

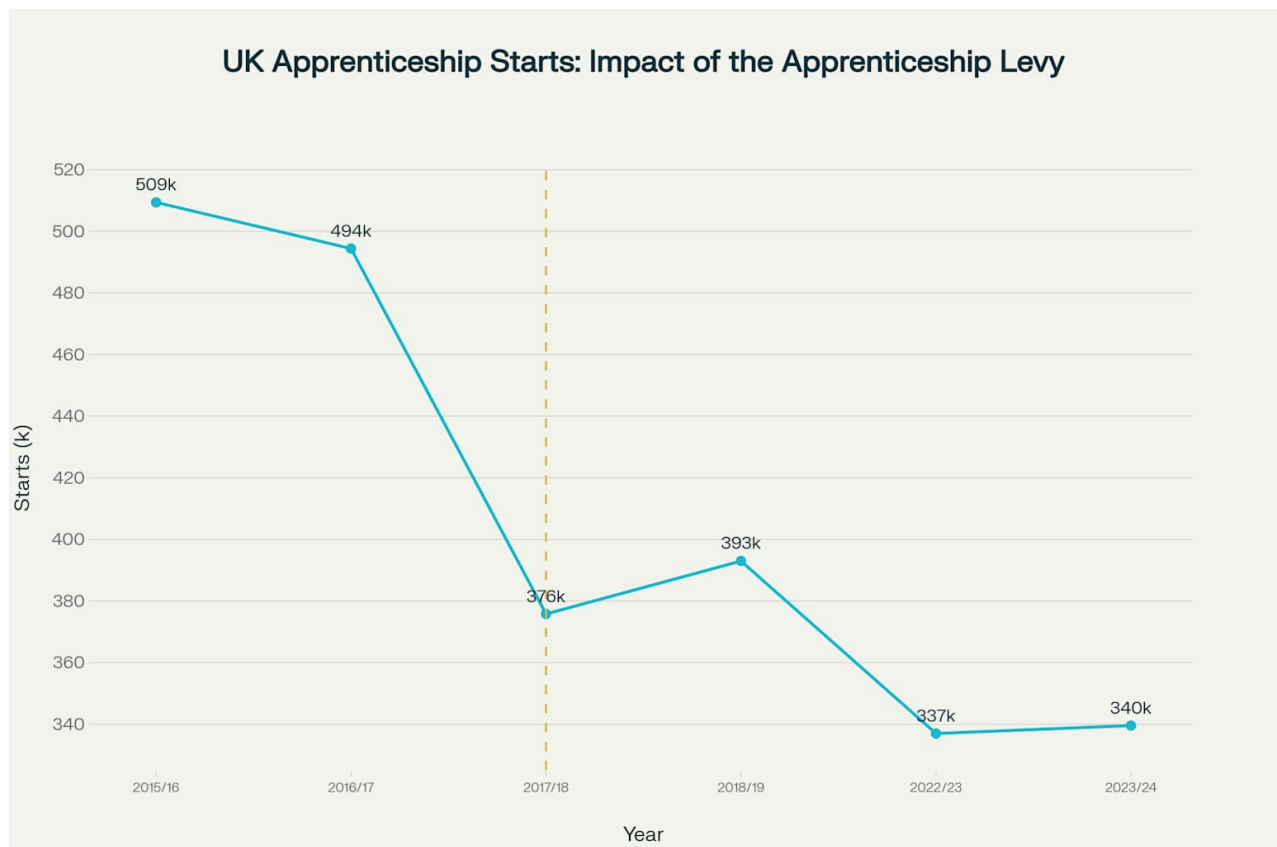
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The Experience with the UK Apprenticeship Levy: Performance and Reforms Since 2017

The UK's apprenticeship levy, introduced in April 2017, has experienced significant challenges and undergone multiple reforms in its eight-year history. While designed to increase both the quantity and quality of apprenticeships, the levy has faced persistent issues with declining participation, low completion rates, and substantial unspent funds returning to the Treasury.

Initial Impact and Performance Challenges

The apprenticeship levy was introduced with ambitious goals: to double investment in apprenticeships to £2.5 billion per year by 2020 and to deliver an additional 3 million apprenticeship starts by 2020^{[1][2]}. However, the immediate aftermath revealed significant performance issues.



UK apprenticeship starts declined significantly after the introduction of the apprenticeship levy in 2017, falling from around 500,000 annually to approximately 340,000 by 2023/24.

Dramatic Decline in Apprenticeship Starts

The most striking impact was an immediate and substantial decline in apprenticeship starts. In the quarter following the levy's introduction (May-July 2017), apprenticeship starts fell by 72% compared to the previous quarter, with 130,000 fewer apprenticeships started^[3]. Annual data shows that apprenticeship starts dropped from 494,400 in 2016/17 to 375,800 in 2017/18 - a decline of 24%^[4]. This represented the lowest number of apprenticeship starts since 2010^[5].

Disproportionate Impact on Young People

The decline particularly affected younger learners, undermining one of the levy's key objectives. Between 2015 and 2023, apprenticeship starts for those under 19 declined by 41% (almost 54,000 starts), while starts for those aged 19-24 fell by 36% (55,000 starts)^[6]. This shift away from entry-level apprenticeships has raised concerns about social mobility and opportunities for disadvantaged young people^[7].

Shift Toward Higher-Level Apprenticeships

Academic research found that the levy created a substantial shift from lower-level to higher-level apprenticeships. The proportion of intermediate apprenticeships fell from 53% of starts in 2016/17 to lower levels in subsequent years, while higher-level apprenticeships (Level 4 and above) increased from 4% to 19% of starts^[8]. This trend reflected employers' attempts to maximize their levy fund usage through more expensive, higher-level training programs.

Completion and Quality Issues

Low Completion Rates

Apprenticeship completion rates have remained problematic throughout the levy period. As of 2023-24, the national apprenticeship achievement rate was 60.5%, meaning nearly 40% of apprentices dropped out before completing their training^[9]. In some sectors, the situation was even worse - construction apprenticeships had a 47% dropout rate^[10].

Quality Concerns

Research revealed widespread quality issues with apprenticeship provision. A 2022 study found that 40% of apprentices reported feeling unsatisfied with their training, citing lack of support from training

providers, poorly organized programs, and poor quality training^[11]. Ofsted graded apprenticeship provision as 'requiring improvement' or 'inadequate' in one-third of cases, making apprenticeships the poorest quality provision type in Further Education^[11].

Employer Behavior and Fund Misuse

The levy incentivized problematic employer behaviors. More than half (54%) of levy-paying organizations reported converting existing training programs into apprenticeships to claim back their levy funds, rather than creating new training opportunities^[6]. This "rebranding" of existing training undermined the levy's goal of increasing overall apprenticeship provision and often resulted in inappropriate training matches for employees' needs.

Financial Performance and Fund Utilization

Massive Return of Unspent Funds

One of the most significant indicators of the levy's poor performance has been the substantial amount of unspent funds returned to the Treasury. Between May 2019 and 2022, over £3.3 billion in apprenticeship levy funding was returned to the Treasury - equivalent to £95 million per month that employers failed to use^{[12][13]}. This represented 23% of the Department for Education's total ring-fenced apprenticeship budget between 2017 and 2021^[14].

Low Fund Utilization by Levy Payers

Academic research found that only a minority of levy funds were actually used by levy-paying employers between 2017-2019^[8]. The average levy contribution per employer was around £137,000 in 2018/19, while average expenditure on apprenticeship training was only approximately £42,000^[8]. This indicated that many employers struggled to effectively utilize their levy funds within the 24-month expiry period.

Policy Reforms and Adjustments

Recognizing these performance issues, the government has implemented numerous reforms to improve the levy's effectiveness:

Transfer Allowance Increases

- April 2019: Introduction of levy transfer capability at 10%
- Later increased to 25% of annual levy funds
- April 2024: Transfer allowance doubled from 25% to 50% of annual levy funds^[15]

Funding Improvements for Small Employers

- April 2024: Government began funding 100% of apprenticeship training costs for 16-21 year olds at non-levy paying employers, up from the previous 95% co-investment rate^{[16][17]}
- Enhanced support for employers taking on apprentices aged 16-18 with £1,000 incentive payments^[16]

Administrative Streamlining

The 2024-2025 funding rules included several administrative improvements:

- Reduced onboarding requirements for new apprentices
- Learning support reviews moved from monthly to quarterly
- Simplified active learning requirements^[18]

Assessment and Duration Reforms

- February 2025: Removal of mandatory English and maths requirements for apprentices aged 19 and over^[19]
- Planned August 2025: Reduction of minimum apprenticeship duration from 12 months to 8 months^{[20][19]}

The 2025 Transformation: Growth and Skills Levy

Major Structural Reform

In September 2024, the government announced the most significant reform since the levy's introduction: its transformation into the "Growth and Skills Levy" from April 2025^{[21][22]}. This represents a fundamental shift in approach and scope.

Key Changes in the New System

- **Broader Training Options:** From April 2025, 50% of levy funds must still be used for apprenticeships, while the remaining 50% can be directed toward other approved training such as Skills Bootcamps and modular technical courses^[21]
- **Enhanced Flexibility:** Employers gain greater control over their training budgets with more flexible training options beyond traditional apprenticeships^[22]

- **Regional Focus:** Targeting funding toward closing regional skills gaps based on local economic needs^[21]
- **Skills England:** Establishment of a new public organization to identify skill requirements and oversee efficient fund utilization^[23]

Continued Challenges

Even with these reforms, fundamental challenges persist:

Level 7 Apprenticeship Cuts

From January 2026, the government will withdraw public funding for Level 7 (master's-level) apprenticeships for individuals aged 22 and over, requiring employers to pay full costs for older employees^{[24][25]}. This change aims to redirect funding toward younger apprentices but may significantly impact sectors like the NHS, education, and local government that rely heavily on these high-level apprenticeships.

Persistent Completion Issues

Despite various interventions, completion rates remain problematic. The 2025 apprenticeship achievement rate target of 67% acknowledges that completion issues persist, with the sector still working toward this goal^[9].

Academic Evaluation and Evidence

Independent academic research has provided nuanced insights into the levy's impact. A comprehensive study by the Centre for Vocational Education Research found evidence of a "net positive effect" of the levy on apprenticeship starts, particularly at higher levels, with no associated decrease in other forms of training^[8]. However, this positive effect was primarily among levy-paying employers compared to similar non-levy employers, and the research highlighted significant methodological challenges in isolating the levy's specific impact from other concurrent reforms.

The study noted critical limitations including the lack of sharp policy discontinuity, conflation with other apprenticeship system reforms, and funding misalignment where levy payers under-utilized funds while non-levy employers faced funding shortages^[8].

Conclusion

The UK's experience with the apprenticeship levy reveals a complex policy implementation with mixed results. While achieving some positive outcomes in terms of training intensity among levy-paying employers and maintaining overall training levels, the levy has struggled with its primary objectives of increasing apprenticeship quantity and improving access for young people.

The substantial return of unspent funds to the Treasury, persistent completion rate issues, and the need for continuous reform indicate systemic challenges with the original design. The transformation to the Growth and Skills Levy in 2025 represents recognition that the apprenticeship-only focus was too restrictive, and a more flexible approach to skills development may better serve employers' needs and the broader economy's skill requirements.

The levy's evolution demonstrates the importance of policy adaptability and the challenges of designing effective skills funding mechanisms that balance employer needs, learner outcomes, and public policy objectives. While the reforms show promise for addressing some structural issues, the success of the new Growth and Skills Levy will ultimately depend on whether it can achieve the original goals of increasing high-quality work-based learning opportunities while providing the flexibility that employers have consistently requested.

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