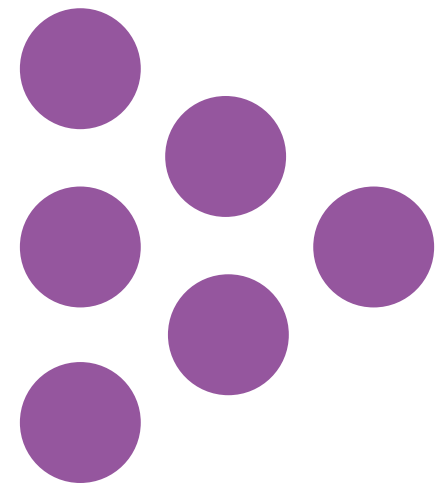

Report

Putting Apprenticeships to Work for Young People

An analysis of the impact of policy reforms and the pandemic on apprenticeship starts

National Foundation for Educational Research (NFER)



Putting Apprenticeships to Work for Young People

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Published in June 2021

By the National Foundation for Educational Research,
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www.nfer.ac.uk

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ISBN: 978-1-912596-44-7

How to cite this publication:

Julius, J., Faulkner-Ellis, H. and O'Donnell, S. (2021). *Putting apprenticeships to work for young people*. Slough: NFER.



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Acknowledgments

We wish to thank officials at the Department for Education (DfE) for providing us with a number of bespoke breakdowns based on linked Individualised Learner Record (ILR), Employer Data Service (EDS) and Inter-Departmental Business Register Records (IDBR).

The NFER team would also like to thank everyone who commented on the priority themes for this research. We would particularly like to thank Anna Morrison CBE from Amazing Apprenticeships and Olly Newton from the Edge Foundation who provided detailed feedback on an earlier draft of this report.

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Executive Summary

Apprenticeships are paid jobs which incorporate on- and off-the-job training. There is a strong economic case for investing in these as a key training route to help young people, in particular, enter the labour market, and to support the wider economic recovery from the pandemic.

Apprenticeships also have the potential to act as a vehicle for social mobility for young people. Recent estimates suggest that disadvantaged young people with an apprenticeship qualification earn, on average, over ten per cent more by age 28, compared to individuals holding a same-level qualification (SMC, 2020).

Despite the significant benefits which apprenticeships offer young people compared to alternative routes (CSJ, 2020), there has been a pronounced decline in the apprenticeships started by young people following the introduction apprenticeship reforms over the last decade. The decline in apprenticeship starts among young people has mostly been in small and medium-sized enterprises (SMEs, enterprises with fewer than 250 employees). The Covid-19 pandemic has resulted in a further drop in apprenticeship starts.

This research examines the impact of the recent reforms on apprenticeship starts, both before and during the pandemic, with a particular focus on SMEs and young people (particularly learners aged 16-18) in order to ensure that – as we continue to emerge from the pandemic – the apprenticeship system is working to support those hit hardest.

Section 1: The pre-pandemic decline

Apprenticeships have undergone significant reform in the last decade. This includes the introduction of the apprenticeship levy; the requirement for apprenticeships to last at least 12 months and include 20 per cent off-the-job training; the requirement for all apprentices to achieve a Level 2 maths and English qualification by the end of their apprenticeship; and a gradual replacement of previous frameworks with new apprenticeship standards, underpinned by an end-point assessment (EPA). In this section, we examine the impact of these changes before the onset of the pandemic.

Apprenticeship starts across learners of all ages fell by a fifth between 2015/16 and 2018/19

This decline was largely driven by a drop in starts in SMEs, which saw a 43 per cent drop from 246,830 in 2015/16 to 141,210 apprenticeship starts in 2018/19. There were also significant differences between apprenticeship starts at different levels. While intermediate (Level 2, equivalent to GCSEs) and advanced intermediate (Level 3, equivalent to AS and A levels) apprenticeship starts declined substantially, there was a rapid growth in higher apprenticeship starts (Level 4 and above) aimed at older apprentices which was driven by large employers (enterprises with 250 or more employees).

The introduction of the apprenticeship levy and apprenticeship standards contributed to this decline

In particular, the impact of the phasing out of apprenticeship frameworks on apprenticeship starts – some of which were considered to be poor quality – is reflected in the rapid decline in starts in subjects (such as ‘Business Management’, ‘Manufacturing Technologies’ and ‘Administration’) where popular frameworks were withdrawn without a new standard to replace them.

However, the reasons for the decline are complex and multi-faceted

Our analysis suggests that these were not the only factors leading to the decline in apprenticeship starts over this period. It is clear that – while the phase out of lower quality qualifications contributed to the decline – other reasons such as availability of funding for SMEs, the 20 per cent off-the-job training requirement, minimum requirements for English and maths, funding bands for qualifications and the overall complexity of the system also played a critical role.

The supply of funding for apprenticeships in SMEs is likely to be an ongoing barrier

This is because there is a fixed budget for the apprenticeship programme and, due to the current design of the funding system, the main mechanism for the Government to ensure that the apprenticeship budget is not overspent is by capping the number of apprenticeship starts in SMEs. In turn, whenever there is a risk that the apprenticeship budget will be overspent, the supply of

apprenticeship funding in SMEs is likely to be limited (see section 5 for further details).

Apprenticeship reforms have particularly impacted young learners

Between 2015/16 and 2018/19, the decline in apprenticeship starts was greatest for apprentices under the age of 19 at 23 per cent, seven percentage points greater than the decline in apprenticeship starts among those over 25. This is mainly because older apprentices were more likely to benefit from the increase in higher level apprenticeship starts.

The most disadvantaged apprentices saw the greatest reduction in starts

The decline in apprenticeship starts in the most disadvantaged quintile of apprentices – where disadvantage is measured by the deprivation associated with the learners’ home postcode – was greater at 30 per cent than the decline for the least disadvantaged quintile of apprentices at three per cent. This was mainly due to the rapid decline in the availability of intermediate-level apprenticeships during this period which disadvantaged young people are more likely to start.

The decline in apprenticeship starts also seems to have systematically impacted the most disadvantaged across all sub-groups. This suggests that disadvantaged young people face greater barriers in accessing apprenticeships, and are more likely to lose out where there is greater competition for apprenticeship opportunities.



London was the only region which saw an increase in apprenticeship starts following the reforms

Apprenticeship starts have decreased across all regions of the country, with the exception of London where starts have increased by 15 per cent – primarily due to a rapid increase in higher-level apprenticeship starts among large employers. For starts among SMEs, the North, Midlands and the East saw comparatively larger declines in apprenticeship starts relative to the South and London. In general, rural areas have been disproportionately impacted by the decline in apprenticeship starts.

The apprenticeship reforms also had a disproportionate impact on starts among female learners up to 2018/19

Between 2015/16 and 2018/19, apprenticeships starts declined by 24 per cent for female learners, compared to a 16 per cent reduction for male learners. This was mainly driven by differences in the sectors in which male and female learners choose to start an apprenticeship, and the extent to which these sectors have been impacted by the shift from apprenticeship frameworks to standards.

Section 2: The post-pandemic decline

Apprenticeship starts fell significantly across employers of all sizes due to the pandemic, with the largest fall among SMEs

The Covid-19 pandemic had a substantial impact on apprenticeship starts, which declined by almost half (47 per cent) between March and July 2020 compared to the same period in the previous year. This large decline was - not only driven by the uncertainty created by the pandemic - but also by the significant disruption faced by apprenticeship providers during the first lockdown.

This decline was larger in SMEs at 51 per cent compared to large employers, at 44 per cent. This is largely because SMEs which employed apprentices were more likely to operate in sectors which were unable to operate during the Covid-19 lockdown, such as hospitality and tourism.

The fall in apprenticeship starts was concentrated in lower level apprenticeship qualifications

During the period March to July 2020, intermediate and advanced apprenticeship starts decreased by more than 50 per cent over the same period in 2019. In comparison, higher level apprenticeship starts only fell by seven per cent. While the phasing out of frameworks in August 2020 is likely to have contributed to the particularly large decline in intermediate and advanced apprenticeship starts – as a larger proportion of these qualifications were still on frameworks coming into the pandemic, there were significant reductions in lower level qualifications even among subjects where framework qualifications had already been largely phased out.

Higher-level apprenticeship starts may have been less impacted by the pandemic as more are started by existing employees

The share of higher-level apprentices who were already employed by their apprenticeship employer at least 12 months before starting their apprenticeship was 57 per cent in 2018/19. This compares to 28 per cent of those starting an intermediate-level apprenticeship.

The largest declines in starts since the pandemic were among younger apprentices and those from disadvantaged communities

Under 19s were especially impacted by the pandemic with starts declining by two-thirds (66 per cent, from 16,930 to 5,710 apprenticeship starts between March - August 2018/19 and 2019/20), a third more than the decline in 25+ year olds of 40 per cent (from 59,900 to 33,870 apprenticeship starts). This can largely be explained by the substantial decline in intermediate and advanced apprenticeship starts.

Similarly, the pandemic has had a disproportionate impact on the most disadvantaged. The decline in apprenticeship starts (across all age groups) was nine percentage points higher in the most disadvantaged 20 per cent of areas in England, compared to all other areas.

Latest data suggests that apprenticeship starts for young apprentices and lower level qualifications remain far below pre-pandemic levels

Overall, the latest data shows that all apprenticeship starts remain 22 per cent below pre-pandemic levels and 37 per cent lower than the level of starts in 2015/16. Apprenticeship starts for younger

apprentices aged under 19 in August 2020 to January 2021 were a third lower than before the pandemic, and less than half the level of starts in 2015/16.

So far, the impact of additional financial incentives for employers to take on new, young apprentices appears to have been limited. These incentives are also poorly targeted, as they can also be accessed by older apprenticeship learners, for whom starts have seen a much stronger recovery.

Traineeships could help increase apprenticeship starts but awareness is low

Employers are currently being incentivised to offer new traineeships - short skills development programmes designed to support young people to progress onto apprenticeships or into work. However, it is unclear to what extent these incentives will be large enough to reverse the rapid decline in traineeship starts since 2015/16. Further, awareness of traineeships among young people and employers is low.

What is next for apprenticeships?

Before the pandemic, apprenticeship reforms had contributed to a significant decline in apprenticeship starts among young, disadvantaged and female apprentices, with most of lost starts being in SMEs. These trends have only been exacerbated by the pandemic.

While some of this decline can be explained by the phasing-out of lower quality apprenticeships, the reasons for decline are multi-faceted.

As the economy re-opens, it is likely that there will be a bounce back in apprenticeship starts across the board. However, after an initial recovery, without any additional intervention, starts are likely to remain lower than before the pandemic for the foreseeable future, particularly for more disadvantaged young people in SMEs unless underlying issues are addressed.

A particular concern for the recovery of apprenticeship starts to pre-pandemic levels is whether the current apprenticeship funding system is able to cover the costs of a recovery in starts. As soon as there is any pressure on the apprenticeship budget (which is inevitable if apprenticeship starts recover), the Government may need to cap the number of apprenticeship starts in SMEs. This is because this is the main part of the apprenticeship budget where spending can be readily reduced.

As many young and disadvantaged individuals seek to undertake apprenticeships in SMEs, this will only serve to affect the starts for these groups further – particularly in more rural areas which are not located near a large apprentice employer.

Going forward, additional policies which address the misalignment of incentives within the current system are needed to ensure that the system is providing high-quality apprenticeships for young people, particularly those from disadvantaged backgrounds. SMEs are an integral part of this solution, not only for the critical role that they play in our economic prosperity but also for supporting apprenticeships among those groups.

Recommendations

Recommendation 1: The funding system needs to be re-designed to ensure that it supports the needs of SME employers

An unintended consequence of the current funding system is that it prioritises starts for levy paying employers, who are more likely to be offering higher apprenticeships, over non-levy paying SME employers who are more likely to be offering intermediate and advanced apprenticeships. This disproportionately impacts apprenticeship starts for young people – particularly among the most disadvantaged. As apprenticeship starts recover from the pandemic, it is inevitable that funding will again become a constraint, and funding for SME employers to offer apprenticeships is likely to be significantly restricted again. A system for funding apprenticeships which meets and protects the needs of SME employers, while ensuring that it does not create unintended impact on other groups, is needed to ensure a longer-term recovery in starts.

Recommendation 2: Funding for training 16-18 year old apprentices should be separated and protected from the main apprenticeships budget

Evidence suggests that apprenticeships offer a high-value route for young people, affording better labour market opportunities than other qualifications – particularly for lower attaining and disadvantaged young people (SMC, 2020). Apprenticeships are currently at-risk of being crowded out by the design of the apprenticeship funding system, which is trading-off apprenticeships for young people against higher apprenticeships (which are typically undertaken by older employees). Whilst it is important that apprenticeships remain aligned

with the needs of employers, we recommend that funding for all 16-18 year old apprentices is separated from the main apprenticeship budget. This would also help the Government make decisions about the level of funding for apprenticeships for 16-18 years olds against the costs and benefits of alternative routes which are available to this age group.

Recommendation 3: Launch a nationwide campaign to raise the profile of traineeships

To support a recovery in lower level apprenticeship starts, it is essential to ensure that young people are equipped with the skills to start an apprenticeship. Traineeships could be playing a more important role in preparing young people for apprenticeships, particularly in supporting them to attain the functional skills requirements which have proved to be a particularly significant barrier to SMEs taking on lower level apprentices since the new requirements were introduced in 2014/15. However, awareness of traineeships remains low (Youth employment UK, 2020). A campaign to raise the profile of traineeships targeting employers, schools, parents, carers and young people is needed to ensure that it becomes a more widely recognised route into apprenticeships, and to increase the number of traineeship opportunities offered by employers.

Recommendation 4: Re-assess how minimum English and maths requirements are incorporated into apprenticeship training

The minimum English and maths requirement introduced in 2014/15 has proven to be a particular barrier to both employers and providers (e.g. further education colleges, and independent training providers) taking on apprentices who have not met these minimum requirements

prior to starting an apprenticeship. Employers do not have a strong incentive to take on an apprentice who has not already achieved these requirements as these learners have additional training needs on top of the 20 per cent off-the-job training requirement. This is exemplified by many employers imposing minimum functional skills requirements which are not a pre-requisite for the actual apprenticeship.

To ensure that lower attaining young people, particularly those from more disadvantaged backgrounds, are able to access apprenticeships, the Government should re-assess how functional skills training is incorporated into apprenticeships, and how the barriers faced by employers and providers taking on these apprentices can be overcome.

Recommendation 5: Require all employers to advertise apprenticeship vacancies on the Find An Apprenticeship (FAA) website and provide bespoke application support to learners applying from disadvantaged areas

Recent apprenticeship reforms have had a disproportionate impact on apprenticeship starts among disadvantaged young people – who may face barriers in accessing information about apprenticeships. While employers may currently choose whether or not to post their apprenticeship vacancies on the FAA website, requiring them to do so would improve equality of access to apprenticeship opportunities. To complement this, the government should provide targeted application support to young people applying to apprenticeships from disadvantaged areas.

1 Introduction

While the Covid-19 pandemic has had dramatic social and economic impacts across all aspects of society, it has had a particularly significant impact on young people. Teaching and learning has been disrupted across schools, colleges and universities. In the labour market, young people have borne the brunt of unemployment with 54% of the payrolled jobs lost in the 12 months to March 2021 being held by those aged under 25 (ONS, 2021).

The decline in apprenticeship starts since the introduction of apprenticeship reforms of the last decade, particularly at lower apprenticeship levels and for young apprentices, was already pronounced before March 2020 when the Covid-19 pandemic hit. Since then, national lockdowns and other restrictions have had a significant impact on the economy and the wider labour market, and have resulted in a further drop in starts.

This research examines the impact of the apprenticeships reforms on SMEs and on young people, against the backdrop of the Covid-19 pandemic. It also considers to what extent the apprenticeship programme needs to be refocused in order to ensure that – as we continue to emerge from the pandemic – the apprenticeship system is working to support young people and SMEs.

2 Policy background

The purpose of apprenticeships

The Government's '2020 Vision' for apprenticeships (HM Government, 2015) set out that all apprenticeships – paid jobs which incorporate on- and off-the-job training – should provide substantive training in a professional or technical route, transferable skills and competency in English and maths.

The apprenticeship programme is intended to support the outcomes of both apprentices and employers. The '2020 Vision' outlined the aspiration for apprenticeships to be an attractive offer that young people and adults aspire to go into, as a high quality and prestigious path to a successful career. It also highlighted that apprenticeships should provide high quality opportunities that deliver the skills, knowledge and behaviours that employers are looking for.

The case for apprenticeships for young people

Evidence suggests that apprenticeships which are undertaken by young people, are associated with significant economic benefits for individuals, employers and the wider economy (CSJ, 2020).

Indeed, recent estimates suggest that disadvantaged female learners with an intermediate apprenticeship qualification earn 11.6 per cent more at age 28, compared to individuals holding a same-level counterfactual qualification (SMC, 2020).

Apprenticeships also have the potential to act as a vehicle for social mobility. The Social Mobility Commission (SMC, 2020) found that apprentices from disadvantaged socio-economic backgrounds benefit more from the boost to their earnings post-apprenticeship than those from non-disadvantaged backgrounds. Apprenticeships also enable young people to earn wages while training, overcoming a significant barrier for many disadvantaged young people who cannot afford to study full-time (SMC, 2020).

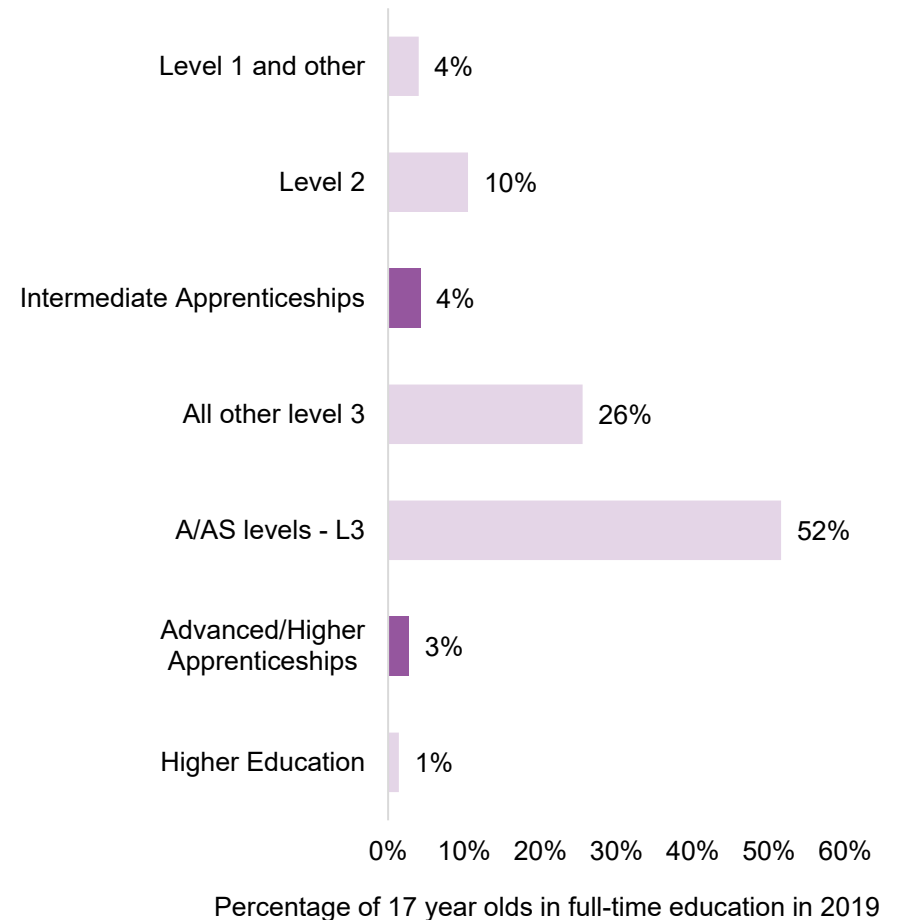
While ensuring the quality of apprenticeships (Spielman, 2021) remains a challenge, and there are outstanding concerns around completion and progression of young apprentices (Camden, 2021), there is nonetheless a strong case for investing in apprenticeships as a key training route for young people to enter the labour market.

How do apprenticeships fit into the post-16 education landscape?

Apprenticeships currently only account for a relatively small share of the qualifications undertaken by young people. Among 17 years olds in full-time education or an apprenticeship in 2019, only seven per cent were studying an intermediate or advanced-level apprenticeship as their highest qualification aim.

Nevertheless, intermediate apprenticeships remain an important part of the Level 2 (GCSE equivalent) qualification landscape for this age group. Out of those studying Level 2 qualifications, apprenticeships make up almost a third (29 per cent) of the qualifications undertaken by young people with their highest qualification aim at this level. In general, pupils studying at this level are lower attaining, and as such, have more limited post-16 options.

Figure 1: Participation of 17 year olds in full-time education or an apprenticeship in 2019 by highest qualification aim



Source: DfE analysis of Labour Force Survey (DfE, 2020e)

The demand for apprenticeships among young people is only likely to increase in the coming years with the planned phasing out of other vocational qualifications (Camden, 2020a) and the current demographic bulge pupils in secondary school pupils (DfE, 2020d).

The case for apprenticeships for SMEs

SMEs are a critical pillar of our economy, accounting for three fifths of employment and around half of turnover in the UK private sector (FSB, 2021). Apprenticeships can play a critical role in supporting employers to develop skills relevant to their organisation and improve their productivity (HM Government, 2015). This is particularly critical for SMEs, who are more likely to have a higher density of skill-shortage vacancies than large employers (DfE, 2020a).

SMEs also play a key role in ensuring access to apprenticeships in areas of the country – particularly rural areas – which are less well-served by large employers, or where large employers are concentrated in particular industries.

Apprenticeships have undergone significant reform during the last decade

When the Covid-19 pandemic hit, the apprenticeship system was still adjusting to the significant reforms which have been introduced in the last decade (summarised in Figure 2). This follows the Richard Review (Richard, 2012) which recommended fundamental changes to address concerns around the quality, length and content of apprenticeships and linked qualifications, and to improve their responsiveness to employer needs.

Step forward to 2021, and all of the reforms proposed by the 2012 review and set out in the Future of Apprenticeships Implementation Plan (HM Government, 2013) are now in place. All apprenticeships now last at least 12 months and must include 20 per cent off-the job training; all qualified apprentices are required to have a Level 2 maths or English qualification; all apprenticeships now have an EPA in place which apprentices must pass to gain the qualification; and all new starts since August 2020 have been on employer-led standards which have replaced the old system of frameworks.

While these changes formed the bedrock of apprenticeship reform, the other major development has been the introduction of the apprenticeship levy, which was intended to fund apprenticeships across the board. This 0.5 per cent tax on employers with an annual pay bill over £3 million was introduced in April 2017, following the 2014/15 apprenticeships funding review and the publication of the Government’s ‘2020 Vision’ for apprenticeships (HM Government, 2015). This set out the ambition to increase employer engagement and investment in apprenticeships, and to encourage more high-level apprenticeship training to help address the nation’s ‘skills shortages and stimulate economic growth’ (p.4). It also set the target of three million new apprenticeship starts by 2020, which has been missed.

There has been a significant decline in apprenticeship starts since the introduction of all the recent apprenticeship reforms. The impact of this decline has been felt unevenly, with disadvantaged young people and small and medium-sized enterprises (SMEs) particularly affected.

Figure 2: Timeline of the key apprenticeship reforms in the last decade

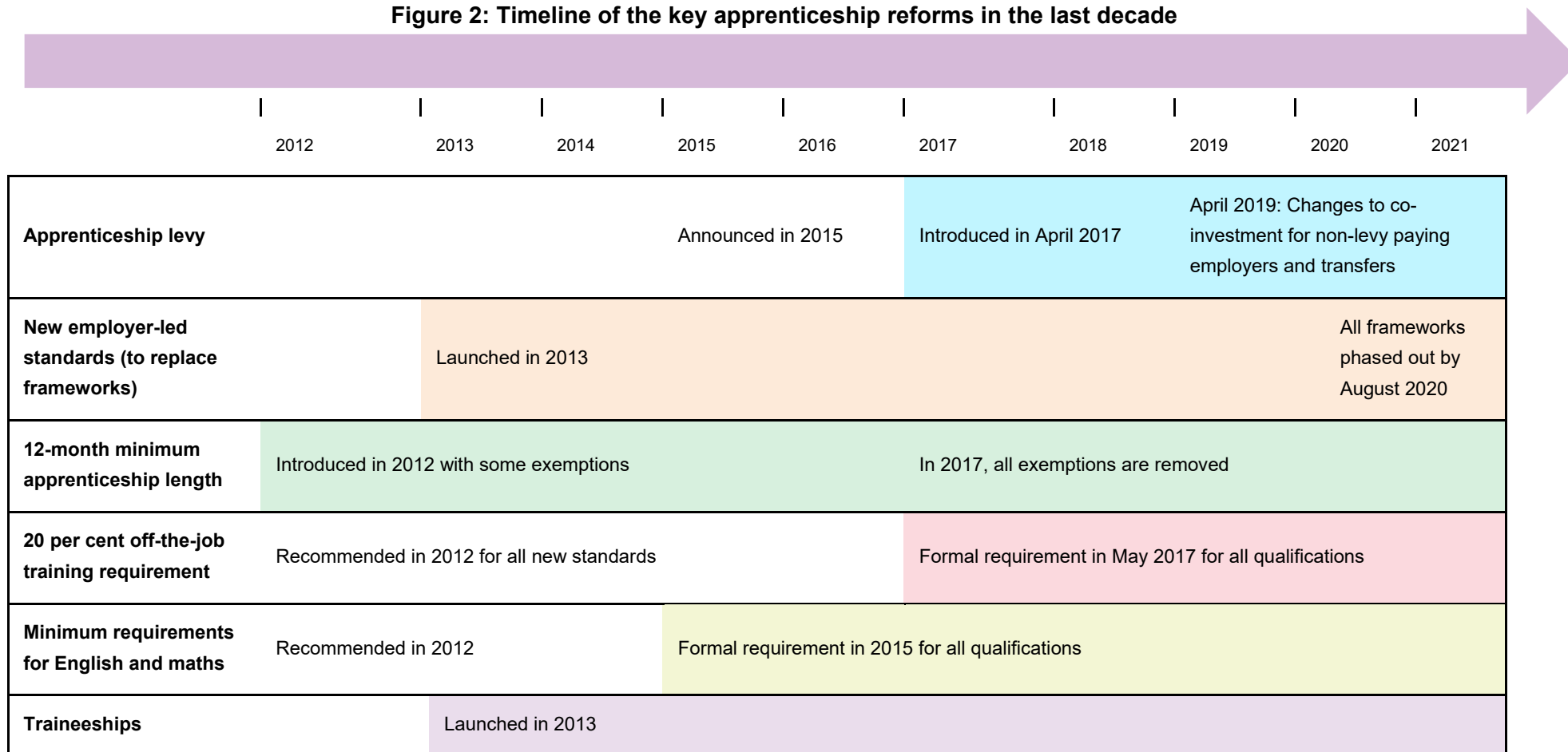


Table 1: Key apprenticeship policies in the last decade, before and after reform

	Rationale for change	Before	After
<i>Shift from frameworks to standards</i>	<p>Improve quality</p> <p>Qualifications to meet the needs of employers</p>	<p>Frameworks were designed by sector bodies, considered to be ‘qualification-led’</p> <p>No formal assessment</p> <p>Not aligned with professional qualifications</p>	<p>Standards were designed by groups of employers (‘trailblazers’), considered to be ‘occupation-led’</p> <p>End-point assessment at the end of qualification</p> <p>Aligned with professional qualifications</p>
<i>Apprenticeship levy</i>	<p>Introduce employer-led demand</p> <p>Engage employers in the apprenticeship system</p>	<p>Funding was provided to training providers to deliver apprenticeships</p> <p>Although employers were expected to make a contribution to the costs of apprenticeship training, this often did not result in a cash transfer</p>	<p>Large employers and medium levy paying employers access apprenticeship funding through the levy with a top-up from the Government. Ability to transfer levy funds to other employers</p> <p>Once levy funds are used, large employers co-invest in funding with the Government. Small and medium-sized non-levy paying employers who have not received a transfer also co-invest (see Table 2 for further details)</p>
<i>Minimum apprenticeship length</i>	<p>Improve quality</p> <p>Introduce a minimum standard for apprenticeships</p>	No minimum	12 month minimum. Initially, apprenticeships could be shortened if the learner had already covered some of the course content but exemptions were removed in 2017
<i>Minimum requirements for English and maths</i>	Ensure apprenticeships are preparing individuals with minimum skills to succeed in the labour market	No minimum	Apprenticeships must offer training up to Level 2 in Functional Skills or English and maths, if the apprentice does not already have these or equivalent qualifications
<i>20 per cent off-the-job training</i>	Improve quality	Employers engaging with a wide-range of training	All employers required to offer and evidence that they are providing apprentices with 20 per cent off-the-job training

Disadvantaged young people have been particularly impacted by the apprenticeship reforms

The Public Accounts Committee (GB Parliament, 2019a) has highlighted that the way the apprenticeship programme has evolved increases the risk that those with lower skills and from disadvantaged communities miss out on the potential benefits of apprenticeships. They find that this is a result of employers, incentivised by funding policy changes weighted towards encouraging higher-level apprenticeships, using levy funds to support more of these programmes (at Level 4 and above).

The Deaton Review of Inequalities (IFS, 2021) found that there have been fewer apprenticeship starts among disadvantaged apprentices since the introduction of the levy and that disadvantaged apprentices are less likely to complete their apprenticeship. It also found that access is unequal, with those from low socio-economic groups being less likely to begin higher-level apprenticeships.

SMEs have also faced challenges in engaging with apprenticeship reforms

It has been widely documented that SMEs have been disproportionately adversely affected by the reforms (FSB, 2019; GB Parliament, 2019a). The levy has been partly responsible, as the policy focus on levy-paying employers has limited funding for non-levy payers. Some training providers have not had enough funding to offer as many apprenticeships as they would like to smaller employers (GB Parliament, 2019a; DfE, 2020c; CSJ, 2020).

The Government response to this funding challenge has been to allow levy-paying apprentice employers to transfer up to 25% of the annual value of their funds to other organisations (e.g. smaller employers in their supply chain). More recently, the Government has introduced a new scheme to allow large employers to pledge specific amounts of their funding for transfer (under the Skills for Jobs White Paper [DfE, 2021f]). These initiatives might increase apprenticeship starts in SMEs. Indeed, by March 2021, of 9500 approved transfers, 66.5% had been made to non-levy paying employers (DfE, 2021a).

A quarter of smaller employers regard the 20% off-the-job training requirement as one of the three biggest challenges they have when engaging with apprenticeships (FSB, 2019). The time and cost implications of administering this can also make intermediate (Level 2) apprentices less beneficial to an organisation in terms of ‘value added’ compared to apprentices at higher levels (DfE, 2020c). The House of Commons Education Committee, while recognising the need for a minimum amount of off-the-job training, has recommended exploring greater flexibility (GB Parliament, 2018).

The Augar review of post-18 education and funding (GB Parliament, 2019b) highlighted that SMEs can struggle to engage with apprenticeships, due to the complexity of a system that is difficult to navigate and overly bureaucratic. The IPPR has also concluded (Quilter-Pinner *et al.*, 2020) that many employers overlook opportunities to hire apprentices ‘as a consequence of the complexity of the system’, and that SMEs often do not have the resource required to set up apprenticeships (identify suitable apprenticeship standards from the many available, find a training provider, negotiate the cost of individual apprenticeship standards with providers, etc.). Some of this

administrative burden may be eased now that, since April 2021, all new apprenticeship starts are being arranged via the digital apprenticeship service.

Augar also suggested that restrictions on apprentices' ability to interrupt or resume apprenticeships may act as a significant deterrent to employers and apprentices in the SME sector, and called for work to better understand the challenges they face.

The following sections investigate the drivers of the decline in apprenticeships, before and during the pandemic, among SMEs and disadvantaged young people in further detail.

3 The pre-pandemic decline

This section analyses apprenticeship starts up until 2018/19, the last full academic year of data before the pandemic¹, to disentangle the impact of recent apprenticeship reforms from those of the pandemic. It investigates the decline in apprenticeship starts and to what extent different groups have been impacted.

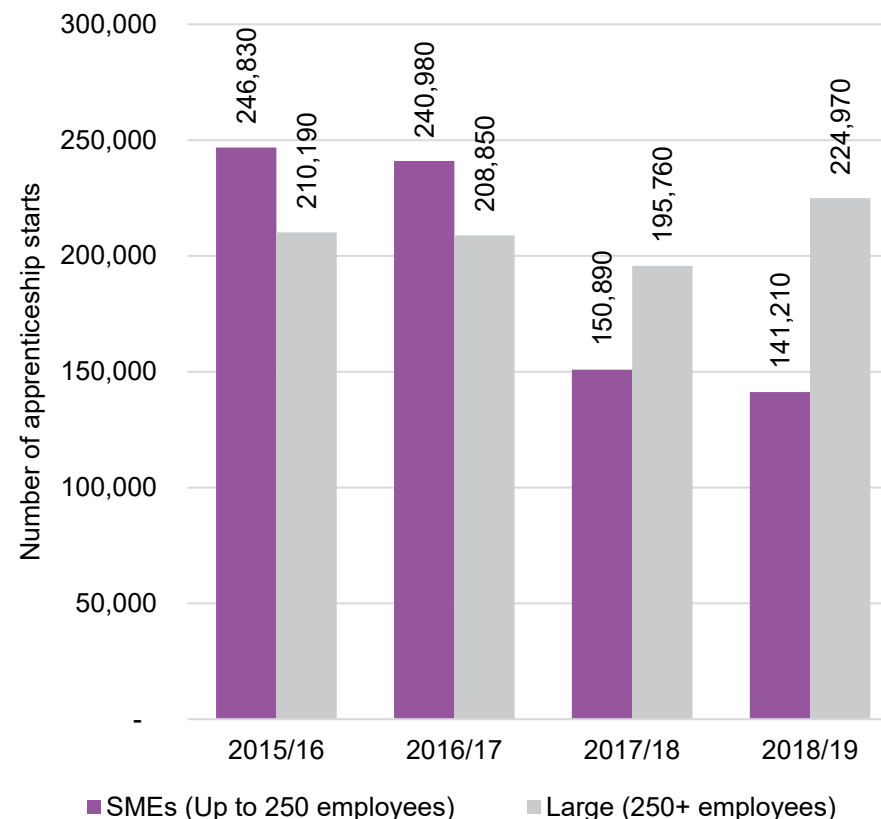
3.1 How did apprenticeship starts change up to 2018/19?

Apprenticeship starts fell by a fifth between the 2015/16 and 2018/19 academic years, declining from 457,020 in 2015/16 to 366,170 in 2018/19.

This decline was largely driven by fewer starts in SMEs, which saw a 43 per cent drop. This was due to both fewer SME employers offering apprenticeships and those who continued to offer them, on average, taking on fewer new apprentices. Meanwhile, starts among large employers mostly remained stable over this period, albeit there was a temporary drop in starts in 2017/18.

While more than half (54 per cent) of apprenticeships were started by SMEs in 2015/16, only two-fifths (39 per cent) of apprenticeship were being started by SMEs by 2018/19.

Figure 3: Apprenticeship starts by employer size, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

¹ Note that the academic year for further education qualifications, including apprenticeships, runs from August to July.

These patterns reflect significant differences in patterns between intermediate (Level 2, at an equivalent level to GCSEs), advanced (Level 3, at an equivalent level to AS and A Levels) and higher level apprenticeships (Level 4-7, at an equivalent level to Higher National Certificates/Diplomas and Undergraduate/Postgraduate Degrees).

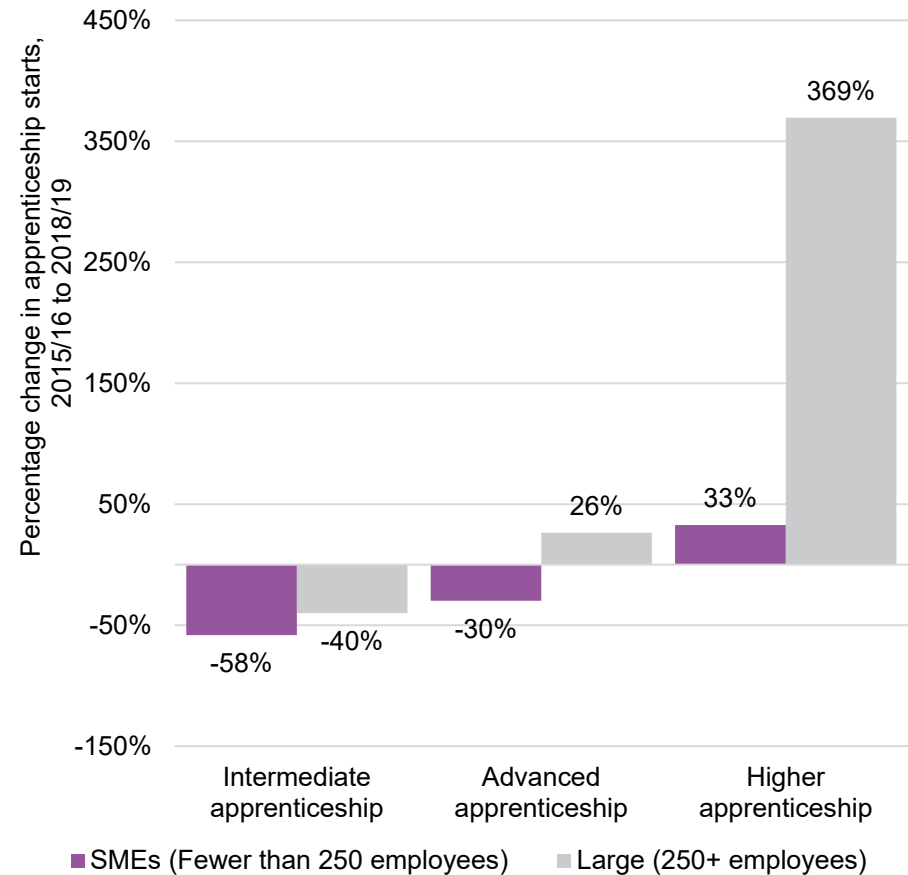
Between 2015/16 and 2018/19, intermediate apprenticeship starts fell across all employer sizes, with a sharp drop between 2016/17 and 2017/18. While advanced apprenticeship starts grew by 26 per cent among large employers between 2015/16 and 2018/19, conversely there was a 30 per cent decline in starts among SMEs. Meanwhile, there was rapid growth in higher-level apprenticeship starts over this period which was almost exclusively driven by a growth in starts among large employers, at over 300 per cent.

Over half (55 per cent) of the increase in higher level starts between 2015/16 and 2018/19 among large employers was in 'Business Administration, Finance and Law', and there have been widespread concerns that these starts reflect a re-branding of existing training schemes (Richmond, 2020). While recent research did not find evidence that this was crowding out other investments in training (CVER, 2021), there is still a question over whether this represents the best use of apprenticeship funding.

By 2018/19, intermediate, advanced and higher level apprenticeships accounted for a third (36 per cent), almost half (44 per cent) and a fifth of apprenticeship starts (20 per cent) respectively. Compared to large employers, apprentices in SMEs were less than half as likely to be starting a higher-level apprenticeship (12 per cent of apprenticeships in SMEs compared to 25 per cent in large employers), and more likely

to be starting an intermediate apprenticeship (41 per cent in SMEs compared to 33 per cent in large employers).

Figure 4: Change in apprenticeship starts by employer size and level, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

3.2 What are the main explanations for the patterns in apprenticeships starts since 2015/16?

The apprenticeship system has undergone significant reforms during the last decade. In this section, we examine a number of the key changes to see what impact they may have had on the decrease in apprenticeship starts seen between 2015/16 and 2018/19.

Apprenticeship levy

The apprenticeship levy, introduced in May 2017, changed the additional costs which employers were expected to contribute towards hiring apprentices at different levels, as summarised in Table 2.

This had different impacts on large employers who pay the apprenticeship levy, compared to SMEs who are largely non-levy paying. It is important to note that large employers incur the costs of the levy irrespective of whether they train an apprentice and so the costs of the levy should not factor into their decisions to hire an apprentice.

Table 2 shows the levy significantly reduced the additional contribution which levy paying employers (mainly large employers) were expected to make towards apprenticeship training for older apprentices making them much more attractive. This is consistent with the rapid growth in higher level apprenticeship starts among large employers, at 369 per cent between 2015/16 and 2018/19.

It is, however, important to note that before the levy was introduced, many employers were not providing the contributions to training costs which the Government was expecting them to make. For example, only 11 per cent of employers actually reported making contributions towards apprenticeship costs in 2010 (BIS, 2012) despite all employers being expected to contribute towards apprenticeship costs for over 19's.

Table 2: Additional employer contribution to training costs

Age of apprentices	Employer size	Additional employer contribution to training costs		
		Before the levy	May 2017 up to April 2019	Since April 2019
Under 19 year-olds	Small	0%	0%	
	Medium non-levy payer		10%	5%
	Large and medium levy-payer		0%	
19+ year-olds	SME non-levy payer	At least 50%	10%	5%
	Large and SME levy-payer		0%	

Source: DfE, 2021e

Note: This table is a simplification. Once large and SME levy-paying employers use up their levy pot, they then co-invest in apprenticeship training costs at the same rate as medium non-levy paying employers. Levy paying employers can also transfer up to 25 per cent of their levy to other employers (including non-levy paying employers) to cover their training costs. Small and medium employers are defined as having fewer than 50 employees and having between 50 and 250 employees respectively.

However, the changes in employer contributions announced as part of the levy are unable to explain all of the patterns in the apprenticeship starts data. For example, although Table 2 shows that the costs of a small employer training an apprentice under 19 remained the same when the levy was introduced, apprenticeship starts for this group fell by 31 per cent between 2015/16 and 2018/19. This demonstrates that the contributions that SMEs have been required to provide towards the levy cannot explain the large drop in apprenticeship starts among SMEs.

Employer-led standards

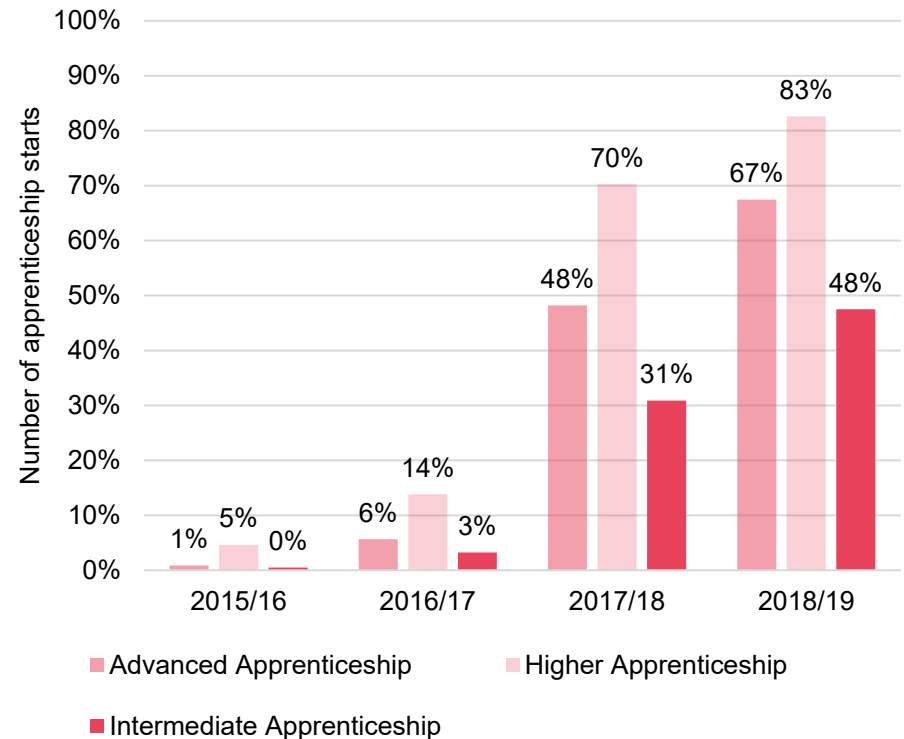
The introduction of employer-led standards, replacing occupation-led frameworks, affected employer demand for apprenticeship qualifications.

As shown by Figure 5, while the roll-out of standards has been gradual, there was a rapid increase in the percentage of apprenticeships on new standards between 2016/17 and 2017/18 coinciding with the large drop in starts. This is consistent with the particularly large drop in intermediate-level qualifications among affected SMEs and large employers – as intermediate qualifications were most likely to be impacted by the switch.

Further, the impact of the phasing out of apprenticeship frameworks can be clearly observed in the significant decline in starts in subjects (such as ‘Business Management’, ‘Manufacturing Technologies’ and ‘Administration’) where popular frameworks were withdrawn without a new standard to replace them.

It is important to note that – where the decline in apprenticeship starts was driven by the phasing out of poor quality apprenticeship frameworks – this may reflect a welcome improvement to the quality of the apprenticeship programmes, rather than a cause for concern.

Figure 5: Percentage of apprenticeship starts which are standards, 2015/16 to 2018/19



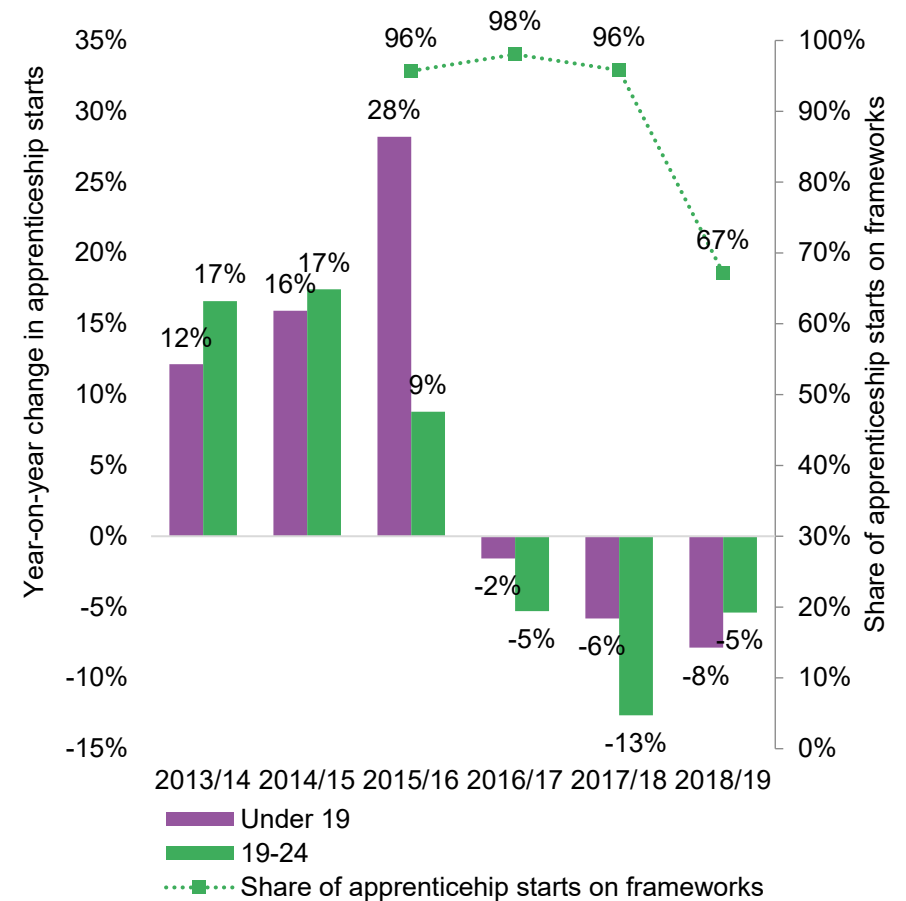
Source: DfE analysis of ILR

The shift from frameworks to standards can also help explain the disproportionate decline in apprenticeship starts among SMEs, compared to large employers. First, as SMEs tended to play a less significant role in the development of new standards, it has been suggested that some new standards are ill-suited to their needs (DfE, 2020c). Second, all standards have an end point assessment (EPA). The additional administrative burden that EPAs create (as employers have to continue to manage the EPA process once the apprenticeship has ended) and uncertainty about assessments (in terms of a lack of understanding about how they would work in practice and a fear that learners may not be capable of passing them) has proved a particular barrier to SMEs employing apprentices (DfE, 2020c).

However, it is also clear that the shift to employer-led standards was not the only factor contributing to the decline in apprenticeship starts during this period. For example, there was a significant decline in intermediate level starts in small employers within the construction subject area in 2016/17 and 2017/18, despite nearly all (96-98 per cent) apprenticeship starts in this subject area being on apprenticeship frameworks during this period.

The training costs for small employers hiring apprentices aged under 19 remained free over this period (see Table 2) which indicates that the apprenticeship levy is also unable to explain the decline in these apprenticeship starts over this period. This demonstrates that there were other factors than the switch to standards and the levy causing the decline in apprenticeship starts over this period. These are explored in further detail overleaf.

Figure 6: Year-on-year change in intermediate apprenticeships in construction among small employers, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

20 per cent off-the-job training requirement

In 2017, the 20 per cent off-the-job training requirement became a formal requirement to improve the quality of provision. This increased both the administrative burden on employers and the effective cost of hiring an apprentice.

While the introduction of the 20 per off-the-job training requirement was an important step towards improving apprenticeship quality, a quarter of smaller employers regard the off-the-job training requirement as one of their three biggest challenges when engaging with apprenticeships (FSB, 2019). As SMEs have fewer employees, many have also found it harder to accommodate the off-the-job training requirement (DfE, 2020c). This is consistent with the decline in apprenticeship starts among intermediate qualifications, particularly in SMEs.

However, the introduction of the 20 per cent off-the-job requirement, which became mandatory in 2017, would be expected to result in a one-off shift in starts – given that there were no further changes after the requirement was introduction - rather than a sustained decline. Given the sustained decline in starts in recent years, this suggests there must be other factors at play.

Minimum requirements for English and Maths

The minimum requirements for English and maths which were introduced in 2014/15 have compounded the impact of the off-the-job training requirement on employers, as they represent an additional demand on apprentices' working time.

While these requirements were introduced before the rapid decline in starts, qualitative evidence has shown that they have proven to be a particular barrier to SMEs taking on intermediate apprentices, particularly lower attaining ones (DfE, 2020c). These requirements also increased the cost to providers of taking on an apprentice who did not already meet the minimum requirements for English and maths as the funding available to provide this training to apprentices is lower than for non-apprentice learners taking the same courses (Staufenberg, 2021).

In turn, there is evidence to suggest that employers and providers are using minimum entry requirements to avoid taking on learners who do not meet these requirements (Lupton *et al.*, 2021).

**Supply of funding
for non-levy
payers**

When the levy was introduced, providers were awarded grants to offer apprenticeships to non-levy paying employers. Due to the design of these grants, not all SMEs were able to access funding.

This limited access because some providers were either never awarded funding to train apprentices in non-levy paying employers, whilst others were not awarded sufficient funding to cover demand from employers. In January 2020, two-fifths of providers reported turning away smaller businesses wanting to recruit apprentices for precisely this reason (AELP, 2020). This is consistent with the disproportionate decline in apprenticeship starts among SMEs.

**Funding for
qualifications**

In May 2017, new maximum funding bands were introduced to cover the costs of apprenticeships. These have affected provider incentives to offer different level apprenticeship qualifications.

When funding bands were introduced, it was intended that employers would negotiate training costs with providers but, in reality, most employers have been purchasing training at the band maximum. Providers have reported that, since the reforms, the funding available

for offering intermediate qualifications has been, in many instances, insufficient to cover the costs of their delivery (DfE, 2020c). This has led providers to stop offering some lower level apprenticeship qualifications, which may help to explain the decline in intermediate qualifications.

Conversely, the new funding bands for higher-level apprenticeship standards made it attractive for providers to recruit more learners on these courses. This helps explain the particular popularity of some higher-level apprenticeships, compared to others.

**Complexity and
administrative
burden**

All the reasons outlined above increased the complexity of hiring an apprentice, created additional administrative burdens on employers and introduced adjustment costs as employers and institutions needed to adapt their processes to the reforms.

The Augar review of post-18 education and funding (GB Parliament, 2019b) highlighted that SMEs can struggle to engage with apprenticeships due to the complexity of a system that is difficult to navigate and overly bureaucratic. The introduction of T Levels (new A level equivalent technical education courses which include a mixture of classroom learning and 'on-the-job' experience, through a work placement at an employer) and Kickstart, since the apprenticeship reforms, has made it more difficult for employers to navigate their options for work-based training. This is consistent with the particular

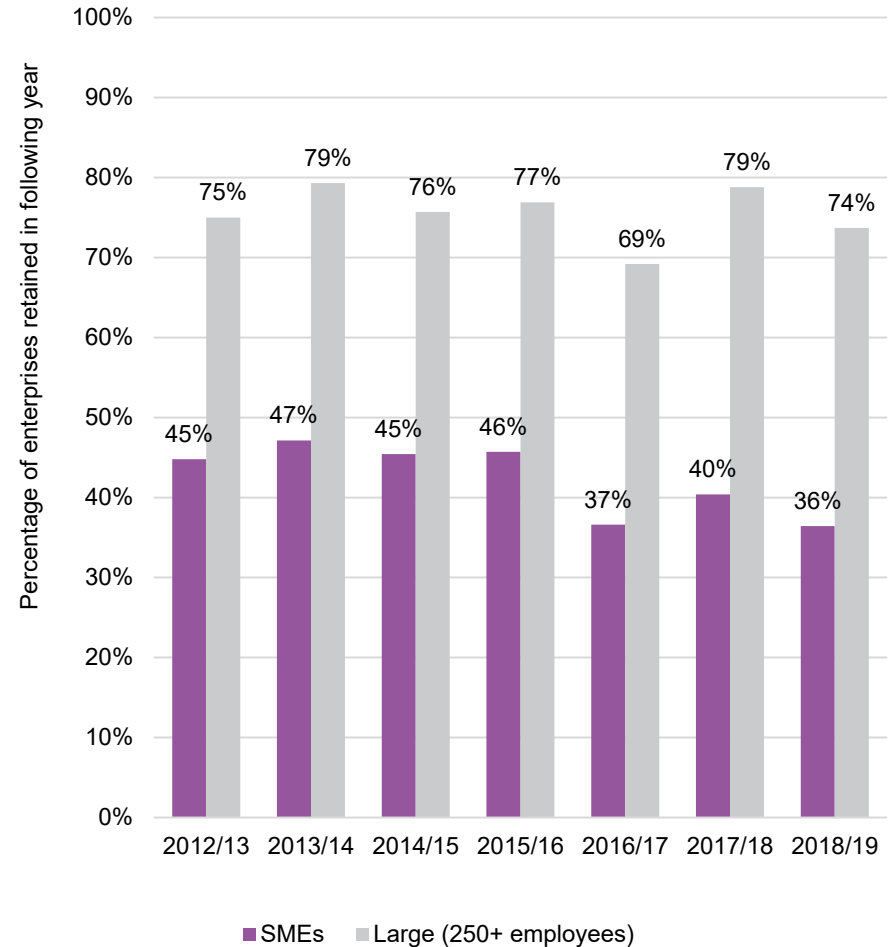
decline in apprenticeships among SMEs – many of which do not have the resources or capacity to attempt navigating the complexities of the system.

The reasons for the decline in apprenticeship starts go beyond initial teething problems. As shown by Figure 7, the one-year employer retention-rate – that is the share of employers who go on to have at least one apprenticeship start in the following year – has been lower for SME employers since 2016/17. This suggests that the barriers to SMEs taking on a new apprentice have persisted since the reforms were introduced.

Reasons for decline are complex and multi-faceted

There are a large number of explanations for the decline in apprenticeship starts since 2015/16. While this makes it difficult to unpick exactly what has caused the decline in starts, our analysis shows that the decline is likely to have been driven by a combination of factors. It also confirms that the decline has not been purely driven by a phase out of lower quality apprenticeship frameworks or the introduction of the levy.

Figure 7: One-year employer retention-rate, 2012/13 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

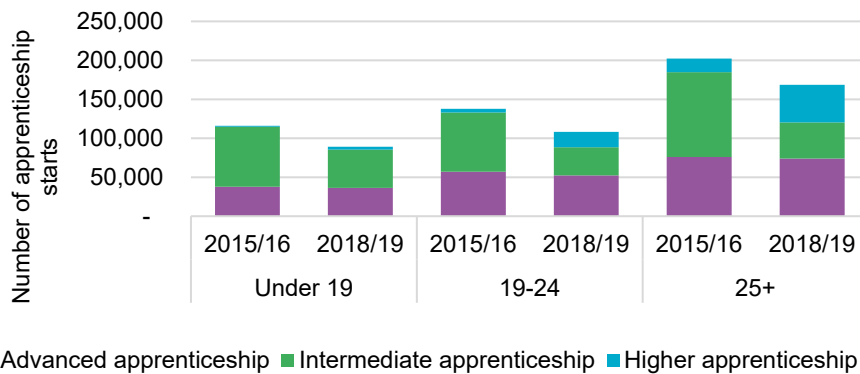
3.3 What impact did policy reforms have on different groups?

By age

Between 2015/16 and 2018/19, the decline in apprenticeship starts was greatest for apprentices under the age of 19 and aged 19-24 at 23 and 22 per cent respectively. In comparison, for older apprentices aged above 25, the decline was only 17 per cent. This is mainly because older apprentices were more likely to benefit from the increase in higher level apprenticeship starts.

In turn, by 2018/19, 24 per cent of apprenticeships were started by under 19s, 30 per cent of apprenticeship were being started by 19-24 year olds and almost half (46 per cent) of apprenticeship were started by over 25s.

Figure 8: Number of apprenticeship starts by age and level, 2015/16 to 2018/19



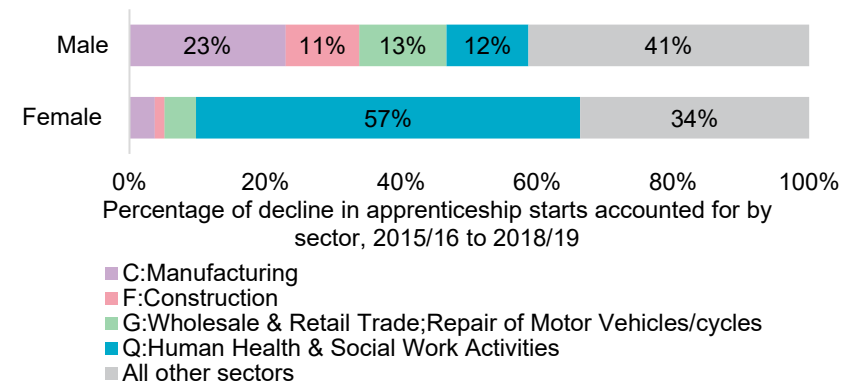
Source: DfE analysis of matched ILR-IDBR-EDS

By gender

Over the same period, apprenticeships starts declined by 24 per cent for female apprentices, compared to a 16 per cent decline for male apprentices.

This decline was mainly driven by gender differences in the sectors that apprenticeships are started in, and the extent to which they have been affected by the switch from apprenticeship frameworks to standards. For example, before the reforms, a much larger share of female apprentices started apprenticeships in the 'Human Health & Social Work Activities' sector (42 per cent in 2015/16) compared to males (eight per cent). The particularly rapid decline in this sector can account for a large share of the decline in starts among female apprentices (57 per cent), compared to male apprentices (12 per cent).

Figure 9: Decline in apprenticeship starts accounted for by sector, 2015/16 to 2018/19

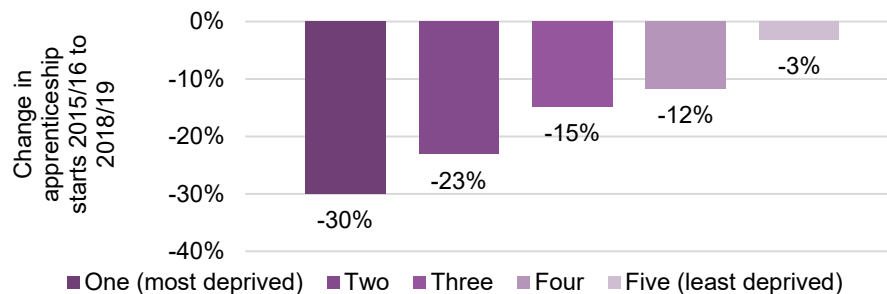


Source: DfE analysis of matched ILR-IDBR-EDS

Disadvantage

Between 2015/16 and 2018/19, the decline in apprenticeship starts across all age groups was disproportionately felt by the most disadvantaged apprentices. As shown in Figure 10, the decline in apprenticeship starts among the most disadvantaged quintile of apprentices was 30 per cent, compared to three per cent for the least disadvantaged quintile of apprentices.

Figure 10: Change in apprenticeship starts by disadvantage, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

There are a number of possible reasons which may explain this disproportionate decline among disadvantaged apprentices:

- **Composition of qualifications:** Before the reforms, more disadvantaged apprentices were more likely – compared to their more advantaged counterparts – to be starting intermediate (equivalent to GCSEs) and advanced (equivalent to AS and A levels) qualifications which have seen the most rapid decline in starts.

- **More likely to experience a decline:** Within all levels of qualifications, employer sizes and all intermediate qualification subject areas, the most disadvantaged apprentices saw a greater fall in starts than the least disadvantaged. For example, intermediate level starts in ‘Retail and Commercial Enterprises’ fell by 53 per cent for the most disadvantaged apprentices, compared to 36 per cent for the least disadvantaged. As the decline in apprenticeship starts seems to have systematically impacted the most disadvantaged across all sub-groups, this suggests that disadvantaged young people are more likely to lose out where there is greater competition for apprenticeship opportunities. Given that information is a barrier for many young people looking to undertake an apprenticeship (UCAS, 2021), improving awareness of apprenticeship opportunities may help more disadvantaged young people access apprenticeships.
- **Less likely to benefit from the increase in apprenticeship starts:** Between 2015/16 and 2018/19, there was a large relative increase in the number of higher level apprenticeships. The most disadvantaged apprentices have benefitted the least from this. Indeed, apprentices in the least disadvantaged quintile saw an increase in higher level apprenticeship starts of over double that of apprentices in the most disadvantaged quintile.

Most (85 per cent) of the decline in apprenticeships amongst the most disadvantaged apprentices occurred in SMEs. This is largely due to the aforementioned decline in intermediate and advanced level apprenticeships which was concentrated in SMEs. This suggests that supporting a recovery in apprenticeship starts in SMEs would also increase starts among disadvantage apprentices.

Region

There was also a geographical disparity in the extent to which starts were impacted by apprenticeship reforms across England. Although the total number of apprenticeship starts among large employers had increased, this growth was not shared across all regions.

London experienced a disproportionately large increase in apprenticeship starts among large employers. This was primarily driven by the increase in higher level apprenticeship starts in sectors such as ‘Information & Communication’ and ‘Professional, Scientific & Technical Activities’ which are concentrated in London. Another driver for this may be that levy contributions are likely to be highest for London-based employers, as the levy is based on payroll costs which are highest in that region. Conversely, the North East region saw apprenticeship starts in large employers decline by a quarter between 2015/16 and 2018/19, albeit from a relatively low base.

For starts among SMEs, the North, Midlands and the East saw comparatively larger declines in apprenticeship starts relative to the South and London. Given that London had the lowest rate of apprenticeship starts per people employed in 2015/16, while the North East had the highest rate², these regional patterns show that the reforms have favoured areas where there had been a lower density of apprenticeship starts previously.

Across all regions, there were substantial differences at the local-level across starts among both SMEs and large employers, as shown by Figure 12 overleaf. This demonstrates that the reforms have had a particular impact on starts in certain areas. For example, apprenticeship starts in East Northamptonshire and Sunderland local authority districts have fallen by over half since 2015/16. In general, looking across starts in both SMEs and large employers, rural areas have been disproportionately impacted by the decline in apprenticeship starts.

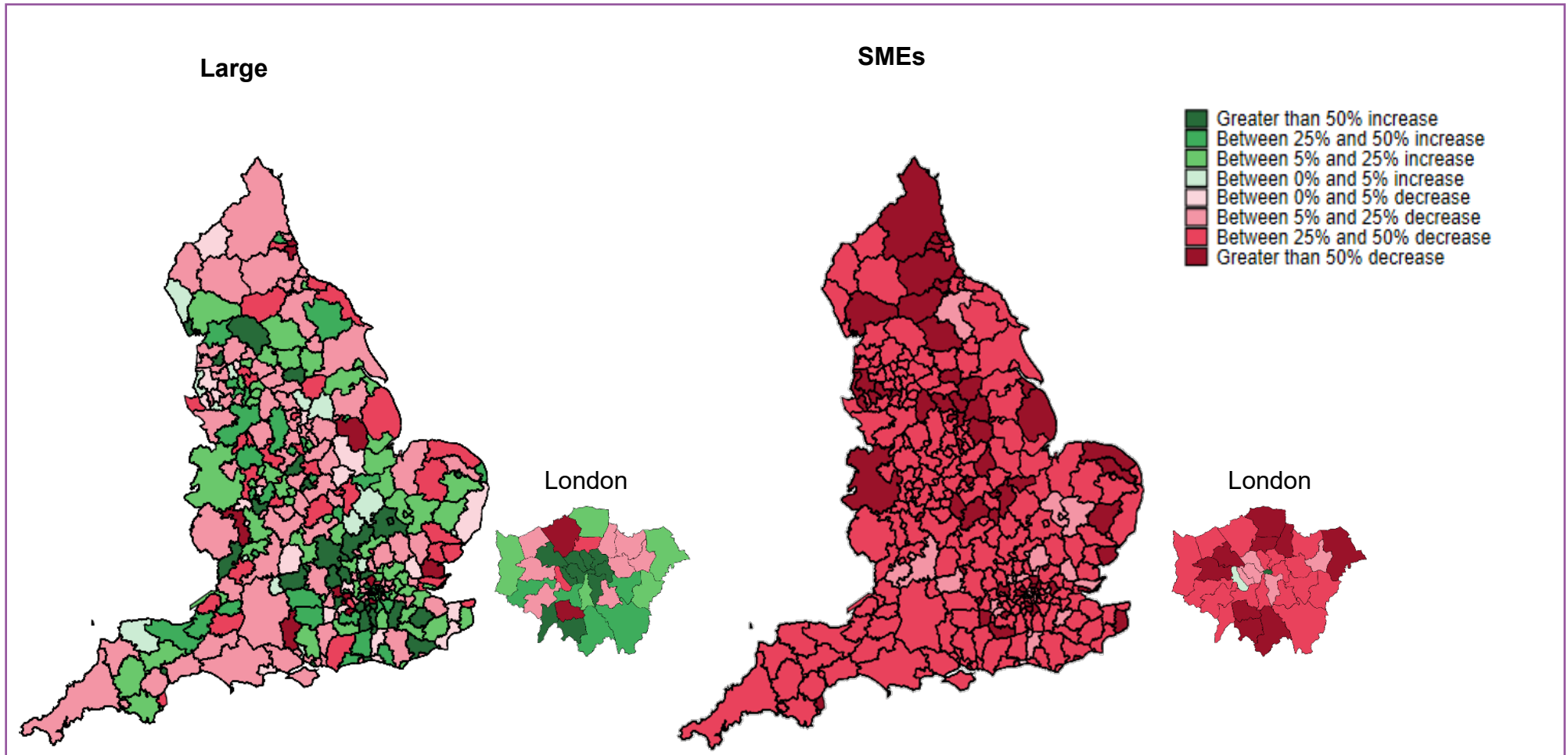
Figure 11: Change in apprenticeship starts by region and employer size, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

² Based on the 16+ annual employment level in 2016 (GB Parliament, 2021b)

Figure 12: Change in apprenticeship starts by region and employer size, 2015/16 to 2018/19



Source: DfE analysis of matched ILR-IDBR-EDS

Key findings – pre-pandemic

- In 2018/19, while apprenticeships were being started by apprentices across a range of ages and levels, younger and more disadvantaged apprentices were more likely to be studying intermediate and advanced qualifications, relative to older and more advantaged apprentices.
- There was a sharp decline in apprenticeship starts between 2015/16 and 2018/19. This disproportionately impacted SMEs and apprentices seeking lower level apprenticeship qualifications, while higher level qualifications in large employers grew rapidly, albeit from a relatively small base.
- While some of this decline has been driven by the phasing out of apprenticeship frameworks, which were regarded as being low quality, and by the introduction of the levy, the overall reasons for the decline are complex and multi-faceted.
- The decline in apprenticeship starts between 2015/16 and 2018/19 among the most disadvantaged quintile of apprentices at 30 per cent was greater than the decline for the least disadvantaged quintile of apprentices at three per cent.
- The decline in starts for young people from disadvantaged backgrounds has largely been driven by the fall in apprenticeship starts in SMEs, although this reflects the disproportionate impact that reforms have had on SMEs.
- Younger and female apprentices have also been more significantly impacted by the reforms.
- Reforms have also created geographical disparities in apprenticeship starts.

4 The post-pandemic decline

This section analyses apprenticeship starts from 2019/20 until the present day in order to investigate the impact of the pandemic. We first investigate what was happening to apprenticeships in 2019/20 just before the pandemic hit, as this is crucial for contextualising the subsequent decline.

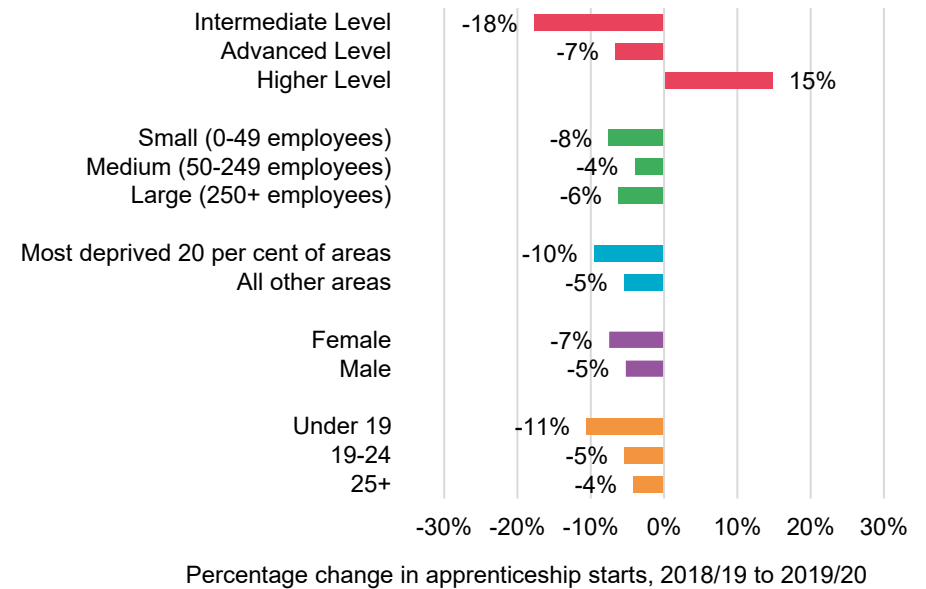
As illustrated in the previous chapter, apprenticeship starts were in decline before the pandemic hit. This decline continued in the first half of 2019/20 – comparing August to March 2019/20 to the same period in 2018/19, apprenticeship starts were six per cent lower.

The decline over this period was primarily driven by significant falls in intermediate level apprenticeships – with apprenticeship starts falling by 18 per cent in the period August 2019 to March 2020, compared to same period in the previous year – indicating the effect of the reforms were still being felt right up to the start of the pandemic. In contrast, higher level apprenticeships continued to rise sharply over this period, by 15 per cent.

The decline in starts before the pandemic started also continued to disproportionately impact SMEs. As discussed, given that these employers were more likely to offer intermediate qualifications and less likely to offer higher level qualifications, they experienced the most significant decline as a result of the continuing fall in the former and benefited the least from the ongoing rise in the latter.

The decline in apprenticeship starts across different demographic groups also continued during the pre-pandemic period, with young, disadvantaged and female apprentices all continuing to be worst affected by the decline in starts. As discussed in the previous section, this was largely driven by the particularly significant decline in lower level qualifications, which these young people would historically be much more likely to start.

Figure 13: Pre-pandemic change in apprenticeship starts accounted for by sub-group from August-March, 2018/19 to 2019/20



Source: DfE analysis of ILR-IDBR-EDS

Apprenticeship starts fell significantly across employers of all sizes due to Covid-19, with the largest fall among SMEs

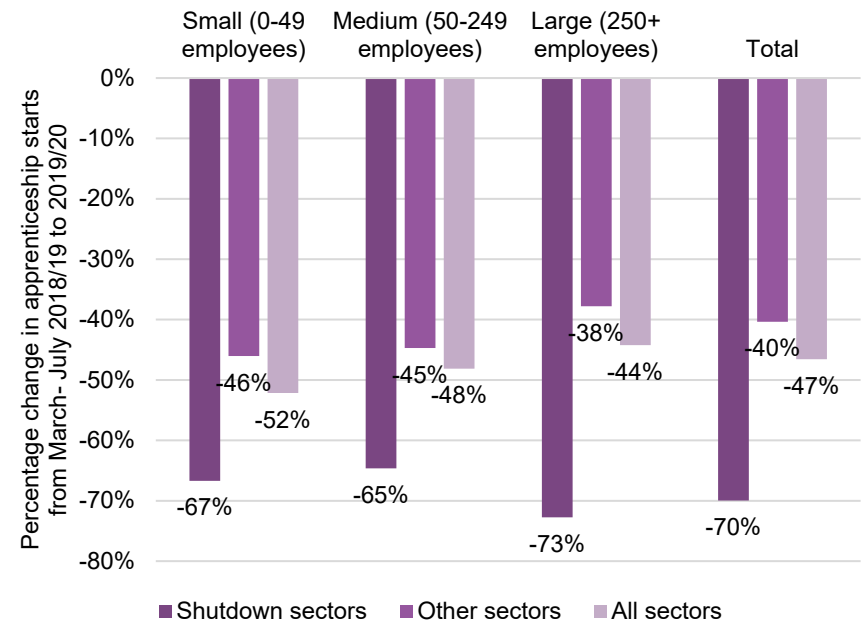
The Covid-19 pandemic had a significant impact on apprenticeship starts, with starts in the early stages of the pandemic declining by almost half (47 per cent) between March to July in 2020 compared to the same period in the previous year.

This decline in starts was larger in SMEs at 51 per cent compared to large employers, at 44 per cent. This can largely be explained by the differences in sectoral composition in which the SMEs and large employers that offer apprenticeships operate. Indeed, before the pandemic, SMEs were more likely to be employing apprentices in sectors which were subsequently *shutdown* i.e. sectors which were largely unable to operate during lockdown, such as hospitality and tourism³. These shutdown sectors accounted for 21 per cent of apprenticeship starts for SMEs before the pandemic, compared to 14 per cent in large employers. Unsurprisingly, apprenticeship starts for employers in *shutdown* sectors were disproportionately impacted by the pandemic, with starts declining by 70 per cent, compared to the 40 per cent decline experienced in *other* sectors.

The large decline in apprenticeship starts even among *other* sectors is likely to – not only be driven by the uncertainty created by the pandemic – also be caused by the disruption to apprenticeship training during the initial lockdown, with many providers furloughing

staff over this period, adapting to remote provision and widespread concerns about the financial viability of some providers (AELP, 2020).

Figure 14: Post-pandemic change in apprenticeship starts for *shutdown* sectors and *other* sectors by employer size from March-July, 2018/19 to 2019/20



Source: DfE analysis of ILR-IDBR-EDS

³ Sectors which were most impacted by the Covid-19 lockdown were identified by the IFS. A full description of the classification can be found here (IFS, 2020).

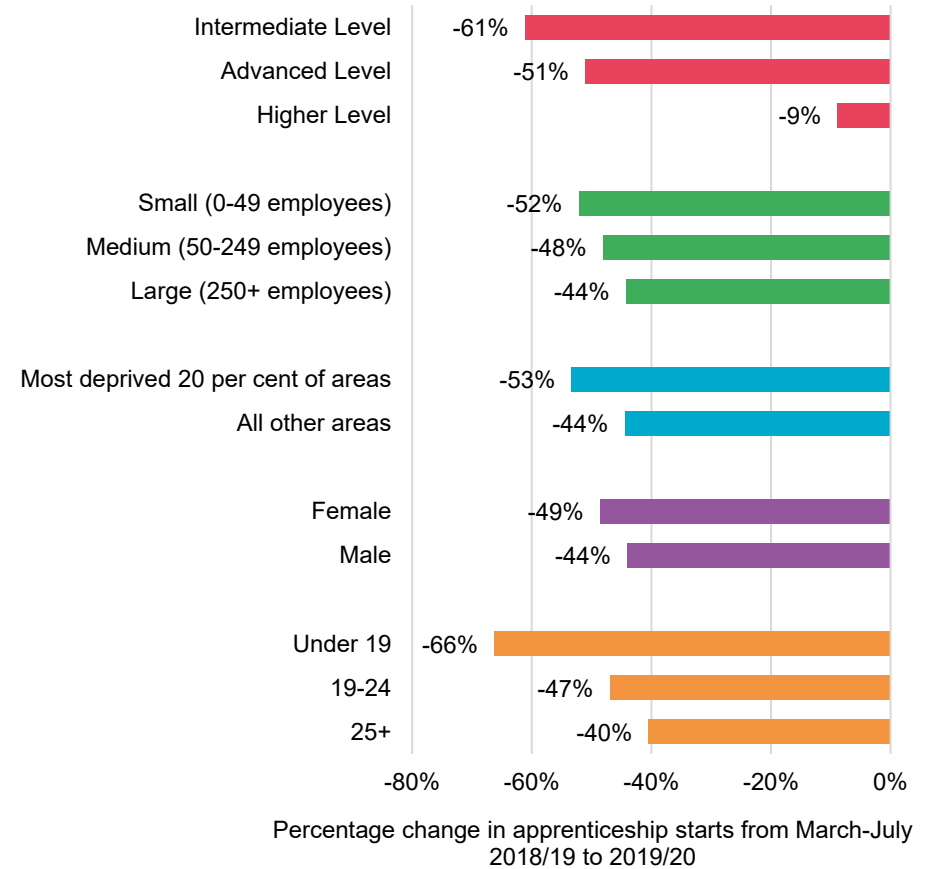
The fall in apprenticeship starts has further exacerbated pre-pandemic trends with the largest declines among disadvantaged, younger and female apprenticeship starts

The pandemic accelerated the decline in apprenticeship starts among the groups that had already seen the largest declines pre-pandemic. At the qualification level, while starts in both intermediate and advanced qualifications declined by over half, higher level qualifications saw a decline of only nine per cent.

While the final phasing out of frameworks in August 2020 is likely to have contributed to the particularly large decline in intermediate and advanced apprenticeship starts where the old frameworks had still been in use, there were significant declines in lower level qualifications even among subjects where framework qualifications had already been phased out.

In turn, a similar decline among younger, disadvantaged and female apprenticeships was seen as in the pre-pandemic period. Under 19s of both sexes were especially impacted by the pandemic with starts declining by two-thirds (66 per cent), compared to 47 per cent among 19-24 year olds and 40 per cent among those 25 and older year. This can be attributed to under 19s almost exclusively starting either intermediate or advanced level qualifications before the pandemic (90 per cent in 2018/19, the last full academic year before the pandemic).

Figure 15: Post-pandemic change in apprenticeship starts accounted for by sub-group from March-July, 2018/19-2019/20

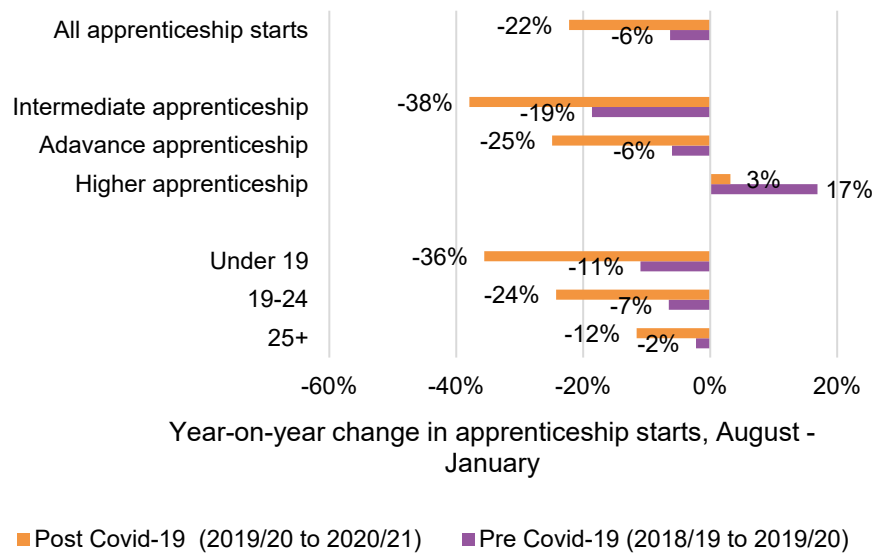


Source: DfE analysis of ILR-IDBR-EDS

While there has been recovery in starts since autumn 2020, this has been concentrated among higher-level apprenticeships

Between August 2020 and January 2021, apprenticeships starts did show some signs of recovery, albeit they remained 22 per cent below pre-pandemic levels. However, most of this recovery was concentrated among higher-level qualifications. While higher level apprenticeships are now three percent higher than in the pre-pandemic period, intermediate and advanced apprenticeship starts remain 38 and 25 per cent lower, respectively.

Figure 16: Year-on-year change in apprenticeship starts from August-January, 2018/19 to 2020/21



Source: DfE analysis of ILR-IDBR-EDS

Despite initial signs of recovery, apprenticeship starts among the groups which have been disproportionately impacted by the reforms and the pandemic remain low. For example, apprenticeship starts among young apprentices continue to be a third lower than pre-pandemic levels.

Recovery has been supported by additional financial incentives to employ new hires as apprentices since autumn 2020. However, there have been only around 52,790 claims up to the end of March 2021 (DfE, 2021a). While not insubstantial, this only represents less than a third of the provisional apprenticeship starts between autumn 2020 and February 2021.

The main reason for employers not being eligible to claim for the scheme is that an apprentice is an existing employee, rather than a new hire. Although employers had until May to claim for any starts made up until March, this initial data suggests that, given there have been claims for only a small proportion of starts, the vast majority of new apprenticeships starts are among existing employees rather than new hires.

This is consistent with the particularly strong recovery among higher level apprenticeships, compared to lower level ones, as before the pandemic higher-level starts were disproportionately likely to be started by existing employees rather than new hires. In 2018/19, the share of individuals on higher apprenticeships who had been employed by their apprenticeship employer for at least 12 months was 57 per cent, compared to 28 per cent of those starting an intermediate-level apprenticeship.

Our findings also suggest that, while a further increase in incentives was announced in March (see Table 3 below), this is unlikely to have a significant impact on the recovery of starts for young apprentices. For under 19s, the new incentive payments mean that the payment which employers receive for taking on a new apprentice will increase from £3,000 to £4,000. As a share of median intermediate apprenticeship wage costs, this represents an increase from 15 per cent to 19 per cent. In turn, the most recent increase in incentive payments is unlikely to be large enough – compared to the costs of hiring an apprentice – to significantly change the impact of incentives on the number of new apprenticeship starts.

This evidence is in line with previous apprenticeship incentive schemes (such as the Apprenticeship Grant for Employers) which were previously unsuccessful in increasing uptake (Cavaglia *et al.*, 2020).

Table 3: Incentives to take on a new apprentice by age group

Age group of learner	August 2020 – March 2021	April 2021 – September 2021
Under 19	£3,000	£4,000
19	£2,000	£3,000
20-24	£2,000	£3,000
Over 24	£1,500	£3,000

Source: DfE, 2021a

Note: This table includes the £1,000 payment which employers receive for taking on 16-18 year old apprentices which has been in place since May 2017 (DfE, 2021e).

Key findings – post-pandemic

- Apprenticeship starts were falling in 2019/20 before the pandemic started. This pre-pandemic decline was concentrated among SMEs, and younger, disadvantaged and female apprentices.
- The pandemic led to a substantial decline in apprenticeship starts, which impacted all sectors of the economy. Apprenticeship starts in SMEs were disproportionately affected as they were more likely to be operating in shutdown sectors of the economy.
- The pandemic has exacerbated the decline in apprenticeship starts among disadvantaged, young and female apprentices.
- In the 2020/21 academic year, there has been some recovery in higher-level apprenticeship starts, but starts among young and lower-level apprentices remain far below pre-pandemic levels.
- So far, the impact of additional financial incentives for employers to take on new, young apprentices appears to have been limited.

5 Discussion and conclusions

As the pandemic restrictions are eased, labour market indicators have shown promising signs of recovery (ONS, 2021). As long as the economy continues to re-open, this is likely to translate into a bounce back in apprenticeship starts. Indeed, the number of vacancies advertised on the DfE’s ‘Find an Apprenticeship’ (FAA) website, at 13,470, were at their highest levels in April 2021 since the pandemic started. This compares to 11,530 and 2,380 vacancies advertised in April in 2018/19 and 2019/20 respectively (DfE, 2021a).

There are also some positive signs that employers may be developing a renewed appetite for apprenticeships, with increasing numbers believing them to be vital to their recovery from the disruption caused by Covid-19, and saying they are planning on hiring more apprentices over the next year (Open University, 2021).

Without further intervention, apprenticeship numbers are likely to remain significantly lower than 2015/16 levels

However, apprenticeship numbers are likely to remain lower than the levels seen before the pandemic for the foreseeable future, particularly for younger learners. This is because the economy will take time to recover to pre-pandemic levels, and some sectors which have been particularly impacted by Government restrictions and Brexit, such as ‘Wholesale and retail trade’, that have employed larger numbers of apprentices historically, are projected to have slower recoveries (L&WI, 2021). Employers, particularly SMEs, are also likely

to want to consolidate their recovery before taking on new apprentices.

Further, as highlighted in sections 3 and 4, there were a number of reasons why apprenticeships were declining before the pandemic. While the Government has put a number of policies in place to support the recovery of apprenticeships since then, as outlined below, further intervention is likely to be required.

Progression onto apprenticeships

Traineeships are short skills development programmes with a work placement which are designed to get young people ready for a job or apprenticeship. The Government has significantly expanded funding and introduced new employer incentives (in the form of £1,000 payments) for traineeships to help encourage progression onto apprenticeships. However, it is not obvious that these incentives will be sufficiently large to reverse the sustained decline in traineeship starts since 2015/16, with the number of traineeships started halving between 2015/16 and 2019/20.

Further, the success of this policy requires young people to be aware of traineeships: a youth voice census survey in 2020 found that 76 per cent of young people had never had a traineeship mentioned to them (Youth employment UK, 2020). In 2019, less than half of employers were even aware of traineeships (DfE, 2020b). More could be done to ensure that young people, parents, carers and employers from all backgrounds are aware of traineeships.

The Government is also promoting the Kickstart scheme - which was introduced in response to the Covid-19 pandemic to create new jobs for 16 to 24 year olds on Universal Credit who are at risk of long term

unemployment - as a route into apprenticeships. However, given that most 16 and 17 year olds are ineligible for the scheme (HM Government, 2021), younger people will largely be unable to benefit from this initiative.

Apprenticeship levy

In April 2019, the amount of funding which large employers could transfer to SMEs (which, in turn, reduces the contributions which SMEs need to make towards apprenticeship costs) increased from ten per cent to 25 per cent. The Government has also since made it easier for large employers to transfer levy funds to SMEs. This should support the recovery of apprenticeships in SMEs.

Phasing out of apprenticeship frameworks

In section 3, our analysis outlined that the impact of the phasing out of apprenticeship frameworks could be clearly observed in the significant decline in starts in subjects where popular frameworks were withdrawn without a new standard to replace them.

Currently, there are ongoing discussions between the Institute for Apprenticeships and Technical Education (IFATE) and trailblazer groups around introducing high-quality apprenticeship standards to replace some of these frameworks (e.g. see Whieldon, 2021 for a recent update on the intermediate business administration apprenticeship).

Funding for qualifications

The Government's 2018 funding band review attempted to reduce some of the funding distortions which were leading providers to favour higher-level apprenticeships, over intermediate and advanced ones.

For example, funding was significantly cut for a number of very popular higher-level management apprenticeships (Burke, 2018). IFATE consultations around the appropriate levels of funding for different apprenticeship qualifications – which should eventually help remove more of these distortions – are still in progress.

Off-the-job training requirement

The Government has recognised that the off-the-job requirement is a barrier to many SMEs, and the recent FE white paper outlined plans to re-assess the design and duration of training (DfE, 2021f) which may help overcome some of the aforementioned issues.

Flexibility of apprenticeships

The Government is in the process of introducing flexi-job/portable apprenticeships which aim to overcome barriers to apprenticeships in sectors where short-term and project-based contracts are more common. These are welcome reforms which will support the development of more apprenticeships in sectors which have not been traditionally well served by apprenticeship qualifications, but it will be several years before they have an impact on the system.

Complexity of the system

While the Government and IFATE have published new guidance and support documents to support employers in navigating the apprenticeship system (DfE, 2021d), this may not be sufficient to overcome the current barriers. Further, with the increasing number of training options available to employers for young people (Kickstart, traineeships, T level industry placements), it is essential that support

helps employers navigate across a range of options which best suits their business needs, rather than only focusing on a single route.

Additional incentives

The current financial incentives, which provide employers with up to £4,000 for taking on a new apprentice aged under 19 will be in place until September 2021. However, as highlighted in the previous section, the scheme has had a slow start at incentivising new apprenticeship starts.

One reason why the scheme has been slow at incentivising new apprenticeship starts may be that there is often a considerable lag between an employer choosing to hire an apprentice and the apprentice starting in their role. This is due to the time taken in identifying a provider, qualification and hiring a learner with the suitable skills.

Availability of funding

The transition of SMEs onto the digital apprenticeship service since January 2020, which was completed in April 2021, will remove the risk of there being local mismatches in the apprenticeship funding for non-levy paying employers. However, given that the main mechanism for the Government to ensure that the apprenticeship budget is not overspent is to cap the number of apprenticeship starts in SMEs, the supply of apprenticeship funding for SMEs is likely to become constrained again in the future – unless there are changes to the current system.

This is because there is a fixed budget for the apprenticeship programme – at £2.5 billion in 2021/22 (Belgutay and Parker, 2021) -

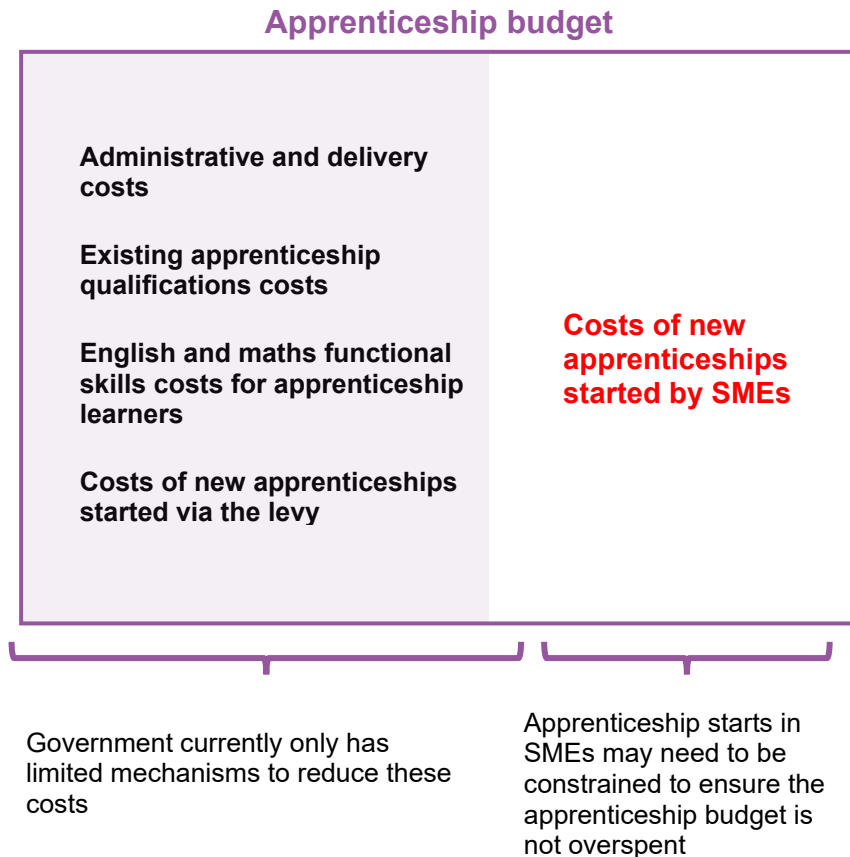
which needs to cover any apprenticeships funded through the levy, and through non-levy payers alongside a number of other costs, as outlined in Figure 17.

The Government only has limited levers to keep this spending in balance in the short-term. For example, the Government currently cannot directly limit the costs of new apprenticeships started via the levy (which is how large employers access funding), nor can it easily reduce the costs of apprenticeships which have already been started. Therefore, the main mechanism for the Government to ensure that the apprenticeship budget is not overspent is by limiting spending on the scheme by non-levy paying SMEs.

Whenever there is pressure on the apprenticeship budget, it is inevitable – unless the funding system is re-designed – that the Government will have to cap the number of apprenticeship starts for SMEs. This is evidenced by SMEs who were non-levy payers being capped at a maximum of three apprenticeship starts when the digital apprenticeship service was first rolled out due to concerns that funding might be overspent (Camden, 2020b). This cap has since been relaxed to ten but – in the future when there is pressure on the apprenticeship budget – the Government may need to lower the cap on apprenticeship starts in SMEs again.

Further, the apprenticeship budget can support much fewer starts now than before the pandemic. This is because apprenticeship standards are significantly more expensive than the frameworks they replaced. For example, the median cost of an intermediate apprenticeship standard, based on funding bands, is over twice as high as the median cost of an apprenticeship framework (DfE, 2021b).

Figure 17: The current apprenticeship funding system



Note: Diagram not to scale

This will only be compounded by the recent growth in higher level apprenticeships which are much more costly than lower level ones (although this is partly because they generally last longer).

As the economy recovers, if the apprenticeships budget remains the same, the Government may need to limit the number of apprenticeship starts in SMEs to ensure that the apprenticeship budget is not overspent. This could be problematic as arbitrarily capping apprenticeship starts in SMEs may prevent public funding from being spent in the most effective way to meet the objectives of the apprenticeship programme. This is likely to disproportionately impact apprenticeship opportunities for young people, particularly among the most disadvantaged.

There is also a question of whether having a single budget for funding apprenticeships across all age groups is appropriate, as it means that there is a trade-off between funding lower and higher level apprenticeships. This is problematic as opportunities to start both lower and higher level apprenticeships are crucial to ensure that young people are able to follow a high-quality progression route into a career. Further, to ensure that funding is most effectively spent across the education system, funding for young people undertaking an apprenticeship should, in the first instance, be considered against the costs and benefits of what young apprentices with similar levels of attainment and subject interests would otherwise be doing (e.g. alternative post-16 routes).

A more ambitious and far-reaching approach is needed to support young people and the wider economic recovery

The Learning and Work Institute has predicted that, as we emerge from the pandemic, young people – particularly those with low or no qualifications – will continue to be disproportionately hit by the fall in labour market opportunities (L&WI, 2021).

This is likely to be compounded by the current demographic bulge in secondary school pupils (DfE, 2020d).

If additional steps are not taken to ensure there are sufficient opportunities for young people, youth unemployment is likely to rise – which can have long-term impacts on both individuals and wider society (Nelson and O’Donnell, 2012). Further, economic growth is likely to be slower – with young people taking qualifications with lower economic returns or being outside of education and employment. Apprenticeships have a critical role to play in ensuring these potential impacts are mitigated.

While there is a number of policies in place to support the recovery of apprenticeship starts, additional policies which address the misalignment of incentives within the current system – alongside steps to improve apprenticeship quality, completion rates and progression – are needed to ensure that the system is providing good quality apprenticeships for young people, particularly those from disadvantaged backgrounds.

SMEs are an integral part of this solution, not only for the critical role that they play in our economic prosperity– but also for supporting apprenticeship opportunities for these groups.

Recommendations

Recommendation 1: The funding system needs to be re-designed to ensure that it supports the needs of SME employers

An unintended consequence of the current funding system is that it prioritises starts for levy paying employers, who are more likely to be offering higher apprenticeships, over non-levy paying SME employers who are more likely to be offering intermediate and advanced apprenticeships. This disproportionately impacts apprenticeship starts for young people – particularly among the most disadvantaged. As apprenticeship starts recover from the pandemic, it is inevitable that funding will again become a constraint, and funding for SME employers to offer apprenticeships is likely to be significantly restricted again. A system for funding apprenticeships which meets and protects the needs of SME employers, while ensuring that it does not create unintended impact on other groups, is needed to ensure a longer-term recovery in starts.

Recommendation 2: Funding for training 16-18 year old apprentices should be separated and protected from the main apprenticeships budget

Evidence suggests that apprenticeships offer a high-value route for young people, affording better labour market opportunities than other qualifications – particularly for lower attaining and disadvantaged young people (SMC, 2020). Apprenticeships are currently at-risk of being crowded out by the design of the apprenticeship funding system, which is trading-off apprenticeships for young people against higher apprenticeships (which are typically undertaken by older employees). Whilst it is important that apprenticeships remain aligned

with the needs of employers, we recommend that funding for all 16-18 year old apprentices is separated from the main apprenticeship budget. This would also help the Government make decisions about the level of funding for apprenticeships for 16-18 years olds against the costs and benefits of alternative routes which are available to this age group.

Recommendation 3: Launch a nationwide campaign to raise the profile of traineeships

To support a recovery in lower level apprenticeship starts, it is essential to ensure that young people are equipped with the skills to start an apprenticeship. Traineeships could be playing a more important role in preparing young people for apprenticeships, particularly in supporting them to attain the functional skills requirements which have proved to be a particularly significant barrier to SMEs taking on lower level apprentices since the new requirements were introduced in 2014/15. However, awareness of traineeships remains low (Youth employment UK, 2020). A campaign to raise the profile of traineeships targeting employers, schools, parents, carers and young people is needed to ensure that it becomes a more widely recognised route into apprenticeships, and to increase the number of traineeship opportunities offered by employers.

Recommendation 4: Re-assess how minimum English and maths requirements are incorporated into apprenticeship training

The minimum English and maths requirement introduced in 2014/15 has proven to be a particular barrier to both employers and providers (e.g. further education colleges, and independent training providers) taking on apprentices who have not met these minimum requirements

prior to starting an apprenticeship. Employers do not have a strong incentive to take on an apprentice who has not already achieved these requirements as these learners have additional training needs on top of the 20 per cent off-the-job training requirement. This is exemplified by many employers imposing minimum functional skills requirements which are not a pre-requisite for the actual apprenticeship.

To ensure that lower attaining young people, particularly those from more disadvantaged backgrounds, are able to access apprenticeships, the Government should re-assess how functional skills training is incorporated into apprenticeships, and how the barriers faced by employers and providers taking on these apprentices can be overcome.

Recommendation 5: Require all employers to advertise apprenticeship vacancies on the Find An Apprenticeship (FAA) website and provide bespoke application support to learners applying from disadvantaged areas

Recent apprenticeship reforms have had a disproportionate impact on apprenticeship starts among disadvantaged young people – who are likely to face particular barriers in accessing information about apprenticeships. While employers may currently choose whether or not to post their apprenticeship vacancies on the FAA website, requiring them to do so would improve equality of access to apprenticeship opportunities. To complement this, the government should provide targeted application support to young people applying to apprenticeships from disadvantaged areas.

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Appendix: Data sources and methodology

Our analysis draws on the DfE's *Apprenticeships and Traineeships* statistical release (DfE, 2021a), the DfE's *Apprenticeships in England by industry characteristics* (DfE, 2021c), and bespoke tables provided by the Department for Education. All estimates for numbers of apprenticeship starts are rounded to the nearest ten, and all percentages presented are based on rounded estimates. Breakdowns may not sum to totals due to rounding.

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NFER ref. IMAP

ISBN. 978-1-912596-44-7

