LONDON
Work Based Learning Alliance

Autumn Statement - Apprenticeship Levy

LWBLA BRIEFING

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OBR Forecast Lower Revenue from the Apprenticeship Levy

1. The most important implication from the Autumn Statement/Economic and Fiscal Outlook for apprenticeship policy is not about funding rates, the move from frameworks to standards or the problems surrounding assessment but a downgrade by the OBR relating to what the levy might raise.
2. The OBR in its latest forecast has revised downwards the amount raised by the Apprenticeship Levy by £100m in each year of the five year forecast period starting in 2017/18. The reason is simple: lower economic growth causing lower earnings growth and slower employment growth means lower wage bills paid by employers including the estimated 19,150 expected to pay the UK Apprenticeship Levy.

The Second OBR Downgrade

3. In fact, this is the second downgrade by the OBR in terms of what the UK apprenticeship levy is expected to generate. In its Economic and Fiscal Forecast published alongside Budget 2016 in March, the OBR shaved-off £100m in each year of the forecast period. In total, therefore, the OBR has reduced estimated levy revenue by £200m in each year from 2017/18.

DfE Still on Couse for Allocate £2,450m in England in 2019/20

4. Contrary to press speculation, the DfE remains on course to deliver the £2,450m planned allocation for apprenticeships in England in 2019/20. But the allocation is at risk if the OBR forecasts a third downgrade in Budget 2017.

Apprenticeships budget this parliament, 2016-2020

£m	2016-17	2017-18	2018-19	2019-20
DfE	1808	2010	2231	2450

Source: DfE

(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/545145/Apprenticeships_-expected_levy_and_total_spend_-_Aug_2016.pdf).

UK Government Announces Levy Settlement to Devolved Nations

5. Just nine days before the Autumn Statement, the Treasury announced the settlement of the share of levy funding for Scotland, Wales and Northern Ireland. Importantly, the allocations to the devolved nations are fixed and guaranteed for the three years between 2017/18 and 2019/20. As the press release states "The devolved administrations will be provided with funding certainty as the UK government will manage any difference between the levy forecast and actual levy revenues. This agreement has no impact on the existing arrangements in England." And since skills policy is devolved, it is for the devolved nations to decide to spend this funding on apprenticeships or not. <u>But the critical point is that these allocations were based on what the OBR estimated the apprenticeship levy would raise at the time of Budget 2016.</u> On Wednesday, the OBR added a further downgrade in forecast levy revenue.

Population share of levy funding (£m)	2017-18	2018-19	2019-20
Scottish Government	221	230	239
Welsh Government	128	133	138
Northern Ireland Executive	76	79	82

(https://www.gov.uk/government/news/uk-government-agrees-apprenticeship-levy-funding-deal-with-devolved-administrations).

Treasury has a Margin between levy revenue and spending but it is falling

6. The Treasury has always built-in a margin what the apprenticeship levy is expected to raise and what can be allocated to England and the devolved nations (who do not necessarily have to spend their grant-in-aid necessarily on apprenticeships). The role of the margin has been two-fold: first to secure a deal with the devolved nations, and second to accommodate fluctuations in estimated levy revenue. The existence of the margin is shown below and how the margin has declined as the decisions on allocations to the devolved nations have been made and forecast levy revenue has fallen.

	2016/17	2017/18	2018/19	2019/20	Total Margin
Levy Allocations					
England	1808m	2010m	2231m	2450m	
Scotland		221m	230m	239m	
Wales		128m	133m	138m	
Northern Ireland		76m	79m	82m	
Total Allocations		**2435m**	**2773m**	**2909m**	
Levy Revenue					
Policy Costings Autumn Statement 2015[(1)]		**2730m**	**2845m**	**2970m**	
Treasury Margin		£295m	£72m	£61m	£428m
OBR EFO November 2016[(2)]		**2600m**	**2700m**	**2800m**	
Treasury Margin		£165m	-£73m	-£109m	***-£17m***
OBR EFO November 2016[(2)] Rounding Applied		**2640m**	**2740m**	**2840m**	
Treasury Margin		£205m	*-£33m*	*-£69m*	£103***m***

(1) Policy Costings, HMG, November 2015

(2) Table 4.6, Page 112.

Significant Treasury Margin Based on Original Policy Costing

7. Alongside Autumn Statement 2015, a year ago, the Treasury published its traditional policy costings document which included the costing for the Apprenticeship Levy. These costings were made to the second decimal place although the forecast for 2019/20 at the time was £2,970m rather than the often quoted £3bn dead. Remember: £30m is a lot of money to the apprenticeship sector. Yet, the important message is that the Treasury had a significant margin to play with of over £400m between 2017/18 and 2019/20.

Don’t Forget Rounding!

8. The OBR forecasts are to one decimal point and scored, for example, as £2.6bn, £2.7bn and so on. Now there are two approaches to OBR scorecards: the first it to assume the figure is exact i.e. £2.6bn = £2,600m, and the second is to assume that as a maximum each estimate include £40m to the second decimal place, so that £2.6bn could be £2.640m and applying normal rounding conventions £2,640m becomes £2.6bn. The above table uses both to assess the range of the margin that remains.

Treasury Margin is Little More than £100m between 2017/18 and 2019/20

9. The downgrade in levy revenue by the OBR has seriously reduced the margin available to the Treasury. The margin falls each year from 2017/18 because of lower revenue and higher spending allocations to England and the devolved nations. <u>And depending upon whether the rounded and maximum non-rounded forecast is used, the total margin ranges between £103m and -£17m.</u> And so to repeat the key message, the £2,450m allocation for apprenticeships in England is still possible but the Treasury would have no margin left if the OBR forecast a further downgrade in March 2017.

Little Margin for Non-Levy Payers

10. One reading of DfE policy is that funding for non-levy payers is dependent upon unspent levy from the England-wide allocation (£2450m in 2019/20). To this extent, the key question is whether, on present projections, the allocations will be reduced because of a negative margin. The answer is no: present allocations in England remain possible.

11. <u>If, however, the expectation is that the purpose of the UK-wide margin is to fund non-levy payers in England the conclusion that across the three year period to 2019/20 the maximum margin is around £100m.</u> And this margin will be exhausted if the UK economy slows further than the OBR predicts from 2017 at the time of the Budget next March.

UNEMPLOYMENT

Unemployment set to rise by 80,000 by 2018/19

12. The second main consequence of the lower growth forecast produced by the OBR is an estimated increase in unemployment. <u>Claimant unemployment is set to rise by 80,000 between 2016/17 and 2018/19.</u>

No New Skills or Employment Programme Money

13. At this stage, the OBR does not forecast extreme job shedding by employer from the start of 2017 and, indeed employment is expected to grow by 300,000

by 2018/19, largely driven by the employment of migrant workers. However, the Chancellor has not seen fit to allocate additional funds for skills and employment programmes to help the 9% of 16-17 year olds in England who are not meeting the duty to participate under the RPA, extend opportunities for 18-21 year olds joining the Youth Obligation from April 2017 and expand the much reduced Work and Health Programme which is to replace the Work Programme.

SELECTED SPECIFIC MEASURES

14. Specific education, skills and employment measures announced in the Autumn Statement (see Table 2.1, Pages 22-23) are as follows:

- increase in the minimum wage rate for apprenticeships from April 2017 by 10p to £3.40 per hour, 5p per hour more than the increase for 16-17 year olds in employment which rises to £4.05 per hour (Page 32);
- devolution of the Adult Education Budget to London from 2019/20 subject to readiness conditions (Page 33) [although the key point remains whether the Chancellor will keep to the commitment made by his predecessor in Budget 2016 that the AEB in combined authority areas will be devolved into the Single Pot and effectively not used for adult education];
- transfer of the budget for the Work and Health Programme to London and Greater Manchester subject to meeting conditions including co-funding, and
- making work pay through reducing the Universal Credit taper to 63% from 65% (Page 43), and a delay on the cap on local housing allowances in social housing.

NEW FISCAL EVENTS

15. Autumn Statement 2016 is the last Autumn Statement. The Chancellor announced the UK will follow international best practice and have a Spring Economic Forecast published by the OBR followed by an Autumn Budget Statement. From 2017, the following fiscal events will take place:

- Spring Budget 2017
- Autumn Budget 2017
- Spring Statement 2018
- Autumn Budget 2018

16. In effect, the move to the new system ensures there is will be a Budget Statement prior to invoking Article 50 around March/April 2017 and formal exit from the European Union around March/April 2019.