LWBLA Response to the August 2016 Apprenticeship Levy Policy Guidance Update

BRIEFING

September 2016

1. What is the Government aiming to achieve?

The key points are:

- The Government has a very tight timescale to operationalise the introduction of the Apprenticeship Levy and new funding model/mechanism from May 2017 onwards.
- The Government's strategy is ultimately to replace much of the existing 'system architecture' and introduce major changes to the funding and delivery of apprenticeship assessment and training.
- The Government assumes a 'big bang' approach as the most effective way to implement change whilst employers and training providers seek a more incremental and controlled approach to implementation.

The key point is to:

- Shift the purchasing of apprenticeship training away from the Government to individual employers.

And

- Introduce a new source of funding (the levy) blended with taxpayer's cash and a new mechanism to pay for apprenticeships.

In addition:

- Changing the model of assessment and training of apprentices by introducing new Standards to replace existing frameworks,

And

- Redefine and restrict the existing prime provider contract holders and subcontractors.

But this has led to:

- Limited engagement and support from key customer groups: employers and apprentices.

And

- A lack of published evidence & rationale to underpin the new funding model has alienated many apprenticeship providers.

In summary can the Government go from the ‘drawing board’ to operationally deliver the following:

- A new system able to accurately and efficiently manage the records of 500,000 apprentices each with individual price points supporting 200,000 customers whilst ensuring accountability for public funding and ‘light touch’ regulations.

2. Why the proposed new funding model causes such difficulty for the delivery of apprenticeship training?

- In simple terms the Government wants to control the total cost of delivering apprenticeship training by deflating the cost of lower level apprenticeships whilst at the same time introducing higher level/higher cost apprenticeships.
- The introduction of new funding bands whilst unifying and simplifying the maximum income for each framework and standard has the effect of creating ‘winners and losers’. The underlying principle applied by Government can be described as the ‘averaging effect’.
- The problems arise when the existing patterns (geographic location, age of apprentice, type of apprenticeship training) and volume are subject to this averaging effect. By setting the cap too low existing provision is damaged. As the 6 biggest apprenticeship sectors in London are negatively affected up to 80% of existing apprenticeship training will be damaged by these changes.
- This deflates the income/investment support for individual apprentices most in need, particularly amongst disadvantaged communities in high cost areas such as London. This creates a permanent inbuilt tension between the twin goals of public policy: delivering economic efficiency and driving social mobility.
- The outcome is relatively straightforward: either apprenticeship training will cease in unaffordable sectors/locations and/or the content of learning is diluted to fit within the limits of available funding.
- The risk to the Government is that it may achieve the worst of both worlds: rebadging in-house training and declining quality whilst de-stabilising the supply side provider base.
- London is uniquely disadvantaged by the introduction of the funding bands and removal of the area and disadvantage uplifts.

3. What is the impact on employers to the Governments approach?

- All UK employers will become segmented as either a Levy or a Non Levy payer.
- Levy payers pay 100% of the cost of delivering apprenticeship training attracting a 10% top up from Government. Whilst for the non-Levy paying

employer with over 50 employees there is a 10% cash contribution and for those with less than 50 employees it is free.

- In effect the Government is either paying 90% or 100% of the cost of training apprentices across the UK for all non-Levy paying employers.

4. Why are employers frustrated by Government policy?

- The blanket imposition and compulsion of a non-profit based tax and the 'red tape' that follows drives negative business sentiment. This is further exacerbated by a lack of detail covering transactional process and implementation.
- Ideological opposition from employers can be summed up as the following: employers have already contributed to the funding of public education through general taxation and are now paying a second time to remedy the failings of the existing system (comprised mainly of individuals educated within the state sector) with the added pressure of managing reputational risk.
- Employers want the operating and transactional detail, which has yet to be developed and published. The employer understanding of how to make the new system work is currently the cortical strategic weakness in the Governments approach.

5. What is the strategy of the Levy paying employer?

- The Levy is a tax on the cost of employment.
- The key principle that will drive employer behaviour is recoupment of the Levy.
- It is for each employer to decide whether the Levy is applied to existing staff or filling vacancies. The financial pressure is to apply the levy to existing staff or to make compensatory savings in operating costs to protect the P&L.
- The structural weakness of the Levy is that can only operate effectively when the economy is stable or growing. In a recession total employment declines and the business cost is exponential. The Government is faced with a dilemma: accept decline in apprenticeship volumes but secure a windfall of income to the Treasury, or lower the cost to the employer.

6. What is the strategy of the non levy-paying employer?

The non-Levy paying employers are segmented into either paying 10% of the cost or it is free. In the former the issue is one of total cost not the %, whilst for the latter the issue is primarily cultural one of commitment and 'red tape'.

The issue of price negotiation and payment schedule is untested and in London problematic given the competition between providers and high cost of delivery.

7. Why the supply side provider base is de-stabilised by Government policy?

Every aspect of Government policy impacts on the apprenticeship provider. The reaction by providers is a fundamental reappraisal of what it means in the future to be a successful provider of apprenticeship training.

What the updated Apprenticeship levy Guidance enables all providers to do is understand the cash value of its current volume in the new funding bands. This gives providers to May 2017 to strategically pan out the consequences and wherever possible provide compensating or alternate solutions i.e.: grow/change the offer or exit.

- Providers will lose the security of cash flow that underpins the provision by 25 years of annual public funding agreements. Where income per apprentice is deflated by the new funding bands provision will become unsustainable.
- At the same time providers will need to be experts of the new systems either on behalf of all employers.
- Providers will need to retrain staff to deliver new standards and meet the requirements of end point assessment across all sectors/levels whilst achieving higher outcomes than previously.
- The enforced restriction of the prime /subcontractor supply chain provision creates barriers to entry and increases delivery risk.
- Providers who target and rely on recruiting 16-18 year olds with a level 2 apprenticeship offer are most of risk of exiting the market.
- Providers who already (or are able to switch to) recruit individuals aged over 19 with a level 3 offer with progression routes offer the best prospects to grow volume.

8. Possible Solutions to the new funding bands

- Government can buy its way out of the problems it has uniquely been responsible for/caused.
- To remedy the deflation of Level 2 apprenticeships the Government can increase the value of each band, reduce the number of bands thereby increasing the cap, and/or offer a minimum amount for a 16-18 year olds in high cost areas and those from disadvantaged communities.
- In past funding changes the Government has introduced a ‘floor and ceiling’ to cushion the impact of change. The current switch in purchaser from Government to employer could make this much more complicated.