SUPPLEMENTARY SUBMISSION –
HOUSE OF COMMONS EDUCATION SELECT COMMITTEE

BOOSTING DEGREE APPRENTICESHIPS

At the evidence session 12 July 2022, the Committee requested a follow-up note on how to boost the availability of (employed status) degree apprenticeships.

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[1] Provided in a personal professional capacity. Views expressed in this document may not necessarily be the views of members of the Federation of Awarding Bodies. Neither does the paper represent a collective or official position of any other body.

SUMMARY

The aim of this note is to explain how reform of the student loans maintenance system and Apprenticeship Levy could be used to boost the numbers of degree apprenticeships by 2030.

Currently, **2 in 3 students who apply for a degree apprenticeship fail to secure one because of a lack of employer sponsored places**.

In policy terms, the paper proposes (in England):

- Giving individuals access to the maintenance loans system to financially incentivise more private sector and SME employers to sponsor employed status degree apprenticeships at Level 6, in future.
- Employed individuals would be able to partially transfer their means tested loan entitlement to SME employers to help these firms offset costs: known as the Degree Apprenticeship Transferable Loans Scheme (DATLS).
- Formal linkage of the planned Lifelong Loan Entitlement (LLE) from 2025 to an integrated post-18 Skills and Workforce Investment Fund, managed by HMRC; by merging the payroll deductions and contributions functions of the Apprenticeship Levy with the Student Loans Company.
- Enabling the Institute for Apprenticeships and Technical Education to work with SMEs to identify more occupational routes suitable for degree apprenticeship.
- A national goal of securing a third of all higher education enrolments in degree apprenticeships by 2030. That's approximately 500,000-degree apprentices on programme by the end of the decade.
- Consideration of the impact of growing Level 6 opportunities on fairer access to apprenticeships at Level 2 and 3; particularly when starts at these lower levels have been in serious decline since 2017.

Context

1. Currently, almost £20 billion is loaned by the UK Government to around 1.5 million higher education students each year. Loans support both course fees and maintenance elements.

2. In recent years, the biggest increase in (income-contingent) loans taken out by students has been to support *maintenance*. It means the average debt for the cohort graduating in 2021 was £45,000.

3. Even after recent reforms to HE student finance, the Treasury has anticipated recovering just over half the amount loaned to students enrolled in higher education from 2023/24. This compares to only a quarter (25%) of undergraduates paying back their loans in full, enrolled before the 2022 reforms.[2]

[2] 'Student Loan Statistics' (2022) Bolton P. House of Commons Library, research paper CBP01079

4. This paper sets out a new model to improve undergraduate employment prospects; and to achieve better taxpayer value for money, by reforming the maintenance element of the student loans system. It may also require reform of the Apprenticeship Levy.[3]

5. The prize, from 2025, would be a more integrated post-18 system of skills and education funding support; an approach much bolder and complementary to the recommendations put forward by the Augar Review.[4]

6. One key proposal in this paper is to give employers and eligible employees access to the maintenance element of the system, to use as cost-offset/ wage subsidy; provided the employer takes on a higher or degree level apprentice at the relevant NMW rate. (i.e. Levels 4, 5, 6 and 7 apprentices). Employees embarking on Higher Technical Qualifications would also be eligible for support in this reformed system (as part of the LLE).

7. Such a reform would be a win-win for learners, business and society.

Policy imperatives

- Growing dissatisfaction that undergraduates lack employability skills, with more than a third of UK-born alumni in non-graduate jobs in 2019.[5]
- Meanwhile, survey evidence shows an 11% real-terms fall in employers' spending on workforce training per employee from 2011 to 2019.[6]
- Only 4% of the workforce at the age of 25 have acquired a Level 4 (sub-degree-level) qualification.[7]
- There is a major mismatch of undergraduates who want to undertake a degree-level (Level 6) apprenticeship and available employer places. UCAS data suggests that 2 in 3 undergraduates who would like to undertake a degree apprenticeship will fail to secure one.[8]

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[3] At the time of the Chancellor's Spring Statement (March, 2022), HMT published its intension to review the Apprenticeship Levy, including whether it is doing enough to incentivise employers to 'invest in the right kinds of training', retrieved 17 July 2022 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062486/Spring_Statement_2022_Web_Accessible.pdf

[4] For a comprehensive overview of the Independent panel on post-18 education (Augar Review), see the House of Commons Library research paper, 9348, retrieved 17 July 2022: https://researchbriefings.files.parliament.uk/documents/CBP-9348/CBP-9348.pdf

[5] 'Employed graduates in non-graduate roles, parts of the UK, 2015-2019. Data published by Office for National Statistics (2020) retrieved 17 July 2022 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/12501employedgraduatesinnongraduaterolespartsoftheuk2015to2019

[6] 'Developing workforce skills for a strong economy.' (2022) Report by the Comptroller and Auditor General, National Audit Office, Session 2022-23, published 13 July 2022, retrieved 17 July 2022 https://www.nao.org.uk/wp-content/uploads/2022/07/Developing-workforce-skills-for-a-strong-economy.pdf

[7] Op. cit.

[8] According to UCAS, of the 750,000 people that set up UCAS accounts in the last six months of 2021, ready for college admissions this academic year, 342,000 of them said they were interested in apprenticeship. Internet searches for the term apprenticeship on UCAS.com reached 2 million in 2022, up 45% on the previous year.

- A third of all apprenticeship starts are now at higher and degree level, putting significant pressure on the Apprenticeship Levy, the HEP tuition fee funding is paid for out of this pot.[9]
- The Confederation of British Industry argues that the operation of the Apprenticeship Levy is presenting real barriers to improving workforce skills, calling on government for a 'step-change' in how the nation up-skills and reskills for the challenges of the future.[10]
- The National Audit Office has recently warned that current Department for Education interventions in skills and workforce development, saying there is a risk: *'despite government's greater activity and good intent, its approach may be no more successful than previous interventions in supporting workforce skills development.'*[11]

Reform of the Apprenticeship Levy and Student Loans System

8. These major policy challenges suggest that reform of the Apprenticeship Levy and Student Loans System are required.[12]

9. The overall aim of any reform should be to create an integrated financial system of public/ private support, at Level 4 and above, for all post-18 education, skills and apprenticeship programmes. This would be linked to the Lifelong Loan Entitlement, operational from 2025, as envisaged in the Skills and Post-16 Education Act (2022).[13]

10. For example, this could be achieved by merging the existing Apprenticeship Levy, National Skills Fund and Student Loans Company into a single Skills & Workforce Investment Fund from 2025, with a new tri-partite arrangement – contributions, loans and incentives – put in place between the state, employers and individuals. Both firms and individuals would be expected to 'purchase' eligible[14] support via their Gov.UK digital accounts.

11. Because HMRC already collects the Apprenticeship Levy from payroll firms, for later spend via digital accounts; as well as operating the income-contingent repayment mechanism for the Student Loans Company; a merger of this kind is not as far-fetched as some critics might claim.

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[9] 98,800 apprenticeship starts in academic year 2020/21 were at Level 4-7, representing 30.7% of all starts in that year, See, Gov.uk, retrieved 17 July 2022: https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2020-21

[10] 'Learning for Life: funding a world-class adult education system' (2020) Confederation of British Industry, retrieved 17 July 2022: https://www.cbi.org.uk/media/5723/learning-for-life-report.pdf

[11] Ibid p. 12

[12] These reforms would initially apply to degree apprenticeships in England only. Scotland operates a system of Graduate Apprenticeships and Northern Ireland (currently) does not offer degree apprenticeship programmes. Wales operates Apprenticeship Frameworks below L6.

[13] Skills and Post-16 Education Act (2022) Retrieved 17 July 2022 https://www.gov.uk/government/news/skills-bill-becomes-law

[14] To avoid fraud and other nefarious practices, it would be important to ensure all eligible support was accredited by a regulator and/or open to public inspection, as is currently the case with Ofsted, Quality Assurance Agency and Office for Students.

12. Crucially, the existence of an integrated Skills and Workforce Investment Fund would provide every eligible UK resident, regardless of which devolved area for adult education and skills policy they lived in, access to a uniform set of post-18 funded learning entitlements (above Level 3). Indeed, such a fund might even negate the need for the many different 'parallel bureaucracies' that have increasingly grown up around the administration of various skills initiatives across the UK.

13. The remainder of this paper only deals with how such a mechanism could help significantly boost the number of employers offering higher and degree apprenticeships.

The core proposal – more undergraduates earning and learning in future

14. To rocket boost the number of degree apprenticeships; to meet surging demand from undergraduates who want to take them; and to better incentivise SME employers to offer more of these employed status opportunities, the government would commit to the following:

- From September 2023 allow eligible UK residents/employers access to the means-tested maintenance element of the student loans system[15], so long as the firm employs a person who is enrolled in a higher or degree apprenticeship that is delivered by an accredited higher education provider (HEP)[16].
- Allow the individual to transfer up to 50% of their annual maintenance loan entitlement to the employer[17], to use as an incentive to sponsor their higher or degree level apprenticeship. (This would typically amount to £4,000 per annum over 3 years).
- While the employer must continue to pay the individual at least the relevant age-related National Minimum Wage[18] throughout the duration of the apprenticeship, the employer would be able to use the financial incentive provided by access to the scheme, e.g. to offset the cost of paying the HEP the mandatory 5% towards the apprenticeship training; to offset wage costs; or to support the on-the-job training, that is separate from the related instruction provided by the HEP.

[15] The maintenance element of student loans is means tested depending on the parental income / individual income of the learner. A person studying away from home (not living with parents), from a parental income background of £28000 per annum, with no dependents, can currently borrow the maximum maintenance loan of £9,706 per annum, although a reduced amount is usually lent in the final year of study.
[16] A HEP includes further education colleges, universities and any other higher education organisations recognised by the government via the Office for Students.
[17] To avoid double subsidy, public sector employers would be excluded from this scheme. Private sector/ charitable organisations (non-Levy payers) would be eligible.
[18] There are several different National Minimum Wage rates that apply, depending on the age and training status of the individual. The current apprentice rate is £4.81 per hour for employees aged under 19. Over the age of 19, the apprentice rate can only be paid in the first year. For 18-20-year-old employees thereafter would be entitled to £6.83 per hour; 21- and 22-year olds, £9.18 per hour; and over 23-year olds, £9.50 per hour (figures quoted correct as of 1 April 2022).

- The HEP would continue to access the course fees element, as per the Institute for Apprenticeship and Technical Education's approved funding bands[19], from the Apprenticeship Levy pot.
- As is the case now for degree apprentices, the individual would not have to pay any course tuition fees, although they would be liable for repaying any maintenance loan element (including the monies transferred to the employer), as per the graduate repayment thresholds implemented in 2022.
- In the case of an employment contract termination, the individual remains enrolled with the HEP for up to 12 weeks, while a new employer sponsor is found.
- Employers can still offer to sponsor a degree apprentice without any financial incentive/ transfer from the individual, if they so choose.
- Public sector employers would not be eligible for this scheme (although they would continue to access degree apprenticeship funding via their existing Levy arrangements).

Main benefits to the individual and the employer

Individuals	Employers
☑ A career-related job while enrolled in higher education. ☑ No tuition fees. ☑ Access to the maintenance loans system to offer as an incentive to the employer to sponsor the degree programme. ☑ Earn at least the National Minimum Wage for the programme duration. ☑ At least 6 contract hours each week spent learning off the job. ☑ Graduate with a recognised degree linked to an industry approved Apprenticeship Standard. ☑ Overall, individuals would graduate, on average, with half-the-debt associated with current academic three-year residential degree courses.	☑ Commits to sponsor a degree apprentice, minimum 25 hours per week employment contract, paying NMW. ☑ By overcoming financial constraints (particularly for SMEs), increasing the ability of more private sector firms and charities to take on degree apprentices. ☑ A committed employee enrolled in higher level learning, delivering more value and increased productivity. ☑ Ability to off-set the cost of apprentice wages, via the transferable loan scheme.

[19] Apprenticeship Funding Bands, retrieved 17 July 2022 https://www.gov.uk/government/publications/apprenticeship-funding-bands

Likely impact on post-18 choices

15. Currently, there are around 119-degree level 6 Apprenticeship Standards approved for funding or in development.[20] The majority of these Standards have been designed to help large Levy paying employers and/or the public sector access funds to support specific occupations that require a degree. Professional bodies, particularly charted bodies, have also been at the forefront of developing degree level apprenticeships.

16. If policymakers wish to expand the number of individuals taking the ‘earn and learn’ route via degree level apprenticeships, then more Standards at level 6 would need to be developed by sector employers – particularly in industries and occupations made up of SMEs.

17. That’s because any financial incentive scheme, along the lines discussed in this paper, would have a limited impact on the number of current starts, since larger employers and the public sector (who would be excluded from this scheme) are currently the main beneficiaries.

18. However, if more occupations could be identified at Level 6 that are in demand amongst smaller firms, then more employed status degree apprenticeships could help replace many of the current full-time study based vocational degrees offered by HEIs. To devise these new degree Standards would require better coordination between employers, the Institute for Apprenticeships and Technical Education and the higher education sector.

19. Over time, the impact on post-18 choices would likely lead to a higher proportion of the country’s 1.5 million enrolled students in full-time higher education, undertaking degree apprenticeships.

20. The government has not set a national target for degree apprenticeships. However, it would be realistic to plan for about a third – or about 500,000-degree apprentices – as a proportion of all higher education enrolments by 2030; particularly if policy reforms and incentives of the kind discussed in this paper were implemented.

Ensuring fairer access at Level 2 and 3

21. From the latest year that data is available, degree apprenticeships at level 6 in England are already the fastest growing area in terms of programme commencements, representing just over 30% of all apprenticeship starts in 2021. The changing profile has attracted criticism from the House of Lords

[20] Institute for Apprenticeships and Technical Education, retrieved 17 July 2022, https://www.instituteforapprenticeships.org/apprenticeship-standards/?levels=6 There are currently 363 higher and degree level (4-7) apprenticeships approved for funding or in development.

Committee on Youth Unemployment[21] and some sector experts[22], who have called for two thirds of the Levy to be ring-fenced and spent on those below the age of 24; as well as more apprenticeship starts being made available at Levels 2 and 3.

22. For example, critics have questioned the use of the Levy funding the master's degree programme, at Level 7, such as the chartered manager apprenticeship. Meanwhile, since the Levy was introduced in 2017, the number of starts at Level 2 has declined for all age groups – 207,000 fewer opportunities at Level 2 compared to pre-2017. The problem is particularly acute for under 24-year-olds, with 112,000 fewer opportunities.

23. This will require that any expansion of degree apprenticeships at Level 6, will have to be carefully calibrated with better incentives to create a stronger ladder of opportunity at Levels 2 and 3; and cater, in particular, for those young people who are not ready to go on and complete a degree.

24. One way to achieve this goal would be to expand the scope and eligibility of the Lifetime Skills Guarantee at L3 and below. Currently, the LSG is a highly restrictive offer.

Conclusion

25. The ideas set out in this paper have sought to initiate a debate about how we boost more earning and learning routes, via the increased availability of higher and degree apprenticeships.

26. The fact that 2 in 3 undergraduates applying to HEIs would prefer to do a degree apprenticeship, but can't currently secure one, should be a real worry for policymakers.

27. Changing post-18 education preferences demonstrate that societal demand is massively shifting in favour of more work-based qualification routes. Failure by government to expand the earn and learn offer at Levels 4, 5 and 6 will continue to fuel cynicism that mass higher education in the UK is a waste, because so many graduates are indebted, and in non-graduate jobs, after 3 years of classroom study.

28. The biggest challenge, economically, is on the demand side. Motivating and incentivising more employers – particularly private sector SMEs – to get more involved in the country's skills and productivity challenge, will require a lot more than simply tinkering at the edges.

PROFESSOR TOM BEWICK
20 July 2022

[21] 'Skills for every young person', Report of the House of Lords Committee Inquiry on Youth Unemployment, Report of the Session 2021-2022 November, 2021, retrieved 20 July 2022, https://committees.parliament.uk/committee/506/youth-unemployment-committee/

[22] 'Apprenticeship levy funds should be ringfenced for young people' (2022) Henehan, K. retrieved, 17 July 2022 https://www.ncfe.org.uk/all-articles/think-further-apprenticeship-levy-funds/

Annex

Working examples of how the **Degree Apprenticeship Transferable Loan Scheme** to SME employers would work. (From September 2023).

EXAMPLE 1 – 18-year-old living at home, supporting a local boutique creative agency – L6 Digital Marketer Apprentice (degree)

Remi is an aspiring digital marketer. After achieving good grades in her applied general qualification in creative media at Level 3, she decided that getting a career related job, while studying at her local university for a degree apprenticeship, was the best option.

Thanks to the excellent employer brokerage service offered by the university, Remi was interviewed and hired by a local boutique creative agency that wanted to grow its digital marketing offer to clients. The challenge, being a founders' business of only 4 other employees, was taking on the responsibility of a novice that would add significantly to the firm's overheads in the short run.

Living at home, with a single parent earning £24,000 per year, meant that Remi was entitled, under the Degree Apprenticeships Transferable Loan Scheme, to borrow the maximum maintenance loan from the SLC of £9,706 per annum.

Remi decided to take out a £12,000 loan[23] over three years and sign that over, as a grant, to her new employer. In return, Remi was given an employment contract of 31 hours per week, paid in year 1: £4.81 per hour; year 2, £6.83 per hour; in year 3, £9.50 per hour. (A total gross salary of £31,456 over 3 years). She spent 6 hours per week studying at the university.

Unlike a full-time residential degree programme, Remi did not have to borrow the tuition fee element, since the course fees of £21,000 were paid for by the Apprenticeship Levy. The employer, because they were a non-Levy payer, was required by the university to pay 5% of the costs of the fees up front (£1050), with 95% of the fees being remitted for free. Paying the 5% was not a problem, as the £4000 grant provided by Remi to her new employer had helped the firm offset these costs.

In July 2026, Remi graduated from her 3-year apprenticeship with a first-class honours degree in digital marketing. She had also (voluntarily) decided to repay the £12,000 maintenance loan to the SLC out of her wages over the duration of her course, meaning Remi graduated <u>completely debt free</u>. So pleased was Remi's

[23] The transferable loan would not be handed over to the employer all at once. Instead, the HEP – acting as the broker – would be required to set up an ESCROW account, with the maintenance loan monies from the SLC paid in and held/ released depending on the financial agreement and terms drawn up between the apprentice and the employer. As part of the Degree Apprenticeship Commitment, the HEP would release the funds accordingly. In Remi's working example, £4000 was released annually on the anniversary of the apprenticeship commencement date. In the event of a contract termination, or a 'break in learning', the HEP would have up to 12 weeks to find another sponsoring employer. The apprentice remains liable for the repayment of the loan, as per the repayment threshold and rules adopted in the student finance reforms, implemented in 2022.

employer, in terms of her contribution to the business, that the company's founders kept her on, increasing her salary to £26,000 per annum, upon graduation.

EXAMPLE 2 – 23-year-old, living away from home, training to be an aerospace engineer for a small precision tools company – L6 Aerospace Engineer (degree)

In June 2024, Zac successfully completed a T Level in Design and Development for Engineering and Manufacturing. The 45-day industry placement that he had undertaken, with a precision tools company supporting the aviation sector, sparked a real interest in him developing skills to degree level, via the apprenticeship route.

His employer was also keen to take him on as a L6 Aerospace Engineer, but as a small firm (with less than 25 staff), management worried about the commitment: including 5% of the cost of the apprenticeship £1350 paid up front to the college. They also had to find a minimum wage apprentice salary for a full-time role (37 hours per week) of £16,872 per annum.

Due to his financial circumstances, Zac was eligible for the maximum maintenance loan of £9,706 per annum, which he decided to transfer, in agreed instalments, to his new employer. Because the loan for the 4-year degree apprenticeship course did not have to be paid back until after graduation, Zac had his gross salary of £16,872 to live off, with £4,800 per annum of it spent on renting a room in a shared house.

In July 2028, Zac became a fully qualified aerospace engineer, with his salary rising to £32,000 per annum. Although he now had income contingent maintenance loans of £38,824 to pay off, he had also saved on the cost of borrowing £37,000 to study a full-time engineering course, since the 95% of the cost of the degree apprenticeship was met from the Levy.

In effect, this has reduced the cost of Zac's engineering degree by half and he's remained employed, paying tax and NICs, throughout the whole duration of the apprenticeship.

In both these working examples, the degree apprentice wins; the small firm wins and, crucially, general taxpayers win, as the return on investment is significantly higher than the current arrangements.

Ends.