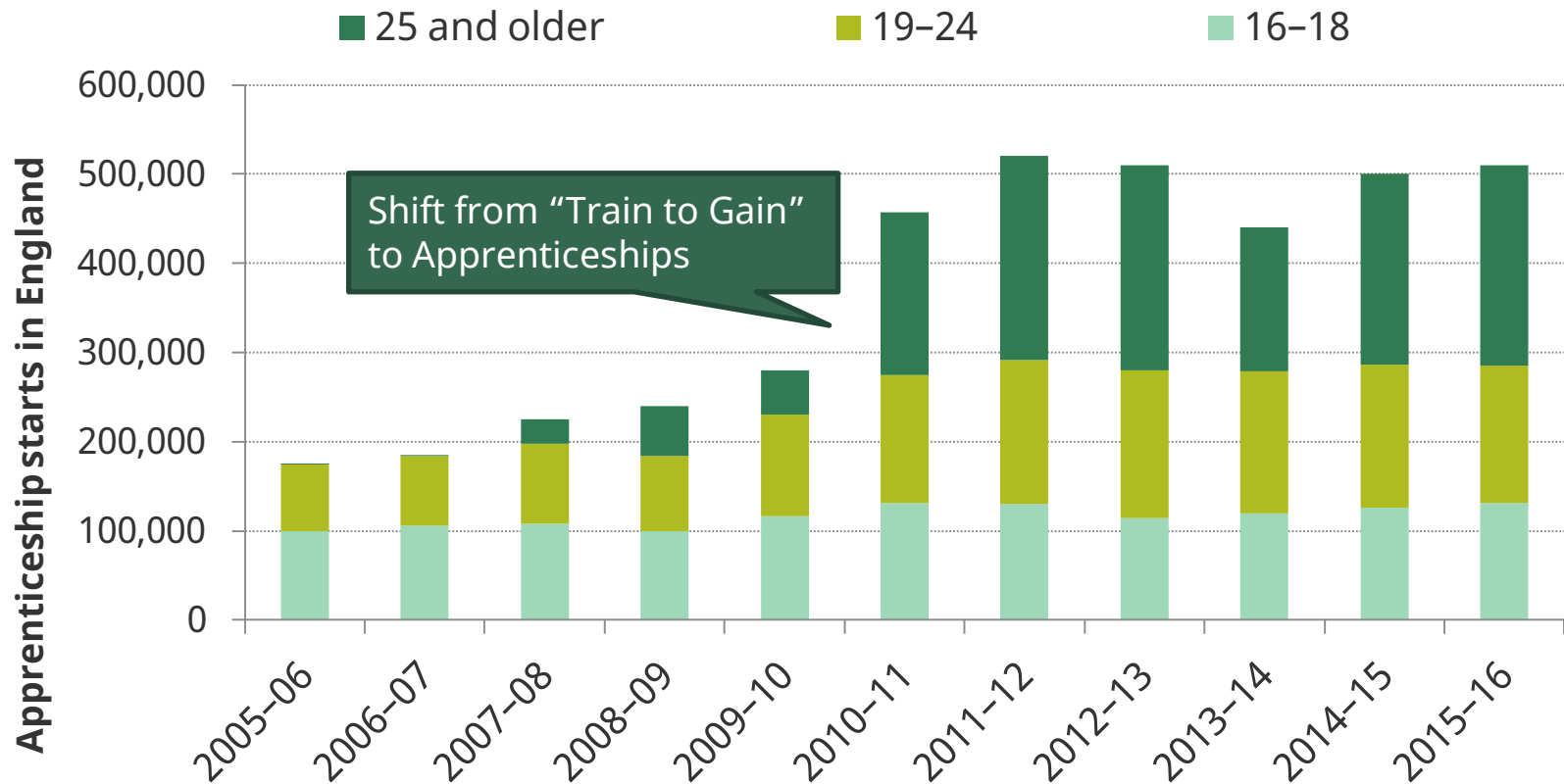
Our focus is on publicly-funded apprenticeships in England

- Full-time job for at least a year
- Lower minimum wages apply
- Clear plan for skills apprentices will learn
- Must spend at least 20% of their time attending off-the-job training

Who are apprentices?

- Vast majority are in service sector
- Around 60% take apprenticeships at GCSE level
- 44% of new apprentices are over 25

Large growth in apprenticeship starts to date driven by increases amongst over 25s



Notes and Sources: See Figure 8.3 of Green Budget

Details of new apprenticeship levy and funding system

From April 2017, employers will pay new apprenticeship levy of 0.5% on paybill in excess of £3million

- Expected to raise £2.8bn by 2019-20
- Will affect 2% of employers, but they employ at least 60% of employees

New system of apprenticeship funding in England

- Subsidies for off-the-job training costs
- Devolved administrations responsible for their own arrangements

Link between levy payments and level of public subsidy is very weak

- Only determines if employers receive 90% or 100% subsidy
- Price caps are far more important for determining public subsidy

How does it compare with current system?

Government already plans to spend £1.8bn on apprenticeships in England in 2016-17

- Subsidies vary by age: 16-18 (100%); 19-23 (50%); 24+ (c.40%)

By 2019-20, total apprenticeship budget expected to be £2.5bn

- Public spending only increases by £640m
- Around $\frac{3}{4}$ of new levy is just a tax rise
- Subsidies of 90/100% implies biggest rise for apprentices age 19+

Apprenticeship starts need to increase by at least 20% to meet target

- In long-run, would imply about 90% of individuals would be doing an apprenticeship at some point in their lifetime

What is the government's case for expanding apprenticeships?

There is a skills problem amongst UK workers

Employers have weak incentive to invest in training

There has been a collapse in workplace training

There are huge returns to public investment in apprenticeships

Do these claims stack up?

There is a skills problem amongst UK workers ✓

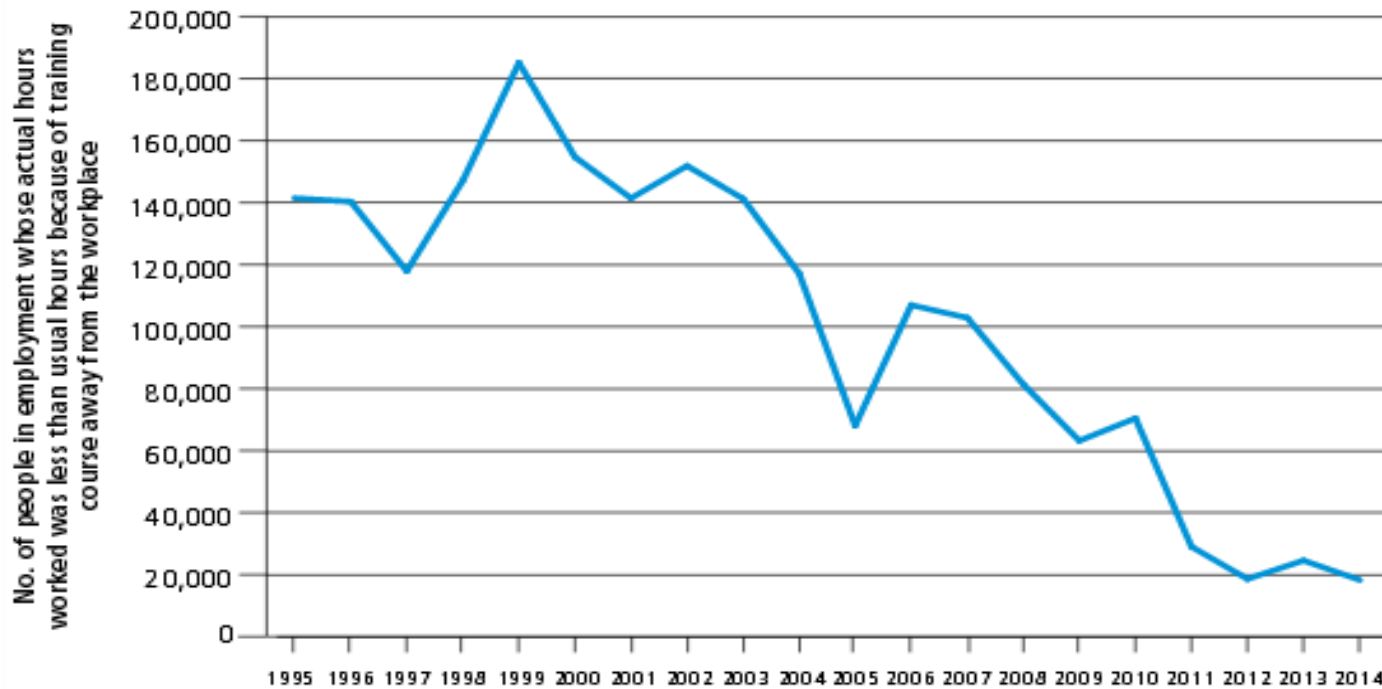
Employers have weak incentive to invest in training ✓

There has been a collapse in workplace training

There are huge returns to public investment in apprenticeships

Government argues there has been an 80% decline in training since late 1990s

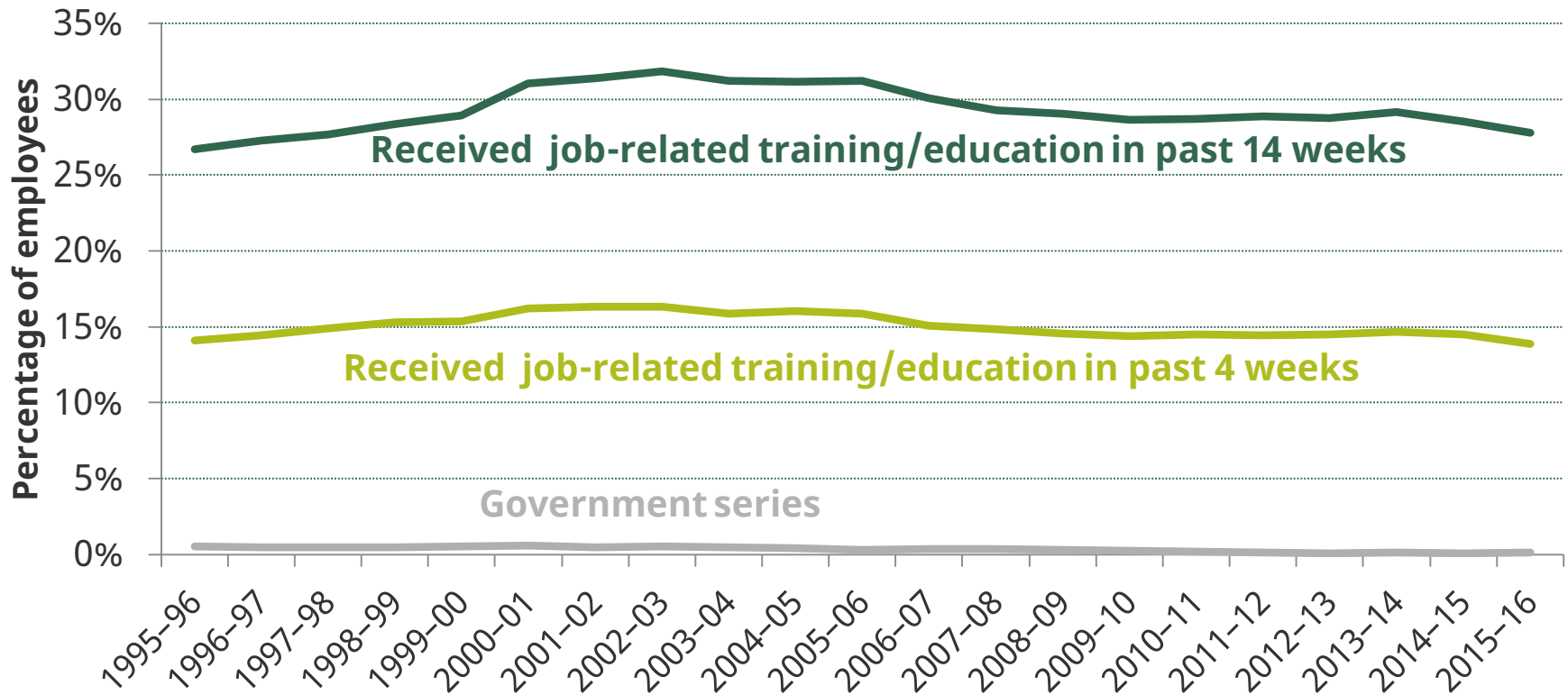
**Chart 1.22: Number of employees attending training outside their workplace:
Labour Force Survey**



Source: Office for National Statistics, Labour Force Survey.

Notes and Sources: Summer Budget 2015

More comprehensive measures suggest only a slight decline since early 2000s



Notes and sources: See Figure 8.1 of IFS Green Budget

Do these claims stack up?

There is a skills problem amongst UK workers ✓

Employers have weak incentive to invest in training ✓

There has been a collapse in workplace training ✗

- Maybe a slight decline
- Shift from off-the-job to more on-the-job training

There are huge returns to public investment in apprenticeships

Do these claims stack up?

There is a skills problem amongst UK workers ✓

Employers have weak incentive to invest in training ✓

There has been a collapse in workplace training ✗

There are huge returns to public investment in apprenticeships ✗

- Government: £1 of public investment generates £26-28 economic benefit
- Based on wildly optimistic assumptions
- Apprenticeships do generate good returns compared with other vocational qualifications, just not *that* good

What are the likely effects of the levy and new funding system?

Effects of the levy

- Reduce wages and profits of firms

Quantity of training

- More apprenticeships, less other training, small net rise

Price of training

- Training providers will price at the price cap

Quality of training

- Major concerns that quantity will trump quality

Likely effects of public sector targets

Large public sector bodies in England must employ new apprentices equivalent to 2.3% of current workforce

Justified as public sector delivering 'fair' share of 3 million target

Most workers in such bodies (e.g. schools and hospitals) are graduates

Would imply quadrupling of number of apprentices in public sector

No rationale for how this would improve skills or quality in public sector

These one-size-fits-all targets should be removed

Conclusion

More apprenticeships would probably be a good thing as evidence suggests they offer better returns than existing vocational qualifications

Government overstates case to worrying degree

Combination of near 100% subsidy and large headline numbers targets create significant concerns for quality of new apprenticeships

Just the latest in series of major policy initiatives and targets aimed at improving quality of vocational education

- *Industrial training boards and levies, Youth Training Scheme, National Vocational Qualifications, Train to Gain*