The Provider Perspective: How will the introduction of the Apprenticeship Levy from April 2017 impact on the Apprenticeship Training Provider?

LWBLA Briefing

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The aim of this paper is to set out the key strategic questions facing the Apprenticeship Training Provider with the introduction of the Levy in April 2017. Inevitably it covers issues flagged up following publication of the Bill and how Government has a broad range of policy to 'nail down' in the next few months. The detail of this blog was covered in my presentation to the Apprenticeships 4 England conference on Friday the 26th February 2016.

I hope you find this of interest.

1. Why is the Government introducing a mandatory uncapped Levy?

The 2020 Vision statement published in December 2015 highlighted the following:

- The Government's central justification for introducing a mandatory Levy is the relative failure of UK employers to sustain investment across in-work training whilst the rate of corporation tax has been steadily reduced over the past 15 years.
- It is estimated that some 20,000 employers in the UK will have to pay the Levy, of which 5,000 are likely to make a fractional contribution (less than the cost of training one apprentice).
- The Government target of 3 million apprentices to 2020 represents a 35% increase in starts over this period. Whilst the apprenticeship budget was 'protected' in the last public expenditure review the BIS budget was not. If the OBR forecast on future Government receipts proves unreliable then there is further pressure within non-protected Government Departments to make additional savings (or via Treasury to raise taxes). So to deliver the apprenticeship target either relies on a trade off between deflating the cost of training or more likely increasing the level of overall funding to pay for more apprentices.

- If the Government remains intent on eliminating the deficit in public expenditure then it will continue to transfer the cost, payment and delivery of public services away from the state into the market.

2. The Levy: Defining the Immediate Critical Technical Questions

The Government has moved from idea to implementation very rapidly. The Levy is scheduled to be operational from the 6th April 2017. In effect implementation appears to drive policy.

Following publication of the draft Bill the key strategic specification and technical requirements appear to be following:

- Can a political agreement be reach with the Scottish Parliament, Welsh and Northern Ireland Assemblies? If not, what are the consequences of up to 4 different/distinctive models for raising and spending the levy for a national employer? This in turn has implications for the non levy paying employer.
- Will the Levy and E-Voucher systems be required to hold ‘live’ transactional records of up to 500,000 apprentices each with individual price points across 200,000 employers, and if so what is the necessary regulatory environment required to minimise the risk of error or fraud?
- Will the existing system of individual learner records (ILR’s) be maintained, and if it is how will it link to the Levy and E-Voucher?
- The new systems are still on the ‘drawing board’. So will the Taxpayer fund the cost of design and subsequent implementation or is this a be charge to the Levy? If so what is reasonable?
- Can the Levy be made fully compliant with EU Competition law & regulation i.e. State Aid, and ‘bullet proof’ from legal challenge by a Levy paying employer if a competitive employer can ‘receive more than they put in’?
- Will the introduction of VAT result in a net leakage of funding back to Treasury and a loss borne by the employer or provider?

More speculatively:

- What is the impact of Levy paying employers across the UK by sector, location and size of payroll, and will this over time radically shift existing patterns of apprenticeship recruitment
- Although not directly addressed in the Bill will the Government continue to apply the existing definition of an eligible apprentice or restrict the use of the levy to new vacancies only? The latter approach would most likely lead to significantly reduced volumes and render the Governments target unachievable. It would also fundamentally shrink/contract the provider base.

The Government retains a critical strategic role in setting the total amount to be raised by the Levy estimated to exceed £2bn annually, through the intervention rate (0.5%) and the allowance (£15,000). The draft Bill currently defines the Levy as mandatory and uncapped for all employers. This means a Government can amend the intervention rate and allowance if it wanted to generate more overall income and/or increase the number of Levy paying firms.

The ‘known unknown’ risk for Government is a recession. This would typically trigger a reduction in labour costs. It will either require the Government to increase the amount raised by the Levy or accept a lower aggregate number of apprentices at a time of general rising unemployment. Alternatively unspent Levy funds could become a windfall income stream for the Treasury when other tax receipts are falling. A Levy appears to be most effective when business sentiment and the economic cycle are consistent with each other.

3. What are the broader long-term political issues/debates within Government?

Shifting the funding source and payment mechanism will trigger a debate on the long-term consequences for apprenticeship policy in the UK. In summary the key points are:

- Should the Levy replace all public expenditure on apprenticeships saving up to £1.5bn of tax payers cash annually.

and

- Whether Government will ‘bet the farm’ on large corporate employers to do the heavy lifting as they pay for the Levy and shift dependency away from SME’s who currently employ over 70% of apprentices across the UK?

Either issue has fundamental consequences for the provider across the UK.

4. Why is the Levy & E-Voucher a likely ‘game changer’ for the Apprenticeship training provider?

- The combined mechanisms for generating the funds (the Levy) and then subsequently paying for apprenticeship training (the E-voucher) has the potential to radically disrupt the cash-flow and alter the provider’s operating margin.
- Depending on the ownership structure of the provider, the % of total income that apprenticeship training represents this in turn will force through changes to the delivery model impacting (positively or negatively) on the viability of it’s overall trading position.

- If the Government abandons annually funded direct contracts with providers as the primary funding source for delivering apprenticeship training it removes a key defining criteria for valuing providers on a commercial basis. This will create uncertainty in the short term and reset future expectations of investment returns.
- Over time these changes will represent to the Apprenticeship provider a decisive shift away from a state regulated and publicly funded sector with the creation of a competitive market driven by employers and paid for by a mandatory payroll tax.

5. What are central public policy questions that will decide the future of a provider?

In summary the following questions stand out:

- What funding model and level of cash contribution will be required from Non Levy payers from April 2017 onwards?
- Will the SFA abolish or renew the annual funding agreements with providers beyond 2017?
- Will the new system of SFA 'approved' providers mean the end of Prime/ subcontracting linked to the above or not?
- Does fully funding 16-18 year olds mean at nil cost to an employer or not?
- How will Levy underspends be used after two years?
- Will the definition of an eligible apprentice be restricted to a vacancy or in-situ employee?
- Will the move from Frameworks to Standards be inherently inflationary or deflationary i.e. fundamentally a rate or cap per apprentice?

And

- Does the devolution of the Adult Education Budget mean the end of 'what you know' and the start of 'who you know' as EU regulations imply/require re-contracting of all non grant funded activity. The structural complexity argument.

All of the above should form the cornerstone of a discussion at Board/Owner level on business strategy and operational direction as we proceed through 2016. The scale of risk is very high given the Governments intention to dismantle the state sector, disrupt cash-flow and introduce market led behaviours.

BIS officials describe 2019-202 as the 'steady state' by which time everyone will know if the new system works or not? How we get there and in what shape remains entirely speculative.

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