



Apprenticeship Reform: Funding & Trailblazer Standards

LWBLA Public Policy Discussion Paper

August 2015

This paper is designed to give an overview of the Apprenticeship reform process focusing on national policy, the proposed new business levy, and the switch from frameworks to standards via the 'trailblazer' process.

The LWBLA anticipates the Government publishing a major consultation paper on apprenticeship reform in late August/early September.

The LWBLA's objective is to ensure that providers are prepared for the potential changes that lie ahead able to strategically plan for the future. Our headline approach for members can be summed up as: 'forewarned is forearmed'.

The LWBLA strategy is driven by a process of engagement and consultation comprised of the following activity: awareness raising, networking & building expertise within the sector, defining key policy propositions, and targeted lobbying.

As the Government implements key procurement and organisational reforms across the skills sector the summer of 2017 represents a critical milestone date comprising the following:

- Likely agreement to the devolution of adult skills funding to the Mayor,
- Re-commissioning of the Work Programme by DWP,
- The 2014-2020 ESIF programme commissioned/procured and under contract,

and the consequences of:

- the combined impact of implementing apprenticeship reforms to both funding and curriculum.

In terms of opportunity and risk the strategic challenge for providers is to assess and anticipate the combined/aggregate impact of these changes up to 2017 and beyond.

The LWBLA is planning to establish an expert group of providers to focus on apprenticeship funding and curriculum change. To begin this process the LWBLA will be hosting a major seminar/conference in late September/early October 2015 (date to be confirmed), open to all members.



1. Context: the Government's Comprehensive Spending Review

The apprenticeship consultation document is designed to fit within the timeframe for the Government's Comprehensive Spending Review (CSR).

The Government's CSR is the process by which it agrees how much public expenditure will be available in future years to meet its primary macro economic objective which is to achieve a surplus on its current account by 2020. To achieve this will require substantial reductions in public expenditure particularly in 'non-protected' budgets. BIS budgets, such as science, and apprenticeships are currently 'protected' but all other programmes within BIS are not. This includes Adult Skills, Innovation and Higher Education.

Two scenarios are under consideration for all 'non-protected' recurring expenditure: either a 25% or a 40% cash cut over the lifetime of this Parliament.

The accounting rules within Government provide for a 50% incentive for the conversion of grants to loans. This means that reductions to the adult skills budget may well be higher than 40% as this would dilute the full impact of total BIS cash reduction target.

In terms of public expenditure reductions BIS appears to be in a relatively weak position compared to other Government Departments.

It is also important to note that all DfE funding for 16-18 learning is 'unprotected' (school budgets up to the age of 16 are 'protected'). Any cash reductions will impact significantly on the size and viability of school sixth forms and Colleges (both General FE and Sixth Form Colleges).

One of the few areas where Government increased recurring public expenditure was the skills conditionality programme to be led by DWP for 18-21 year olds.

In conclusion what choices Government makes in the CSR and the priorities it establishes for itself will define the level of budget reductions to be implemented in each Government Department up to 2020. The Government will make its decisions public via the autumn statement in late November early December.

At the same time the Government has committed itself to an ambitious target of achieving 3 million apprenticeships starts in the current Parliament. Funding this growth is most likely to either require raising more money - hence the need for the proposed levy, or reducing the average amount spent by the taxpayer per apprentice. In practice both scenarios may unfold depending how and when the reforms are implemented.

In summary the Government has to project the cost of achieving the apprenticeship volume target, factor in the timeline for implementing the proposed business levy, forecasting the contribution (the levy) makes to the overall size/cost of the programme, manage substantive change in work based curriculum (with the shift for apprenticeship frameworks to standards), and carry the confidence of employers and the general public alike.



Inevitably this carries a level of risk and trade off for the Government and providers: both direct SFA contract holders and sub contractors.

Beyond 2020 if the business levy is judged a success it may ultimately dilute and replace all existing public funds. The policy is heavily dependent on securing a culture shift in employer attitudes whilst realising the value of the levy/tax.

2. Summary of Key National Policy Headlines

- Government has set a target of 3,000,000 starts to 2020, if the existing definition and eligibility of an apprentice is maintained it would require a 36% volume increase from the last Parliament (2.2 million) over the full 5 year period.
- The Minister will report to Parliament annually on progress towards meeting the target.
- The Government has made a decision to introduce a business apprenticeship 'levy' on all large employers - the definition yet to be confirmed is assumed to be all organisations employing more than 249+ employees) in the UK.
- A national business led Apprenticeship Delivery Board has been established focused on driving the target with oversight of key reforms.
- Government will legislate to give apprenticeships the same legal status as academic graduates. The Enterprise Bill has not been published. No one knows at this stage what that legal status means in practice. Will this include defining the eligibility of an apprentice for public/levy funding purposes?
- At present 70% of the total volume of publicly funded apprentices are employed by SME's. Large employers (who will pay the levy) represent a minority of publicly funded volume. A fundamental question is who can access the levy fund?
- The obvious logic for large employers who wish to recoup the levy is to secure as broad a definition of both an apprentice 'qualification', and the progression routes. Can an apprentice be funded via the levy more than once to reflect sector-based progression? Discussion will focus within sectors on the re-badging/re-designing of in-house training, license to practice requirements, and in partnership with Universities utilising degrees to secure higher level progression. In curriculum terms this could stimulate more employer choice, greater customization, and broader more flexible models of delivery.
- A 'UCAS style' recruitment system is to be unveiled from September 2015 onwards. The implications for the existing Av online function, as a Government controlled gateway, to recruit apprentices is unknown. Very little information has been made available to the public.



- The trailblazer process of replacing frameworks with standards is to be encouraged and 'speeded up' by Government. A sensitive question under discussion (within Government) is to establish the most sensible arrangements for quality assuring the new standards. This is fundamental to establishing perceptions of confidence and value from both employers and the general public alike. Currently standards are approved by the Minister and stand outside of Ofqual. They are in effect de-regulated.

3. Apprenticeship Funding Reform: Introducing the Business levy

- The Government has made a decision to introduce a business apprenticeship 'levy' on all large employers: the definition is assumed to be all organisations (249+ employees) in the UK.
- This includes all public sector organisations such as the Army and NHS.
- As a UK proposal there may be different arrangements for England, Scotland, Wales and N Ireland. In terms of the economically active 'headcount' England accounts for close to 85% of the total working population.
- The Government will be consulting on the new business levy later in 2015 with a planned start date during the 2017-2018 academic/contract year.
- Press coverage from business leaders and business groups for the levy has been largely hostile. It is seen as an imposed tax on employment with potentially hidden costs of administration and accountability. The CBI has issued a briefing note for its members, that questions the fundamental premise of the levy.
- The levy is employer specific and if the Government designed the levy, based on employer national insurance contributions (via the payroll), then as an illustration a 0.5% increase in employer NIC's could raise over £2bn annually from employers. A sum greater than the current level of public expenditure allocated to apprenticeships across all Government departments. Setting the % rate or charge drives the aggregate size of the levy raised by the UK government.
- A high cost workforce with a large number of employees i.e. banking, will drive the overall cash raised from the levy.
- The common assumptions are: that the levy is uniformly collected into a central point (most probably HMRC) and then re-allocated by Government on the basis of demand by employers who directly employ an apprentice on the payroll. This has the effect of simplicity and accountability for the levy.
- The 'English' model will use the new 'e-voucher' that was announced in March 2015 as a response to the criticisms leveled at earlier proposals that focused on PAYE and learning Accounts.



- There is no regional incentive or differentiation in the use of the levy or E-voucher.
- A levy could be stress tested by Government on the following: ease/ability to collect, simplicity to operate, use/distribution of money raised, and the incentivisation of take up.
- Strategically there is a risk 'trade off' between use and accountability. The closer the public funds are attached to the individual apprentice and the levy the greater the regulatory 'trap' for employers. The recent experience in Holland with the introduction and then abandonment of tax credits as a national system of funding apprentices demonstrated that firms did not accept accountability for performance and outcomes.
- By comparison in Germany the apprentice salary is generally counted as part of the employers' contribution and investment in an apprenticeship. In the UK it isn't. Some employers may view the impact of a levy as paying twice: once directly to the apprentice and then indirectly to the Government. A key debating point is whether this makes the apprenticeship offer more or less competitive when compared with academic or college based education as the latter offer complete freedom for the employer.
- Specialist legal and tax advice is likely be sought by both Government and employers covering company & employment law, application of a levy and EU state aid regulations
- From a provider perspective the fundamental strategic questions will focus on the structure, mechanics, flow and management of the levy.
- The take up and use of the levy may radically change patterns of apprenticeship volumes (demand) and qualification delivery (supply).

Three concepts (as defined by the LWBLA) serve to illustrate how the levy might operate: a national 'top down' model, an employer specific 'bottom up' and a hybrid version. The purpose of these descriptions is to inform and trigger questions. The 'devil' as ever will be 'in the detail'.

- The top down model assumes the redistribution would be 'blind' to individual firms and the level of contributions they have made. Firms would know how much they contributed, would accept this was a tax on employment, and then either maximise cash recoupment or accept a loss. Assuming the levy is 'lost' (from the employer to the Government) how this money is allocated/reallocated to who becomes fundamental to its operation. Government controls the public policy questions.
- As a 'worst-case' scenario levy funds realised by one employer could be used to fund apprenticeships in its nearest rival/business competitor.



- The 'bottom up' model is in effect the aggregation of individual firm accounts. Each large firm has its own account and contributes to the levy that is 'ring fenced' to that employer. It is not subsidizing its competitors and maintains a level of control on its use. Corporate HR would be more likely to be advocates for this solution because it gives them a measure of internal leverage in the size and utilisation of the levy to recruit apprentices. The problem at a Government level would be 'underspends' unless of course if the Government profited from an annualised surplus by accruing funds as the apprenticeship start and finish dates rarely conform to financial years.
- The hybrid version would be a combination of a nationally set rate and an individual firm account. The Government could adopt a 'use it or lose it' approach to the levy raised by the individual firm and through regulation and agency account management forecast a core volume/cost with-in year and / or accruing for more than one financial year. The Government could then incentivise levy utilisation based on volume and contribution. The Government would require a highly professional agency to account manage large firms: the cost of which could be counter intuitive to the current strategy behind the CSR; namely to lower the headcount of the paid civil service.

Please note that these descriptions above are illustrative designed to assist providers to understand the implications and consequences of Government policy. The LWBLA does not promote or advocate one option over another but we will be consulting directly with members on the key issues of the levy later in 2015.

- The Government plays a central role in defining the cost/quality/viability of training per apprentice as defined in the current trailblazer funding methodology. The key aspects are; the ratio of public to private funding, banding with a maximum Government contributions (cap) per learner. Potentially over 500,000 + apprentices could each have there own price point and payment structure.
- Employers may aim to control the price point of delivery to achieve a funding 'sweet spot' of recouping all levy/financial contributions if the current trailblazer rules are confirmed beyond 2017/18.
- If the Government gets the banding wrong for the apprenticeship standard the primary effect will be to inflate or deflate the cost of delivery. The 'Achilles heel' for the Government in the current comprehensive spending review is if the shift from frameworks to standards is broadly inflationary (standards are drifting upwards to Level 3 and are designed to take longer to deliver) so it could cost the Government more to buy the current framework based volume, or it hides the cut in funding by assuming the employer drives the price down.
- The introduction of VAT in the funding delivery may have unintended consequences: money that would have been spent of training leaks back to the Treasury. A scenario that providers should be mindful of as the current SFA funded framework apprenticeship incurs no VAT.



- The strategic risk the Government will be mindful of is that the overall cost per learner rises but the amount spent on the apprentice falls. This is potentially the worst of both worlds for the Government and providers.
- All SME's and micro businesses in England are assumed to have access to the E-Voucher without being subject to the 'Levy'.
- The reform of apprenticeship funding is likely to separate out the apprenticeship budget from BIS funded adult skills grant expenditure. The strategic risk for providers is the current use of adult skills funding to complement the apprenticeship offer to employers.
- Access to the adult skills budget will be restricted and significantly reduced in future years. By 2020 all Level 3 qualifications and above for learners aged 19+ will be funded by loans (taken out by the individual). Depending on the rate of conversion from grant to loans within BIS/Treasury accounting policy this may eat into level 2 provision as well.
- Whatever is left of the adult skills grant budget is likely to be devolved to city regions from 2017-18 onwards politicising the allocations process. Future demand becomes unpredictable eroding cash flow and the operating margin across the sector.
- In the long term the national economic business cycle will drive the recruitment and take up of apprentices. Government is then faced with difficult choices on whether to increase/decrease the funding ratios to stimulate demand in the event of a downturn/recession. In effect the market controls public policy.

4. Current Funding of Trailblazer Apprenticeships

- Apprentices recruited by employers with approved trailblazer standards can be funded through existing SFA/Provider contracts. This is a separate funding methodology from existing apprenticeship frameworks and Employer Ownership Pilots.
- Updated regulations have recently been published by the SFA covering trailblazer apprentices in 2015/16.
- To date very few Apprentices have been recruited on the trailblazer-funding model - some 300/500. Substantial recruitment is forecast for September onwards.
- Strategically the key success measure for the Government over the next 12 months is the 'run rate'/volume recruited onto the Trailblazer apprenticeships. Very few apprentices are likely to have taken end tests by 2017 so the proportion of successful outcomes from the adopting standards may be unclear.



- The SFA publishes the maximum government contribution (in effect a cap) for each apprentice, which shows how much an employer must pay as a mandatory maximum contribution when undertaking the new apprentice trailblazer standard.
- The Government indirectly controls the maximum price of training by setting a cap for each apprenticeship standard.
- Significantly in London the structure of the new apprentice standards funding bands for sees the end of disadvantaged and area uplifts. They are key features of the current framework based funding methodology. In effect apprenticeship training is assumed by Government to be the same across the UK: an IT apprentice has the same income value to a provider in Sunderland as it does in Westminster.
- The Government retains a powerful role in stimulating take up and delivery of apprenticeships by industry and business size. As already stated the unintended consequence of Government policy may be to inflate the price per learner compared to framework model of delivery.
- The more 'in-house' the delivery of training the less incentive there is for employers to use the price mechanism to drive the price down.
- The funding of 16-18 apprenticeships using the standards model may lead to a significant cash saving for DfE. The new formula for standards replaces the 'full funding' methodology of frameworks with a single payment that is significantly lower than the current system.
- Assuming the number of 16-18 apprentices as a % of the total remains the same the DfE will generate a significant saving. In effect the new standards model of funding, which is age neutral, assumes a 19+ apprentice.
- VAT applies for the first time to the delivery of standards apprenticeships but not framework apprentices.
- The open question is whether the new standards become a price or outcome led model. In theory both criteria can apply, but in practice the employer makes a value judgment depending on the performance of the business and its capacity to budget and manage. This is a key issue for SME's outside of the levy.

5. The transition from Apprentice Frameworks to Standards

- The Government continues to approve new trailblazer apprenticeship standards and invites employers to submit new proposals in specific industries and job roles. This is the August 2015 list of approved apprentice standards: www.gov.uk/government/uploads/system/uploads/attachment_data/file/452555/List_of_apprenticeship_standards_ready_for_delivery.pdf



- The Government's ambition is that all Apprentice trailblazer standards will ultimately replace all frameworks. Estimates vary with suggestions that in the region of 800- 1000 standards will be required to replace all frameworks.
- However the more progression based and employment specific the standard is, (i.e. the current 'generalist' horticulture framework now has a specific 'green keeping' standard) then the more standards may be required as apprentices progress from level 2 to level 3 and beyond.
- In practice sector groupings led by employers will drive the progression routes, standards to be applied and definitions of jobs across and within industry based occupations. This gives rise to the notion of 'reinventing the wheel' and may be counterintuitive to the Governments culling of accredited vocational qualifications.
- At present all Apprenticeship Standards are approved by the Minister not Ofqual so in effect are deregulated when compared to all other publicly funded/supported qualifications. It is not clear yet what progression value an apprenticeship standard has when compared to a classroom based vocational qualification that is accredited by Ofqual. Are employers and individuals able to compare 'like with like' equivalence in terms of use, esteem and cost?
- The issue will be how to compare one standard to another when the job competencies and role within an industry appear similar on paper. Standards appear to be specialising and job specific leading to the prospect of a large number of standards replacing relatively few frameworks.
- Government has indicated that it will 'switch off' all of the remaining frameworks and 'switch on' all of the new standards by 2017-18. An open question over this transition period is whether there is the possibility of an overlap or dual approach of allowing frameworks and standards to co-exist in order to avoid a loss of volume and capacity.
- The Government through the SFA has established a 'Frameworks to Standards' group. At it's first meeting 30 listed frameworks listed account for over 80% of total publicly funded volume.
- Typically an apprenticeship standard is a two-page document that has a similar look to a written job description.
- What the standard does not explain is how to deliver the training. This is covered by a separate Assessment Plan and must be approved by Government before any recruitment/training takes place.
- The Assessment Plan is designed to specify what 'on the job', 'off the job' and qualifications are required to meet the standard. The key point is to have an apprentice able to take and pass the end test having completed all the respective components/qualifications within the standard.



- The key feature that differs standards from the framework model is the 'end test'. The key point is that the end test must be independent of the training i.e. like a driving test is separate from the driving instructor. Inevitably these delivery plans will vary according to the industry and the role of the employer engaged in the assessment and end test.
- How the end test will operate will rely on the trailblazer group of employers working with awarding bodies and training providers to have workable assessment plans and testing arrangements. Some industries have historically retained end tests (or versions of it) to demonstrate an apprentice has met the required standard set within the accredited qualification. An open question is whether the new end test is part of or separate from any/all accredited qualification. It is too early to know if end tests work inline with employer expectations. In effect they remain 'untested' but will be the critical determinant of employer buy-in and learner satisfaction.
- For some sectors there appears to be a large measure of continuity from frameworks to standards as job roles are broadly similar in nature and assessment plans resemble the content of an existing framework, but for others they are differed markedly. The pressure on providers will be to ensure that they are fully capable of delivering the new standard to meet the end test.
- The strategic risk for the Government is that funding apprenticeships by standards leads to a decline in successful outcomes. Most employers have no interest in being subject to an Ofsted inspection if this leads to any damage in brand reputation. The scale of commercial risk is dis-proportionate to the employer when compared to say recruiting a University/College graduate for free with no separate compliance obligations to the Government.

6. Issues and implications for Training Providers.

- The rate of in-year growth and aggregate volume in 2015/16 and 2016/17 will objectively demonstrate whether employers have the appetite for the new trailblazer standards.
- Different sectors and industries are at very different stages of engaging in developing the trailblazer standards. Employer enthusiasm appears to be the driving influence in designing the standard.
- The apprenticeship standard may look very similar to the current framework or it may be radically different - it all depends on how the trailblazer group of employers defines the standard ultimately approved by the Minister. Whether the standard is really a new curriculum model or 'old wine in new bottles' has yet to be evaluated.



- It is likely that there will be a significant requirement for up skilling and retraining of assessor and training staff depending on the industry and trailblazer standard that is adopted. For many sectors the concept of an 'end test' is completely new and untested.
- The commercial risk is obvious for a training provider; it has to win the business with a mix of price and reputation but unlike the existing system loses the certainty of cash flow as existing providers under contract have established norms of business risk.
- In regions like London competition is fierce with the highest delivery costs in the UK, so reducing the price of training could reach a point where the delivery is no longer viable.
- The long-term future of the ILR system once the E-voucher has been introduced is not known. Will providers or employers have to maintain a record of progress and account for the outcome?
- The Government has tasked the Education Training Foundation with a remit to review and revise 'Functional Skills' indirectly acknowledging that a narrow interpretation of GCSE A-C entry criteria and outcomes is a barrier to recruitment and outcomes in many sectors notably childcare.
- A 'worse case' scenario for the Government is the new system will need to be able to accurately and efficiently oversee 500,000+ apprentices each with their own co-payment and pricing structure.
- Training providers will differentiate themselves in the market place i.e. being a specialist, or and/or aim to grow rapidly to achieve high levels of scalable volume to manage risk and cash flow.
- Funding will continue to drive behaviour. In some cases the total investment in the training of an apprentice may be higher than the current framework system. If an employer delivers its own training of an apprentice then there is no incentive to be price driven.
- However an employer can package up the component parts of the training delivery and price accordingly. So some aspects of the delivery may have a margin and others may not: the issue will be how the training provider manages the overall commercial operating risk. From a provider perspective its offer will be to deliver all aspects of the standard up to the end test.
- The Government in setting the cap can potentially underestimate the true cost of training so the opposite scenario arises when the industry no longer has a viable basis for recruiting and training apprentices.



- Currently some services delivered by a training provider are free, but in future they may become a chargeable cost, or remain a 'loss leader' depending on the commercial strategy of the Training Provider. The scale of red tape and compliance will drive the so-called 'hiding of the wiring' the Government designs for the new funding model.
- A key difference for private training providers delivering the new apprentice standards (when compared with the existing framework funded model) is that the Government contribution is subject to VAT. Up to 20% of total income may be lost to the Government.
- Will training providers be subject to Ofsted regulation and inspection if they have no publicly funded contract or subcontract?

7. What does this mean for an aspiring apprentice, careers advisors/schools and Parents??

- The relationship between the apprentice and the training provider changes subtly but significantly with the change in funding model. At present the training provider assumes a pivotal role in the managing and mediating the relationship between the apprentice and employer - as it is performance managed by Government on the outcome. In future the primary customer is the employer for whom it is under contract.
- If the new standards are closer to a level 3 qualification then employers will inevitably choose to recruit apprentices who already have passed English and Maths at GCSE. This may screen out candidates indirectly reducing access and breadth of individuals into an apprenticeship.
- A central issue will be the esteem value of the new Apprenticeship standard when compared to other educational pathways such as studying A levels or a College based vocational qualification/study programme?
- If the new apprentice standards sit outside of Ofqual and do not have a requirement to offer a 'license to practice', or certainty of learning progression i.e. UCAS points then the apprentice is accepting there is a level of unknown risk to the value of the apprenticeship.

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If you wish to attend the seminar and be part of the expert group please contact Nicola Mayell directly by email at the LWBLA.

If you have questions or comments regarding the content of this paper please contact Vic Farlie at the LWBLA.

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