

HTQ modelling - public note

July 2024

Context

The Labour party have made reform of the Apprenticeship Levy a key focus of their plans for the skills system. They propose to turn this into a Growth and Skills Levy, which would allow businesses to spend up to 50% of their levy contributions on a wider range of training qualifications.

Whilst the full range of qualifications eligible for funding remains to be determined, Labour have said this will include modular courses that relate to their industrial strategy, including digital and green skills, social care and childcare¹.

Higher Technical Qualifications (HTQs) are already available in the subjects Labour has said it will prioritise, align to occupational standards set by employers and can be taken flexibly, including by those in work². HTQs are also well suited to the modular approach Labour are keen to enable, with work already underway to test how this might work in practice³.

There is also a strong argument for Labour continuing the previous government's focus on expanding uptake of these qualifications, given that this is low by international standards⁴. Previous reviews of tertiary education have highlighted Level 4 and 5 provision as a potential 'missing middle', with an increase potentially helping to meet unmet demand for technical skills and boost economic productivity⁵. There is also evidence of positive wage returns for those who take Level 4 and 5 qualifications⁶, which in certain cases can even exceed returns to degrees⁷.

¹ <https://labour.org.uk/wp-content/uploads/2023/07/Mission-breaking-down-barriers.pdf>

²

<https://www.instituteforapprenticeships.org/qualifications/higher-technical-qualifications/approved-higher-technical-qualifications-cycle-one/>

³

<https://www.gov.uk/government/publications/lifelong-learning-entitlement-modular-acceleration-programme/the-modular-acceleration-programme-map>

⁴ <https://commonslibrary.parliament.uk/research-briefings/cbp-8732/>

⁵ <https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report> and https://assets.publishing.service.gov.uk/media/5b72b604ed915d6cf30c7f53/Review_of_Level_4_and_5_Education-Interim_Evidence_Overview.pdf

⁶ <https://cver.lse.ac.uk/textonly/cver/pubs/cverbrf013.pdf>

⁷ <https://www.gatsby.org.uk/uploads/education/reports/pdf/le-gatsby-assessing-the-economic-returns-to-level-4-and-5-stem-based-qualifications-final-07-06-2017.pdf>



Modelling spend on HTQs through a Growth and Skills Levy

To model the potential benefits of Labour allowing employers to spend a proportion of their Growth and Skills Levy funds on HTQs, we use existing published economic analysis on the returns to individuals of taking HTQ qualifications at Level 4 and 5⁸.

For the purposes of modelling, we work on the breakdown of spend of the Apprenticeship levy by levy payers for year 2021-22, as published by the Department of Education.⁹ This shows that of the total DfE Apprenticeship budget for that year of just over £2.4bn, just under £1.6bn was spent by levy payers on Apprenticeships, with just over £800m then recycled to non levy payers. We maintain all these figures in cash terms when projecting future spend for the purposes of modelling - this is likely to produce a more cautious assumption as to spending on flexible qualifications as the levy pot may increase faster than costs for Apprenticeships or HTQs, but we are confident with a lower estimate.¹⁰

We also assume that under a new flexible Growth and Skills levy, employer behaviour does not change and they still spend £1.6bn a year (cash terms) on Apprenticeships under a new flexible levy. Our research question is therefore what is the economic impact of spending some or all of the £800m remaining, now flexible, levy on non-Apprenticeship training.

Importantly, this modelling assumes any future Labour government would backfill the apprenticeship budget for non levy payers, in order to ensure that spending on non-apprenticeship qualifications does not displace the overall number of apprenticeship starts. The party has already pledged that it will continue to cover the costs for non-levy payers protecting apprenticeship starts in small businesses¹¹.

⁸ <https://cver.lse.ac.uk/textonly/cver/pubs/cverbrf013.pdf>

⁹ <https://questions-statements.parliament.uk/written-questions/detail/2023-05-22/hl8010>

¹⁰ The total receipts from the levy are in excess of the amount allocated back to DfE for the purposes of Apprenticeship spending in England. In the year 2021-22 which forms the basis of our modelling, total levy receipts were £3.2bn, of which £2.4bn was allocated to DfE for Apprenticeships in England. A proportion of the balance goes to the devolved administrations, and the remainder sits with HM Treasury as general tax receipts. See FE Week <https://feweek.co.uk/apprenticeship-levy-cash-cow>. It is possible, though outside the scope of this note, that the amount of money backfilled to non-levy payers to support Apprenticeship starts could be funded from this excess levy receipts, which are forecast to grow faster than planned increases to England's education budget. For example, in year 2024-25, levy receipts are forecast by the OBR to be around £4bn, against a DfE England Apprenticeships budget of £2.27bn and estimated devolved costs of £500m, leaving £800m retained by HMT as general tax receipts. <https://feweek.co.uk/obr-forecast-hikes-apprenticeship-levy-intake-to-4bn-next-year/>

¹¹ Labour's Plan for Small Business (November 2023, p.10)

https://labour.org.uk/wp-content/uploads/2023/11/The-beating-heart-of-our-economy_Labours-plan-for-small-business.pdf



We set out our full methodology for modelling in the technical annex below.

The benefits of funding HTQs through a Growth and Skills Levy

Our model finds substantial benefits from using the Growth and Skills Levy to fund greater uptake of HTQs, with a benefit-cost ratio of around 15:1.

If - perhaps implausibly - all £800m of flexible levy spend were to be spent on HTQs, the total lifetime economic return of such newly trained individuals could reach £12.3 billion.

We also set out a more realistic scenario, in which uptake of HTQs grows over the course of the Parliament, increasing to 30% of flexible spend available.

Under this trajectory, the number of new HTQ qualifications funded rises to 27,000 by the end of the Parliament - delivering over 58,000 in total. This would represent a significant increase in the number of Level 4 and 5 qualifications being undertaken currently¹². Assuming wage returns hold constant, this would lead to a cumulative lifetime economic gain of £7.8 billion.

Year of the Parliament	Number of new HTQs delivered per year	Cumulative total of additional HTQs undertaken	Lifetime economic gain from these qualifications (current prices)	Cumulative total of lifetime economic gain (current prices)
1	4,500 (5% of £800m)	4,500	£600m	£600m
2	9,000 (10%)	13,500	£1.2bn	£1.8bn
3	18,000 (20%)	31,500	£2.4bn	£4.2bn
4	27,000 (30%)	58,500	£3.6bn	£7.8bn

¹² <https://explore-education-statistics.service.gov.uk/find-statistics/higher-level-learners-in-england#releaseHeadlines-tables> in 2021/2022 there were around 73,000 non-apprenticeship entrants for Level 4 and 5 qualifications



Technical annex

To estimate the lifetime economic gains from more people according HTQs, Public First adopted the following approach:

- To establish the increased wages from taking an HTQ, we drew on [existing research](#) by the Centre for Vocational Education Research (CVER). In particular, we looked at the wage gains from moving from level 3 qualifications to levels 4 and 5.
- This study estimated wage gains from such qualifications at ages 26 and 30. We assume that a similar wage gain persists over an individual's working life. We believe this is a relatively cautious assumption given that there are reasons to expect the wage gain to ramp up as individuals are promoted over time.
- We also assume that the wage gain is similar for those taking these qualifications in later life.
- We use data from the Higher Education Statistical Authority (HESA) on the age distribution of those taking "other undergraduate" qualifications to estimate the likely age profile of those taking HTQs.
- We could therefore use the CVER and HESA data to estimate the wage gains from acquiring an HTQ over the course of an individual's working life.
- We present these lifetime earnings gains in "present value" terms. This means discounting the value of earnings that are realised in the future. We apply a discount rate of 3.5% per annum, in line with HM Treasury Green Book guidance on project appraisal.
- To provide an estimate of the net benefit of more people taking HTQs - i.e. net of cost of provision - we assume typical cost per course of about £9,000, based on quoted costs for a number of HTQs already being offered
- We assume a year's duration for an HTQ, again based on quoted course length from existing HTQs
- Dividing our lifetime benefits estimate by our costs estimate gives a benefit-cost ratio of 15.