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INQUIRY

Applying the Robbins Principle to Further Education and Apprenticeship

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Steering Economic Change

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As the UK is buffeted by the economic shocks and challenges of the 2020s, The Economy 2030 Inquiry, a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics (LSE), funded by the Nuffield Foundation, is setting out a new economic strategy. To feed into this process we are publishing a series of externally-written policy essays. Each aims to provoke public debate on a specific policy area, and sketch out an agenda that will contribute towards the wider goal of the UK becoming a higher growth, lower inequality economy.

The essays cover topics ranging from the role of smarter regulation in supporting economic growth, ensuring that the goal of 'good jobs' is embedded in our national industrial strategy, and the role of the higher education sector in providing the skills needed to power our services dominated economy.

They are written by a range of leading economists and policy experts, and reflect the views of the authors rather than those of the Resolution Foundation, the LSE or The Economy 2030 Inquiry.

They have been commissioned and edited by Gavin Kelly (Chair of the Resolution Foundation and member of the Economy 2030 steering group) and various members of The 2030 Economic Inquiry team, in this case Mike Brewer (Deputy Chief Executive and Chief Economist at the Resolution Foundation) and Louise Murphy (Economist at the Resolution Foundation).

The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

Acknowledgements

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Summary

Britain does well at higher education, and badly for its non-graduates. The main problem is our failure to train more people when they are young. Shockingly, 30 per cent of 18 year olds are not in education or training – many more than in our competitor countries.

Low skills for this group are a major cause of low national productivity and high wage inequality. Due to the shortage of skills, the rate of return to developing skills through further education and apprenticeship is high, but the facilities for skill development are far too thin on the ground.

Higher education has gone well because policy towards it has been guided by the Robbins Principle. This says that qualified people wishing to progress further should expect to find a place. But this principle has never been applied to the 'other 50 per cent' – those going down the vocational route. If we want better productivity and higher wages, it is time to apply the Robbins Principle to them also.

Doing so would require major changes in further education, and the supply of apprenticeship places for young people.

Although the funding of sixth forms and higher education is demand-led with the money flowing in automatically with each student being taught, the funding of further education over age 18 is capped. The Lifetime Skills Guarantee now makes further education free up to Level 3, but this does not guarantee that enough places will be there for those who want them. In practice, the supply of places is capped by the Government's budget for further education, and it bears no obvious relationship to demand. In fact, at present, (2022-23) the real funding of over-18 further education in England is 50 per cent of what it was in 2010-11. Demand-led funding of further education up to Level 3 would dynamise the system, enabling it to respond to the demand for basic skills, technical skills, adult A levels and T levels, and pre-apprenticeship training. The level of funding per student must also improve substantially. The tariff rates per student have not changed in nominal terms since 2013, but are being reviewed.

The number of apprenticeship starts for people aged under 25 is lower now than it was in 2010, and it is also lower than in many other countries.

To make the Robbins Principle apply to apprenticeship would require an obligation on the government to ensure that enough places are available for all qualified young people wanting places. The 2009 Apprenticeship Act did just this, but it was repealed in 2011. To make it happen there would need to be local agencies (such as the mayoral authorities) charged with finding enough places in their locality. Meanwhile, there has been a large increase in apprenticeships for people aged 25 and over. Some of this is welcome, but rates of return are lower at older ages than for apprenticeships at a younger age. If the Robbins Principle were to be applied, some guaranteed share of the Apprenticeship Levy would need to be reserved for people under 25 taking Levels 2 and 3 apprenticeships. And, for apprenticeships in non-levy paying firms, funding would need to become demand-led.

The problem

Britain has two main economic problems – low productivity and high inequality – and both are made worse by the failure of successive governments to ensure that UK workers leave the education system with appropriate skills, and are supported to undertake lifelong learning. To create a more prosperous

and less unequal Britain, human capital will need to play a far larger role in the decades ahead. The Economy 2030 inquiry has outlined the many changes – including to tax, trade, planning, urban, regional, and macro policy – that will be needed to encourage additional business investment and help address productivity disparities across the UK. These policies will not succeed without changes to our education and skills policies that address the failures of the past and the challenges of the future.

A successful, high-value, service-based economy requires many people with graduate skills. The good news is that this is an area where the UK currently does well: the proportion of our young people who get degrees is good compared with many other countries, and our universities are generally excellent. This does not mean we can rest on our laurels: change is needed to ensure that skills respond to the challenges generated by AI, by the transition to net zero, and ongoing structural change. The changes that are needed around higher education to address these challenges are considered in two companion reports.¹

This report is concerned with the bad news: the low level of qualifications among the non-graduate 50 per cent, and the impact this has on their wages. A high proportion of young people get very little education or training beyond 17, compared with other countries. In fact, by age 18, 30 per cent of young people (nearly a third) are receiving no form of education or training at all.

The result of success at degree level and failure elsewhere is that the distribution of education is almost bipolar, with a wealth of skilled graduates and, at the other end, a superfluity of unskilled non-graduates. The results can be seen in our standards of literacy and numeracy. At age 15 these compare well with France and Germany, but by age 24 we do much worse at the bottom end (as explained below).

This must change. We need an education and skills system that ensures the vast majority of young people achieve qualifications equivalent to at least upper secondary education. Failure here will undermine attempts to improve productivity and prevent the benefits of growth from being shared.

In this briefing note we shall:

- document the basic educational inequality in our country;
- show how it affects the distribution of wages and productivity;
- explain how this situation arises in part from the different methods of funding for undergraduate versus non-graduate education and training, ; and,
- propose a better way forward.

¹ R Costa et al., *Learning to grow: How to situate a skills strategy in an economic strategy*, Resolution Foundation, October 2023, and D Willetts, *How higher education can boost people-powered growth*, Resolution Foundation, October 2023.

Unequal outcomes

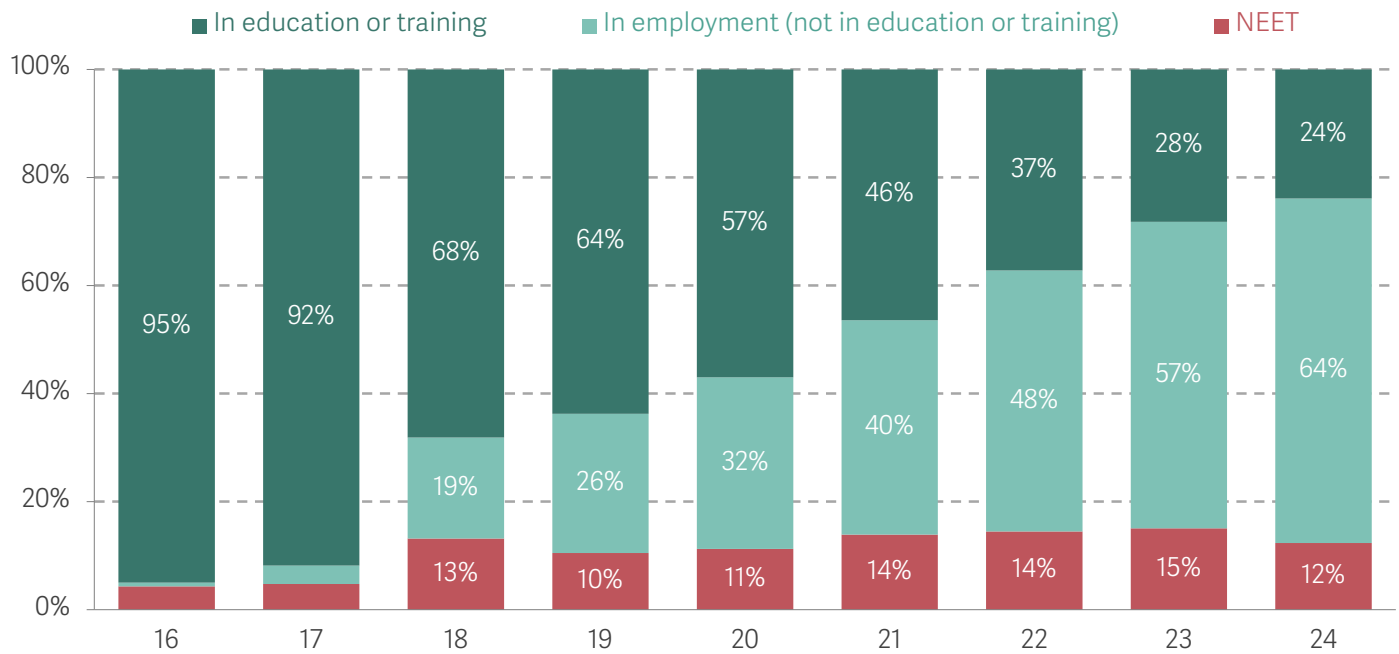
Participation

As Figure 1 shows, 30 per cent of our young people drop out of education or training by age 18.² This is half as many again as do so in France or Germany (see Figure 2). And in England most of the 18-year olds who are in education or training are in higher education.

For people with an academic bent, the path from school or college to university is a simple one. For those who do want to pursue a more vocational route it is much less straightforward.

FIGURE 1: Nearly a third of people aged 18 receive no education or training

Percentage of people aged 16-24 who are in education or training, in employment (but not in education or training) or not in employment, education or training (NEET), England, 2019

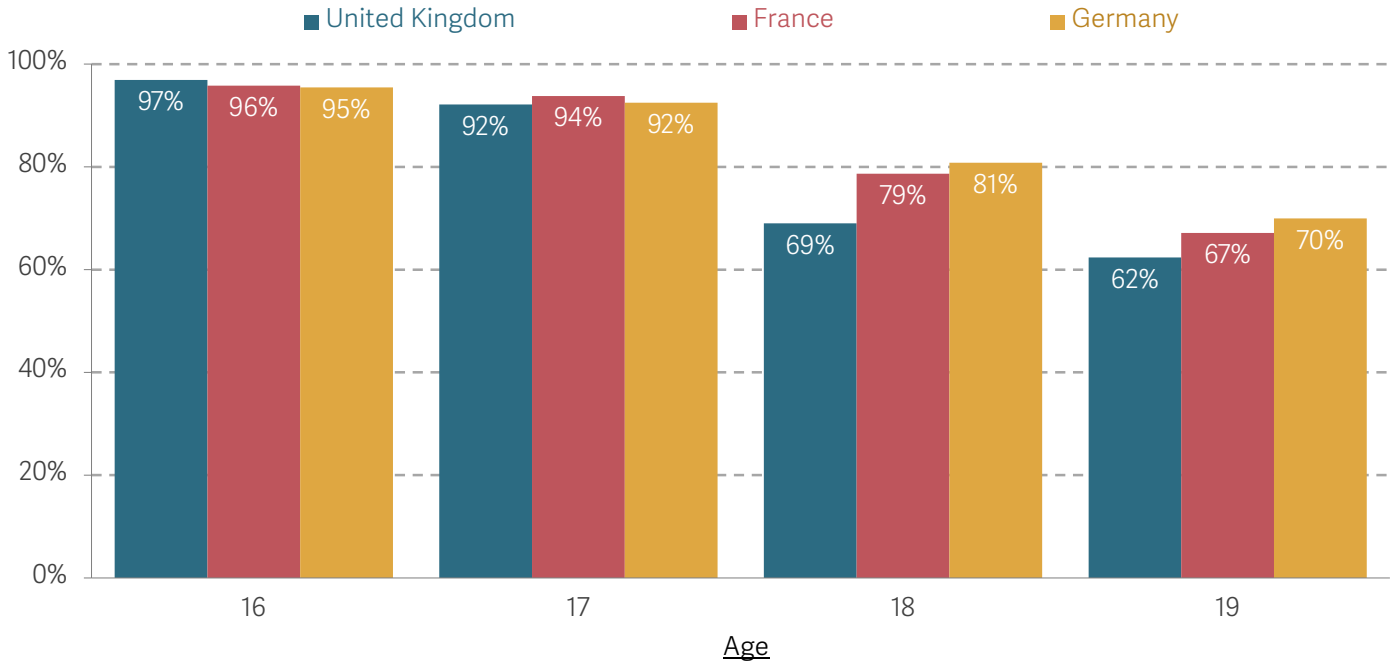


SOURCE: Analysis of DfE, Not in employment, education and training (NEET) and Not in education and training (NET) estimates for England, 2019.

² People's ages in the survey are defined by their age in the previous September – thus all '18 year olds' are in the year after the end of compulsory education.

FIGURE 2: In France and Germany, many more 18 year olds are in education

Percentage of young people in full-time or part-time education, by age and country: UK, France and Germany, 2019



SOURCE: OECD Indicators (2023) Education at a Glance

Educational Attainment

The chief weakness of our educational system is not (as is often alleged) in our schools. It is in what happens afterwards. At age 15, our average performance at both literacy and numeracy is similar to France and Germany (see Figure 3). But if we consider 16-24 year olds, we are markedly worse than France and Germany (see Figure 4).

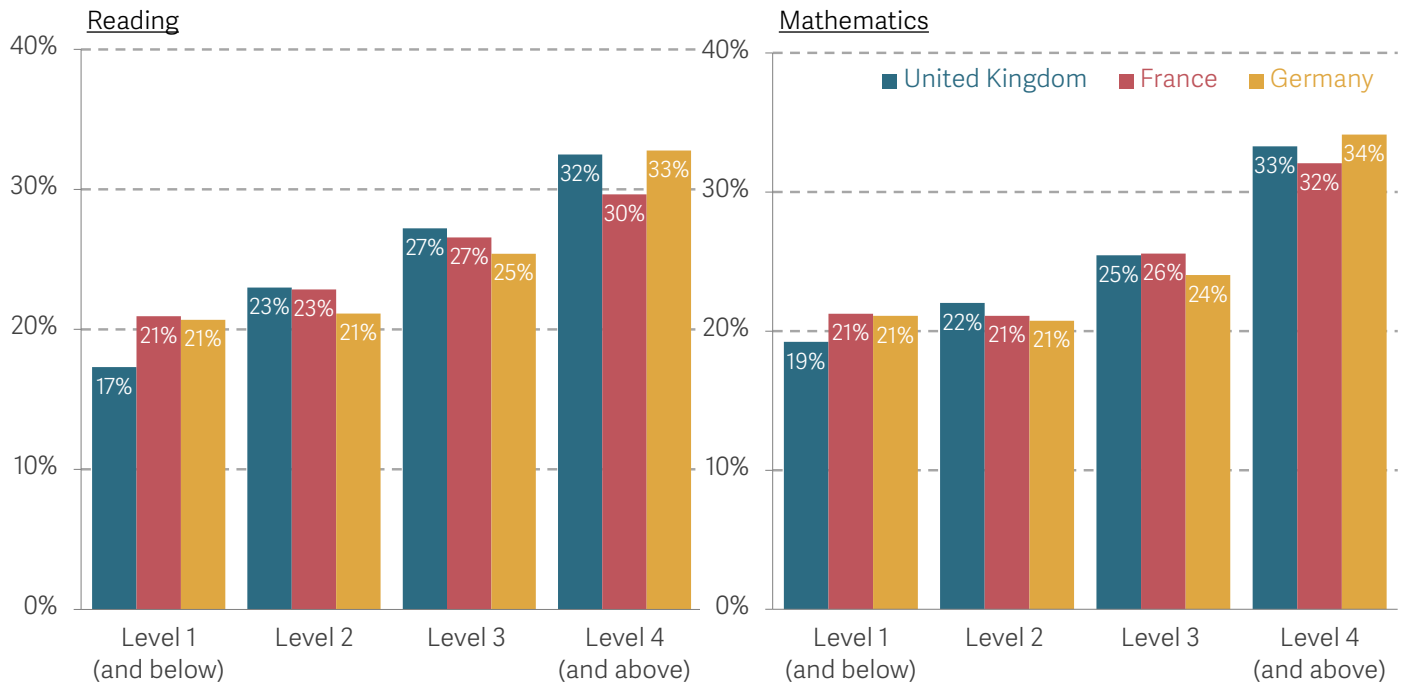
Britain is also the only OECD country where the literacy and numeracy of 16-24 year-olds is no higher than that of 55-65 year-olds.³ It would appear that something goes wrong between the ages of 15 and 24. Furthermore, there is a lack of 'second chances' within the British system, which has got worse over time due to government cuts. For example, there were 30 per cent fewer adults starting qualifications in 2020 than in 2010.⁴

³ OECD, Skills Matter: Additional Results from the Survey of Adult Skills, 2019. Unfortunately the latest available international data on literacy and numeracy of adults relate to 2012. Thus Figures 3 and 4 relate to different cohorts. If Figure 3 is done for 2009, Britain's comparative performance of 15-year olds was somewhat worse than in 2018. But relative school performance was still better than the comparative results in PIAAC for 2012.

⁴ See C Farquharson, S McNally & I Tahir., [Education inequalities, IFS Deaton Review of Inequalities](#), Institute for Fiscal Studies, August 2022.

FIGURE 3: At 15 our young people do as well as those in France and Germany

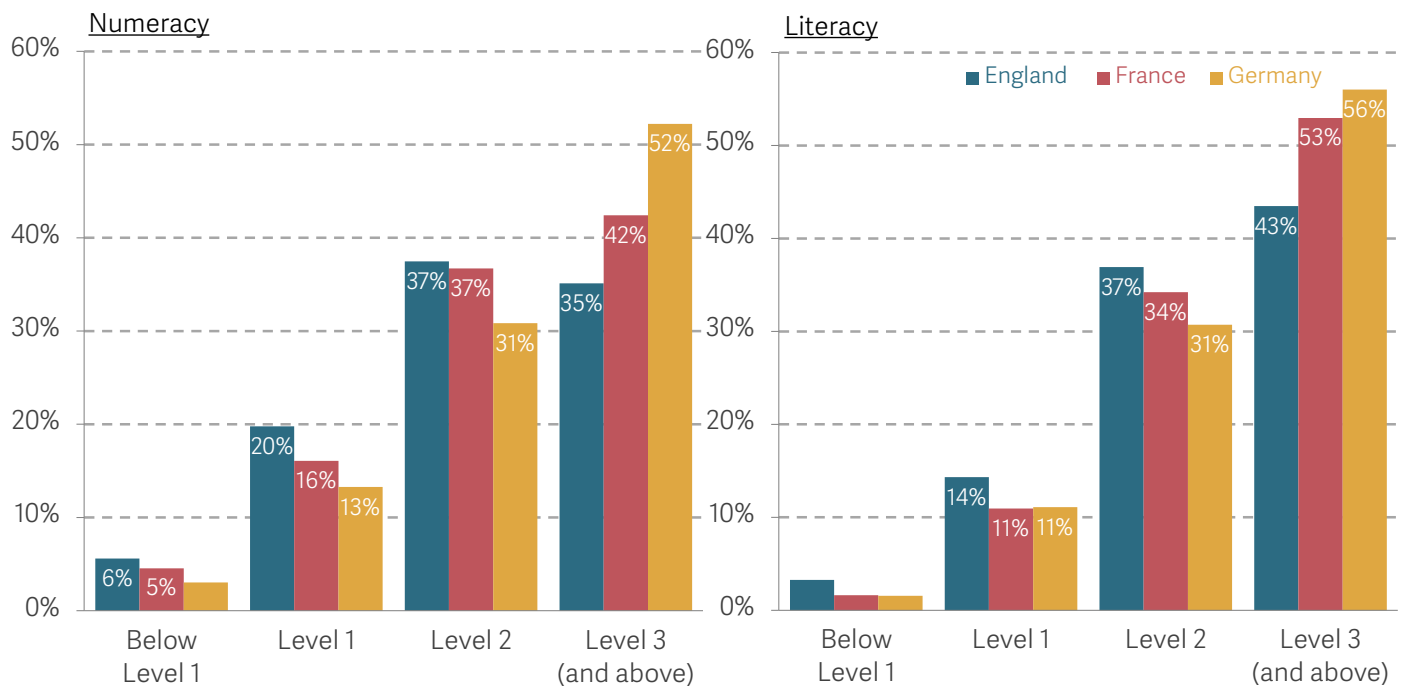
Percentage of students aged 15 at each skill level in reading (left panel) and mathematics (right panel): UK, France and Germany, 2018



SOURCE: OECD, Programme for International Student Assessment (PISA) data.

FIGURE 4: By age 24 we have developed a longer tail of poor performers

Percentage of young people aged 16-24 at each skill level in numeracy (left panel) and literacy (right panel): England, France and Germany, 2012.



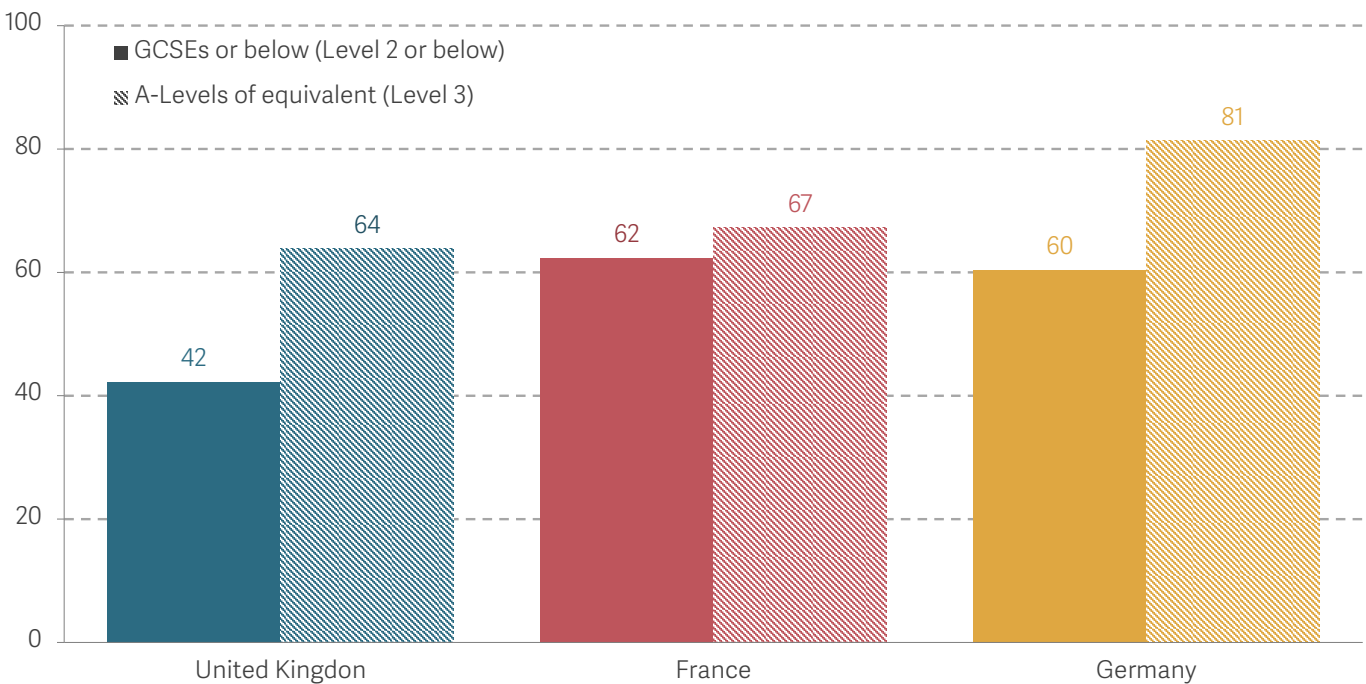
SOURCE: OECD, Survey of Adult Skills (PIACC) data.

Earnings

These differences are of course reflected in the pattern of wages, because where there is abundance of labour, wages are lower. Figure 5 shows how the pay of people without ‘upper secondary education’ (equivalent to A level) compares with those with higher education qualifications. The UK’s lower-skilled workers are paid less relative to graduates than is the case in other countries (and there is a large gain from moving from Level 2 to Level 3).⁵

FIGURE 5: Our low-skilled workers earn relatively less than in France or Germany

Earnings among adults aged 25-34 with A-Level or equivalent qualifications (Level 3) and GCSEs or below (Level 2 or below) relative to tertiary education (Level 4 or above) = 100): 2019



SOURCE: OECD, Education at a Glance statistics (2019).

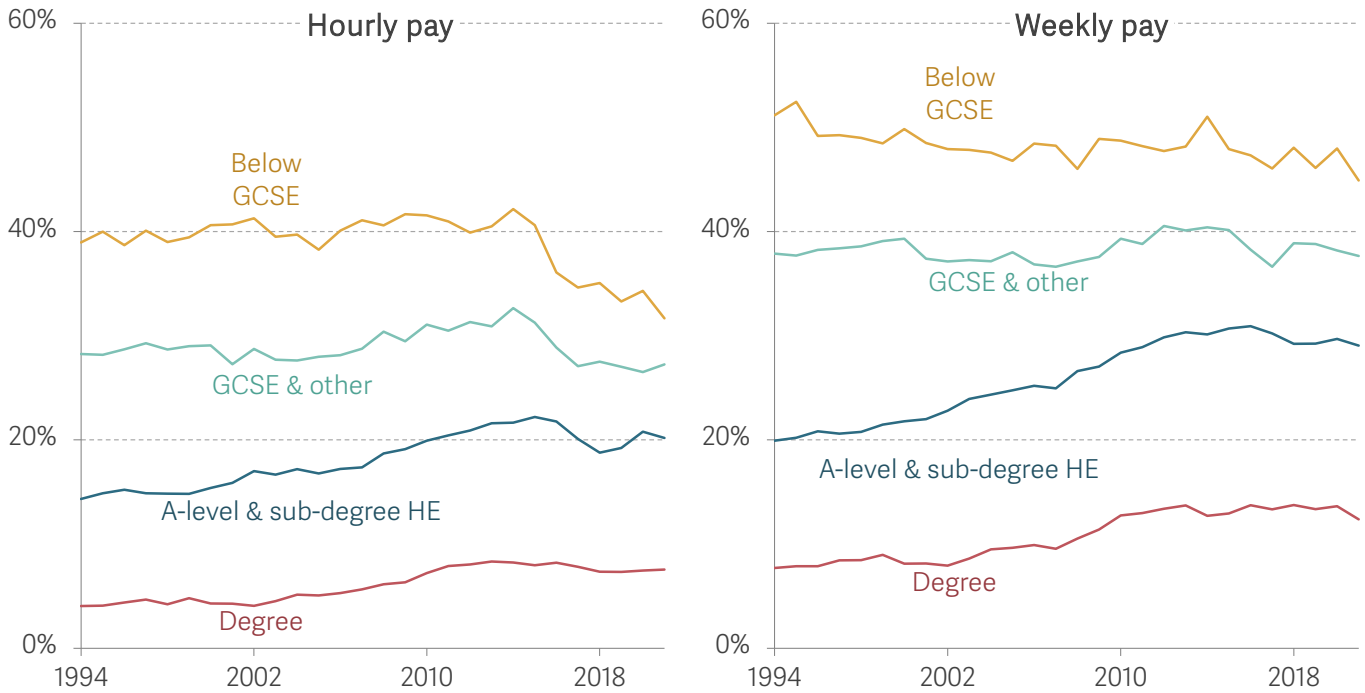
Another way to analyse earnings is to look, as we do in Figure 6, at the prevalence of low pay (defined as below two-thirds of the median) for different groups.⁶ This is much more common among those with below good GCSEs – even though the living wage has helped to reduce this number.

⁵ Of course, differences in the supply of skilled workers is only one factor explaining these patterns. Other factors (including labour market institutions) will have a bearing on how the premium to educated workers varies between countries.

⁶ Figure 6 first appeared in: N Cominetti et al, [Low Pay Britain 2022: Low pay and insecurity in the UK labour market](#), Resolution Foundation, May 2022.

FIGURE 6: **Low-skilled workers are much more likely to have low pay**

Percentage of employees with low hourly pay (left panel) and low weekly pay (right panel), by qualification level: UK



NOTES: Last data point relates to 2021.
SOURCE: ONS, Labour Force Survey.

Inefficient Outcomes

If low-skilled people earn so much less than people with higher skills, this tells us that the economic returns to acquiring skill are probably high (unless the cost of tuition itself is very high). So let us start by looking at some of the wage returns associated with specific Level 3 qualifications.

Table 1 takes people whose highest qualification is a Level 3 vocational qualification and compares them with otherwise similar people holding only a Level 2 vocational qualification. There are substantial differences.⁷ Table 2 presents a similar estimate of the effects of completing an apprenticeship (compared with dropping out).⁸ The returns are good for apprenticeships begun under 25, and less good if begun later.

By comparison with these returns to non-university vocational education, the most cited estimate of the wage effects of higher education (lasting 3-4 years) is around 27 per cent.⁹ Of course, one cannot take these comparisons too literally, as they are based on different methodologies, comparison

⁷ See S McIntosh & D Morris, 'Variation in the labour market rewards to vocational qualifications in the UK', Scottish Journal of Political Economy, August 2021. In a comparison with those whose highest qualification includes all Level 2 qualifications (including good GCSEs or O Level), the corresponding numbers to those in Table 1 are 10.53, 2, 1.02, -1.70 and 8.27. The discussion paper version of this study includes the number and proportion of vocational qualification holders for each category in the working age population. The percentage for each of the categories listed in Table 1 are 4.2 per cent, 0.2 per cent, 3.7 per cent, 3.9 per cent and 0.7 per cent. See: S McIntosh & D Morris, [Labour market returns to vocational qualifications in the Labour Force Survey](#), Centre for Vocational Education Research Discussion paper, October 2016.

⁸ In each case, earnings over the 3 years after apprenticeship are compared with earnings pre-apprenticeship.

⁹ At age 33. The comparison group is all non-graduates. See R Blundell, L Dearden & B Sianesi, [Evaluating the effect of education on earnings: models, methods and results from the National Child Development Survey](#), Journal of the Royal Statistical Society: Series A, March 2005.

groups and time periods. Nonetheless, they help illustrate our point that Level 3 qualifications and apprenticeships make a real and substantive difference to people's earnings trajectories.

TABLE 1: Sub-degree vocational qualifications have big effects on earnings

Earnings effect of various Level 3 qualifications: UK

Type of Level 3 qualification	Earnings effect
BTEC National Diploma/ONC/OND	32%
RSA Advanced Diploma	25%
City and Guilds Advanced	22%
NVQ 3	22%
GNVQ Advanced	27%

SOURCE: S McIntosh & D Morris, [Variation in the labour market rewards to vocational qualifications in the UK](#), *Scottish Journal of Political Economy* 68(5), August 2021.

TABLE 2: Completing an apprenticeship has a big effect on earnings

Earnings effect of completing a Level 3 Apprenticeship, by age group when commencing: England

Age group	Earnings effect
Aged 19-24	16%
Aged 25 and over	6%

NOTES: Apprenticeships starting 2004-2013.

SOURCE: S McIntosh & D Morris, [Labour market outcomes of older versus younger apprentices: A comparison of earnings differentials](#), September 2018.

Given these figures, it is not surprising that the Department for Education estimates very favourable economic 'Benefit/Cost' ratios for both further education and apprenticeships.¹⁰ Table 3 provides the estimates. They suggest a strong economic case for expanding both types of provision. One reason for these high estimates of benefit are that they include not only the effect of the education on earnings (if employed), but also its considerable effect on the likelihood of being employed.¹¹

TABLE 3: Sub-degree qualifications and apprenticeships have high benefit/cost ratios

Economic effects of Level 3 education and training: England, (2018-19)

	Further education	Apprenticeship
Effect on:		
Earnings (if employed)	16%	13%
Employment	4 pp	3 pp
Benefits/Costs (ratio):		
Starts among those aged 19-23	9:1	7:1
Starts among those aged 24 and over	7:1	3:1

SOURCE: Department for Education (2021).

¹⁰ This is the ratio of the present value of benefits to the public sector cost.

¹¹ Between 1979 and 2015 the employment rate for men with less than upper secondary education fell from 90 per cent to 80 per cent.

Unequal Provision

It is therefore time to ask: why are so few people in England getting non-graduate vocational qualifications compared with other countries? The answer is that we do not have a clear system where a person who qualifies for the next level can expect to find a place. This is true of both further education and apprenticeships.

This contrasts strongly with the situation on the academic route leading to university, where the Robbins principle has applied ever since that report was published in 1963.¹² According to that principle, there should be sufficient places at each level for all qualified people who want a place. In recent years, this has been secured by demand-led funding in universities – in other words, when a university enrolls a student, the money follows the student automatically. This has led to an extremely vibrant and dynamic system of university education. The situation is very different for further education beyond 18 and for apprenticeships.

Further Education

Up to 18, the funding of further education does indeed follow the student. But funding per student has fallen in real terms by 12 per cent since 2012, and is now lower than in secondary schools, and barely higher than in primary schools.¹³

Beyond 18 the situation is quite different. As the Augar Report stressed, there are two problems.¹⁴ First, total funding (mainly the so-called Adult Education Budget) is capped. And its total has been drastically reduced; Figure 7 shows the story. Recent improvements are welcome, but small relative to the size of the problem.

Total provision beyond 18 is much lower than it was in 2010.¹⁵ The number of adult learners taking Level 3 or below qualifications has fallen from 2.8 million in 2010 to around 1.5 million in 2020: a decline of roughly 47 per cent. Meantime the number of suitably qualified school or college leavers has grown.¹⁶ So the decline in provision cannot reflect a fall in potential demand; it reflects a governmental decision about the scale of supply.

¹² Initially, this was done by policy makers raising university funding (and thus the number of places provided) in line with the growth in numbers getting A Levels. Since 2015-16 it has become fully automatic, with no caps on the numbers that universities can admit.

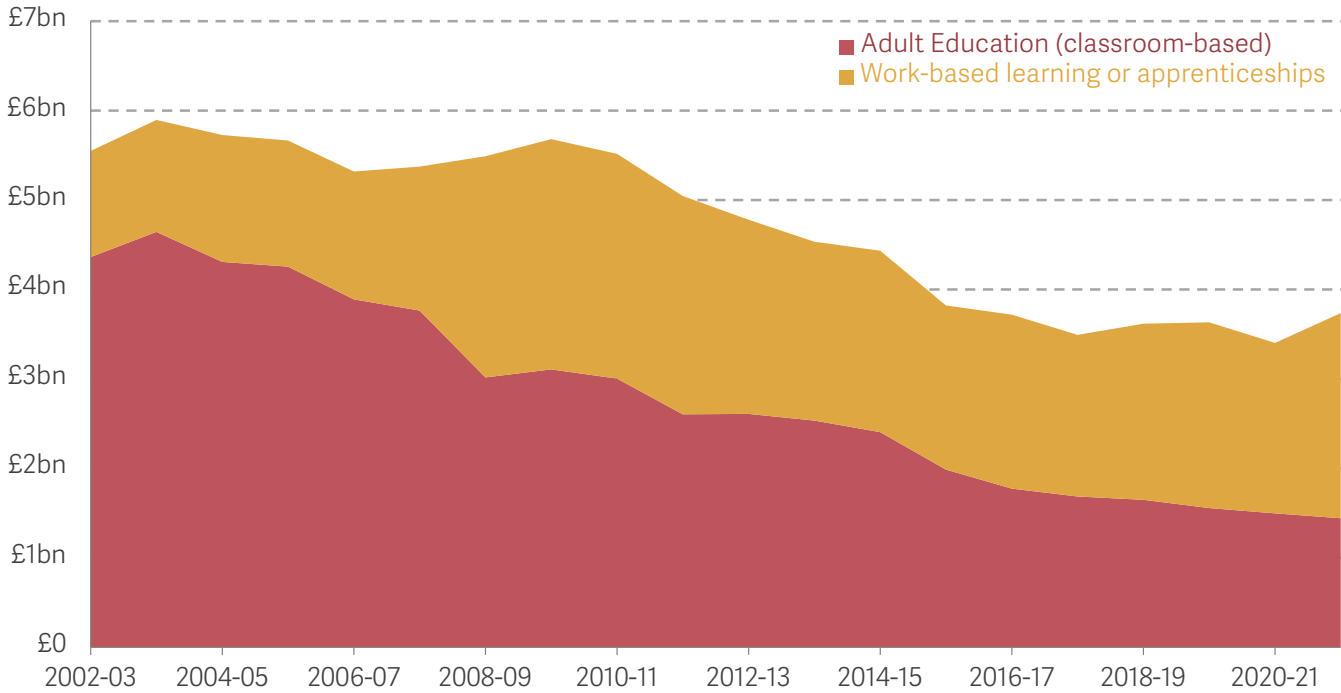
¹³ The funding of sixth forms has fallen by 28 per cent between 2010-11 and 2019-20. See E Drayton et al, [Annual report on education spending in England: 2022](#), Institute for Fiscal Studies, August 2022.

¹⁴ Department for Education, [Measuring the net present value of further education in England 2018 to 2019](#), May 2021.

¹⁵ L Sibieta, I Tahir & B Waltmann, [Adult Education: the past, present and future](#), Institute for Fiscal Studies, June 2022. Some of the extra qualified people have gone into higher education but not enough to explain the decline in FE students.

¹⁶ Of course some of the extra qualified people have gone into higher education but not enough to explain the decline in FE students.

FIGURE 7: Real public spending on adult further education and apprenticeships in England has fallen sharply



SOURCE: E Drayton et al, [Annual report on education spending in England: 2022](#), Institute for Fiscal Studies, December 2022.

Meantime, the Government has introduced the so-called Lifetime Skills Guarantee. This says that anyone taking their first course up to Level 3 will be charged no fee, irrespective of age.¹⁷ This is welcome. But it does not guarantee that the course they would like to take is available: as we have seen, the total number of places on offer has fallen.

Demand-led funding would completely change the situation. Any provider who believed they could attract enough students to a course to cover the cost would make it available. This would dynamise the system. There would of course have to be safeguards: the provider would have to be approved by the funding agency (ESFA), and the course would have to be for an approved qualification or in some other approved category. But, with that proviso, demand-led funding is the only effective way to ensure that the courses which students want, get provided – and close to where they want them.¹⁸

The second major problem in further education is the funding per student, which is determined by national tariffs specific to each type of course – which have not been increased since 2013 (though are now being reconsidered). This is despite the obviously high cost of equipment for vocational subjects and the higher alternative earnings for many teachers of technical subjects. As a result of poor funding per student, teachers in further education are not well paid. Median pay is now around £34,500, which compares with £41,500 for school teachers. In consequence, the annual turnover rate in further education is around 60 per cent higher than in schools (16 per cent per annum versus 10 per cent).¹⁹

¹⁷ Unlike university students, however, they will not be entitled to loans for consumption purposes – a major obstacle for older people.

¹⁸ There would also have to be adequate capital funding.

¹⁹ L Sibieta & I Tahir, [What has happened to college teacher pay in England?](#), Institute for Fiscal Studies, March 2023.

Apprenticeships

Apprenticeship is a time-honoured route to skill, involving a combination of on-the-job training and off-the-job learning. It has two huge advantages, especially for people of a less-academic turn of mind: you earn while you learn, and the on-the-job experience gives meaning to the off-the-job learning. Thus apprenticeships have huge potential for offering a good start in life for people not going to university.

But apprenticeships are unlikely to exist in sufficient numbers without state intervention. We cannot expect individual employers to shoulder the whole burden of financing them, because much of the training is 'general' and of equal value if the person, once trained, moves to another employer.²⁰ Equally, young apprentices do not have the finance to fund the course themselves. So the lead role in funding must fall to the state.

Apprenticeships exist in every branch of the economy (see Table 4).²¹ They raise skill levels both in high-productivity tradeable sectors like manufacturing, but also in non-tradeable sectors like healthcare. However, in England, many fewer young people enter apprenticeships than in many other European countries. Of those who were 16 in 2010, only 21 per cent had entered an apprenticeship by age 20²²; in Germany, this is estimated to be over 50 per cent.²³ And today the number in England is lower even than it was ten years ago (see Figure 8). There is therefore excess demand for apprenticeship places. For example, in the Find An Apprenticeship matching services, three-times as many people register for a placement than the number of vacancies that are registered by employers.²⁴ This helps to explain the extraordinary proportion of people (30 per cent) not in any form of education or training at 18 (Figure 2).

TABLE 4: **Apprenticeships are spread across the whole economy**

Sectoral composition of apprenticeship starts: England, 2019

Sector	Proportion
Engineering and Manufacturing	16%
Construction	6%
ICT	5%
Health and Care	24%
Retail	12%
Business and Administration	31%
Other	6%

SOURCE: DfE Apprenticeship and traineeships data.

20 G Becker, *Human Capital: A theoretical and empirical analysis with special reference to Education*, 1964.

21 A version of Table 4 first appeared in: C Cavaglia, S McNally & G Ventura, [The Recent Evolution of Apprenticeships: Apprenticeship pathways and participation since 2015](#), The Sutton Trust, December 2022.

22 C Hupkau, S McNally and G Ventura, [Post-compulsory education in England: Choices and Implications](#), National Institute Economic Review, May 2017.

23 According to the [Federal Institute for Vocational Training in Germany \(BiBB\)](#), the percentage of young people starting an Apprenticeship at some point (16-24) is estimated to be 54 per cent. Although Germany's highly regulated labour market is amenable to having a large apprenticeship system, many other countries are also trying to improve access to apprenticeships for young people. We do not have comparable figures for France. A 2018 reform has increased the number of apprenticeship contracts six-fold (between 2018 and 2021). See: S Claquin & D Faruqui, [Apprenticeship in France](#), L.E.K., March 2023.

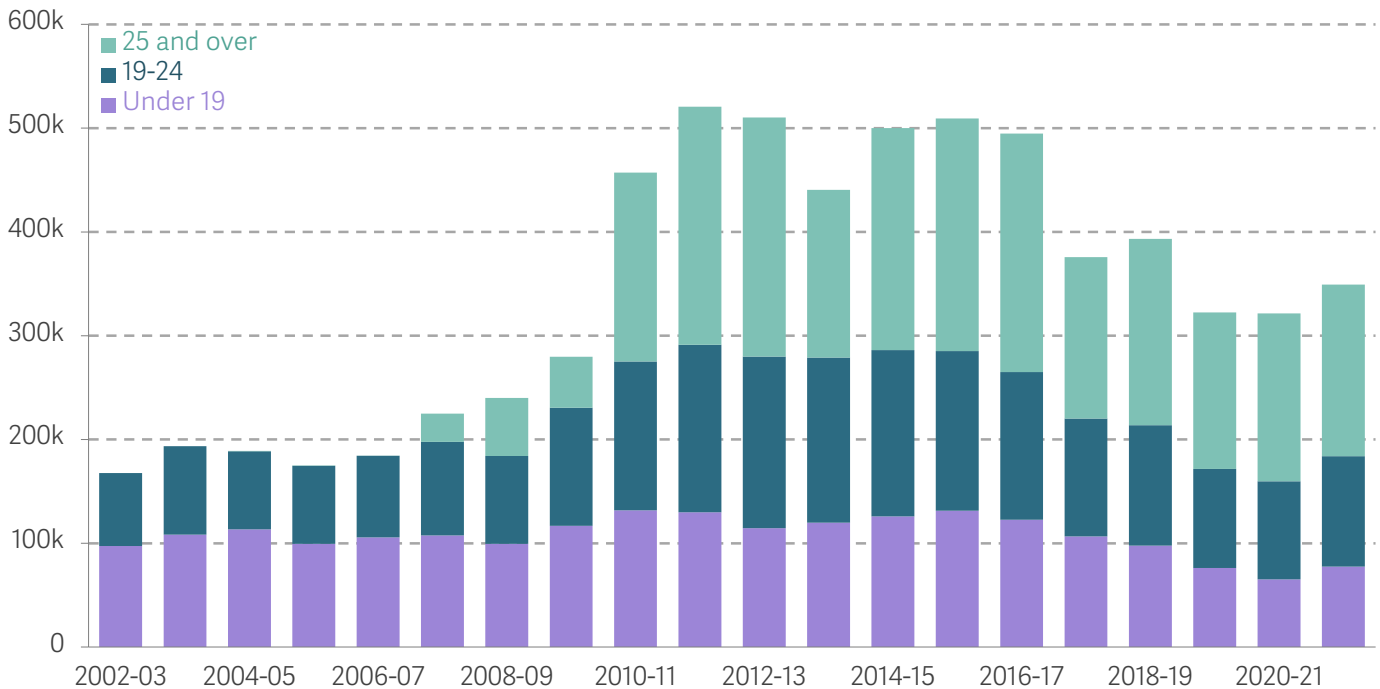
24 142,000 applications versus 47,000 places. See Department for Education, [Apprenticeship vacancies: demand and supply data](#), July 2021.

Meantime, among people aged over 25 there has been a huge expansion of apprenticeships (see Figure 8). Until the mid-2000s, such apprenticeships were unknown: apprenticeship was about getting a good start in life, and most apprenticeships were at Level 2 (intermediate) or Level 3 (advanced).

But since 2012 there has been a huge growth in apprenticeships for people aged over 25. Some of this is welcome, and it includes many of the increased numbers taking apprenticeships at levels 4 and 5 (the old Higher National Certificate (HNC) and the like) or at degree level (see Figure 9).²⁵ But the concern is that it may include substantial numbers of existing employees doing continuous professional development, which would previously have been financed by employers and is now financed by the Apprenticeship Levy.²⁶

FIGURE 8: The number of apprenticeships has fallen sharply, especially for the under 25s

Apprenticeships starts, by age group: England



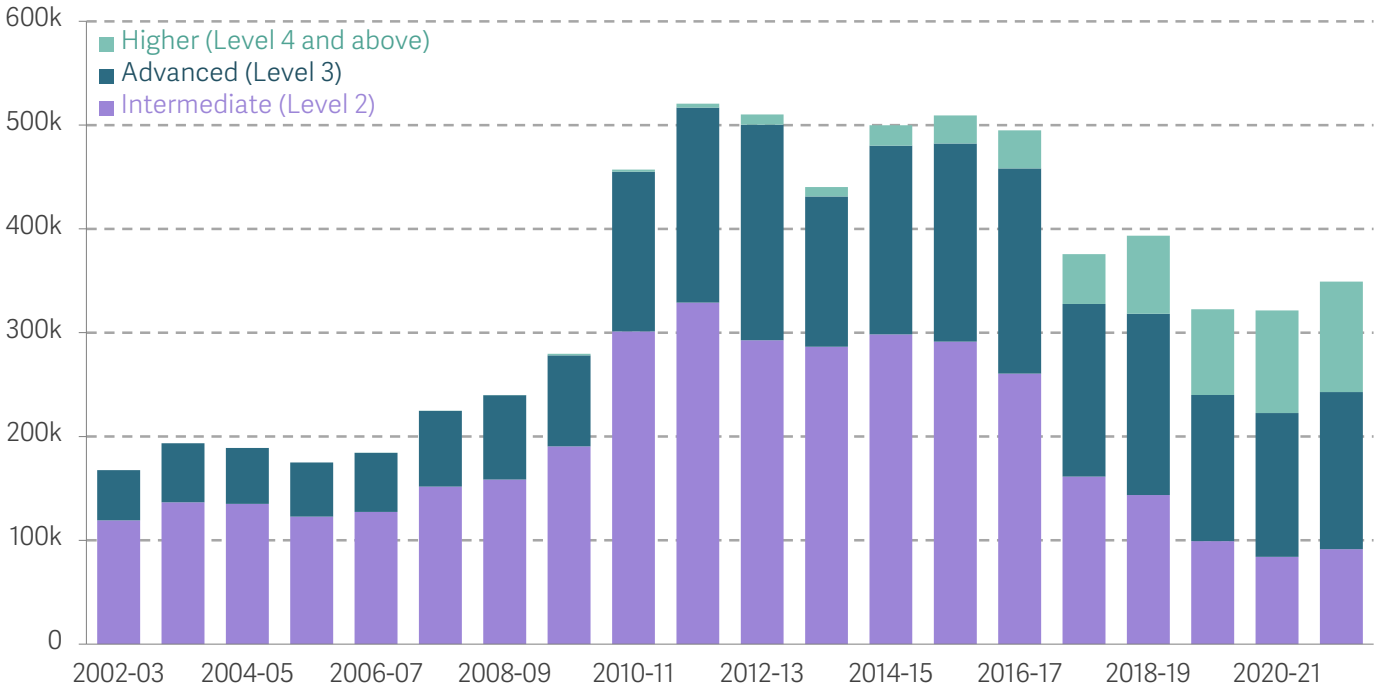
SOURCE: DfE, Apprenticeships and Traineeships data.

²⁵ C Cavaglia, S McNally & G Ventura, 'The Recent Evolution of Apprenticeships: Participation and Pathways' Centre for Vocational Education Research, December 2022.

²⁶ As discussed later, the Apprenticeship Levy equals 0.5 per cent of the paybill of companies with a paybill of over £3 million a year. The employer can either spend this levy on providing off-the job training for apprentices or it goes to the Treasury, so large employers have an incentive to turn training they would have done otherwise into apprenticeships for their own staff.

FIGURE 9: The number of Level 2 apprenticeships has fallen the most

Annual number of apprenticeships starts, by level: England



SOURCE: DfE, Apprenticeships and Traineeships data.

Thus, developments over the last 10 years have failed to increase the number of non-graduates under 24 who get a good start in life.

There has, however, been substantial improvement in the quality of apprenticeship for those who get them. Apprenticeships are now subject to employer-led standards, a minimum length, a required amount of off-the-job training, and a more rigorous final assessment.²⁷

Another key change in recent years is the introduction of the Apprenticeship Levy in 2017. This levy equals 0.5 per cent of the paybill of companies with a paybill of over £3 million a year. Either the employer 'claims back' their levy on off-the-job training for apprentices or it goes to the Treasury. Some of this money is used to pay for apprentices in SMEs but the amount is capped.²⁸ The result is that only 41 per cent of all apprentices are in SMEs, compared with 61 per cent of all employees.²⁹ Whereas in Germany apprenticeship flourishes, especially in mittelstand firms, in Britain apprenticeship expenditure in SMEs is capped by the proceeds of the Apprenticeship Levy. This can lead to SMEs applying for apprenticeship funding and being rejected. At various times, the number of apprentices funded in SMEs has been limited to 10 per firm.³⁰

The central concept of an apprenticeship is to introduce young people to the world of work, with suitable training and apprenticeship. It is therefore disturbing that in recent years roughly half of

27 C Cavaglia, S McNally & G Ventura, 'The Recent Evolution of Apprenticeships: Participation and Pathways' Centre for Vocational Education Research, December 2022.

28 See: I Mansfield & T Hirst, [Reforming the Apprenticeship Levy](#), Policy Exchange, May 2023; and: I Tahir, [Investment in training and skills](#), Institute for Fiscal Studies, October 2023.

29 N Amin-Smith, J Cribb & L Sibieta, [Reforms to Apprenticeship Funding in Britain](#), Institute for Fiscal Studies, January 2017.

30 Non-levy payers are entitled to 95 per cent of the direct costs of training apprentices. The funding for non-levy payers is supposed to come out of the Apprenticeship Budget raised by the levy but not used by levy payers. To limit demand from non-levy paying firms, a cap of 10 apprenticeship-starts was put in place from 2020 to April 2023.

all apprenticeship starts have been taken up by people aged 25 or more. This problem has been compounded by the fact that older employees tend to take more expensive courses (especially at levels 4 and 5) meaning that one half of the budget is spent on that age group. This may suit the short-run interest of individual employers, since older workers change employers less often. But in the long-run, it is in the collective interest of employers to have a labour market pool which they can draw on made up of young people who have been trained up early to at least Level 3. Moreover, as we have shown above, the economic returns are higher from training younger people than older people. There is therefore a case for ring-fencing more of the Apprenticeship Levy for younger people. Lifelong learning is important, but apprenticeships should, in the main, be a transition to the labour market, and not a mechanism for funding continuous professional development.

The way forward

The aim has to be a system of skills training outside sixth forms and universities that works as well as the academic route does. Thus, there must be a clear way forward in which anyone who qualifies for the next higher level can expect to find a place of some kind. That is the Robbins Principle, and at present it does not apply at all to the other 50 per cent who are not on an academic pathway.³¹ The way forward is to apply that principle, through demand-led funding to both apprenticeship and to further education. In this system, any provider who sees potential student demand can provide a course or an apprenticeship opportunity and receive the funding automatically for as many qualified students or apprentices that apply and are accepted.

In 2009, the Labour government attempted to establish such a system for apprenticeships through an 'apprentice guarantee'. The Apprenticeships, Skills, Children and Learning Act placed a duty on the CEO of the Skills Funding Agency in England (to be discharged via the National Apprenticeship Service) to ensure an offer of an apprenticeship place to all qualified 16–18-year-old applicants.³² The young person could choose an apprenticeship at either Level 2 or Level 3 from apprenticeship frameworks in two sectors (sectors were to be defined as those covered by a Sector Skills Council). The young person had to be suitably qualified – i.e. in English and Maths GCSE – at the appropriate level. The apprenticeship place had to be within a 'reasonable travel area', and these were drawn from existing travel to work areas. The guarantee was not to come fully into force until 2013. But, after the change of government in 2010, that part of the Act was repealed. However, it remains the best vision of the system we need to create for people up to age 24. It raises four issues.

The first is funding. We need the same system of demand-led funding as prevails in sixth forms and universities. For levy-paying firms, the levy is probably adequate to finance this, provided a sufficient proportion of it (say two-thirds) is reserved for people under 25, and that the levy stays focused on apprenticeships, rather than generalised to other forms of training, as some have argued. But, for non-Apprentice-Levy-paying firms, the Department for Education should provide demand-led funding.

The second and more difficult issue is the supply of places. Concerns over the quality of places – a criticism made of Labour's scheme – have been addressed through the reforms described above. But

³¹ A Fuller and L Unwin, Apprenticeship quality and social mobility. In ["Better Apprenticeships"](#), the Sutton Trust, November 2017. For proposals similar to ours on how to remedy this, see: House of Lords Youth Unemployment Committee, [Skills for every young person](#), November 2021. That report also stressed the importance of not abolishing well-established qualifications until newer ones have established themselves.

³² Prior to this Act, the shortage of places had been highlighted in: The House of Lords Select Committee on Economic Affairs, [Apprenticeship: a key route to skill, July 2007](#).

this still leaves open the issue of the overall supply of places. There has to be an organisation with a duty to secure enough places in a local area. This could be the Combined Mayoral Authority where it exists, or the local authority, or possibly the Local Skills Improvement Partnership. But this can only be done if the incentive for employers (public and private) are sufficient: employers, after all, have to pay the wages of the apprentices and the cost of on-the-job training.³³ If no other method works, the Government may have to consider some subsidisation of these elements.

Third, there are many young people who, when they leave school or college, are not qualified for an apprenticeship even at Level 2. This is an area where the quality and funding of programmes in Further Education Colleges is crucial, and the expectation should be that most young people will need full-time provision up to at least age 18 before they are able to start an apprenticeship. There should be a national system of pre-apprenticeship courses in FE which prepare people for apprenticeships.³⁴

Finally, there is the issue of what Level 3 apprentices do after they have qualified at that level. Many will want to go on to Levels 4 and 5 (e.g. HNC). This is highly desirable. The new Lifetime Loan Entitlement will apply to all non-apprentice students at Levels 4 and 5, as well as to degree students. On this basis, it is both feasible and desirable that Levels 4 and 5 expand rapidly. But that is the focus of another forthcoming Economy 2030 report.³⁵

Our focus here is on Levels 2 and 3, and especially on those who currently never reach Level 3 and for whom that is likely to be their highest qualification. To create that level of skill requires improved access to apprenticeship but also to further education of all kinds, including pre-apprenticeship training and full-time vocational courses. Here too, funding should be demand-led.

So how much would all this cost? We can only offer broad brush numbers. Any change takes time to phase in, so we should reflect on what might happen five years after the changes are decided on. For apprenticeships, the aim is to significantly increase the number young people benefiting from training. The Apprenticeship Levy currently raises about £3 billion a year. Around 60 per cent of apprentices are in large firms, costing around £1.8 billion a year, with the other 40 per cent in SMEs costing around £1.2 billion a year.

We estimate that ring-fencing two-thirds of the levy for younger people aged under 25 would allow for an additional 63,000 apprenticeship starts per year for under 25s – an increase of 34 per cent compared to 2021-22. We assume that this ring-fencing could achieve a significant increase in apprenticeships within larger firms without any increase in spending (as discussed above, the fact that apprenticeships for these workers is cheaper plays a role here).³⁶ In SMEs, we hope that they might be able to recruit a similar number of apprentices as they did a decade ago (which would involve doubling the number of their apprentices, as the number of apprentices in SMEs has fallen by 50 per cent since 2015). To double this number would therefore cost roughly £1.2 billion, based on current SME spend, and would allow for an additional 124,000 apprenticeship starts per year. Allowing for some wage subsidy to induce provision of places gives a rough estimate of the additional cost of apprenticeships in SMEs to be around £1.5 billion.

³³ S Wolter & P Ryan, [Apprenticeship](#), Handbook of the Economics of Education, 2011.

³⁴ Both Denmark and Germany have such systems; see: C Ibsen & K Thelen, [Growing apart: efficiency and equality in the German and Danish VET systems](#), MIT Work of the Future, October 2020.

³⁵ R Costa et al., [Learning to grow: How to situate a skills strategy in an economic strategy](#), Resolution Foundation, October 2023.

³⁶ This leaves open the question of how to fund some of the continuous professional development that is currently cross-subsidised by the levy. Some of this may be funded by workers through the Lifetime Loan Entitlement.

As for further education, to restore real expenditure to 2010 levels would cost £1.5 billion a year. Demand-led funding plus improved tariff rates (as a minimum, we propose that tariff rates are restored to 2010 levels) would require at least this much. So, we are talking about an increase in funding for the 'other 50 per cent' of at least £3 billion. But even an extra £3 billion would still leave this group receiving far less subsidy post-18 than the 50 per cent going to higher education.³⁷

Conclusion

We currently have a woefully inadequate system of skills training for those who never go to higher education. This must be one of the biggest failings of our society – and a major source of low productivity and high inequality. To solve it requires a system-wide approach to ensure that every individual can realise his or her potential. It is not enough to focus only on the perceived needs of current employers. If this leaves many young people without a route to skill, it damages future employers and future taxpayers. And, above all, it denies young citizens the chance to make the most of themselves.

So, in thinking about vocational skills (as about academic skills), the right approach is to begin with the students. For each one we need to ensure that, if they qualify for the next level up and wish to proceed, they can find a place. That principle has produced a good outcome for the 50 per cent who go to university, and for the economy. Now it's the turn of the 'other 50 per cent'.

³⁷ This implies an increase in spending from £4.5 billion to £7.5 billion. The Government subsidises university student loans in England by an estimated £10.4 billion annually, and also provides extra money for STEM subjects and for helping disadvantaged students. See J Britton et al., [2020 Annual report on education spending in England](#), Institute for Fiscal Studies, November 2020.

Steering economic change: how policy can promote stronger growth and shared prosperity

As the UK is buffeted by the economic shocks and challenges of the 2020s, The Economy 2030 Inquiry, a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics (LSE), funded by the Nuffield Foundation, is setting out a new economic strategy. To feed into this process we are publishing a series of externally-written policy essays. Each aims to provoke public debate on a specific policy area, and sketch out an agenda that will contribute towards the wider goal of the UK becoming a higher growth, lower inequality economy.

The essays cover topics ranging from the role of smarter regulation in supporting economic growth, ensuring that the goal of 'good jobs' is embedded in our national industrial strategy, and the role of the higher education sector in providing the skills needed to power our services dominated economy.

They are written by a range of leading economists and policy experts, and reflect the views of the authors rather than those of the Resolution Foundation, the LSE or The Economy 2030 Inquiry.

They have been commissioned and edited by Gavin Kelly (Chair of the Resolution Foundation and member of the Economy 2030 steering group) and various members of The 2030 Economic Inquiry team.