



Local Government Briefing: Richard Review of Apprenticeship Funding.

Key Issue: Should the current system of contracting with providers end and be replaced with a tax break paid directly to Employers – to recruit /train apprentices in England.

1. Introduction

This briefing note is designed to inform discussion of the Government's current consultation exercise on reforming the funding of Apprenticeships in England. Responses to Government have to be submitted by the 1st October 2013.

In summary this briefing note highlights the issue, risks and potential consequences facing policy makers if such a switch from an expenditure based system to a new system of tax credits.

This is part of the wider Richard review process covering all aspects of Apprenticeship policy in England. There are broadly three separate review processes in play; (i) qualifications and curriculum content, (ii) funding and (iii) system wide issues.

3 Options are openly set out in the Government consultation document, but in the main there is a clear choice between introducing a new system of tax breaks through PAYE or retaining in a modified form of allocating public expenditure to providers and employers.

The Government's timetable assumes that BIS will publish an implementation plan in the Autumn of 2013, decisions and legislative matters to be contained in the 2014 Budget, and the new system going live in August 2016.

2. Richard review: The case for change

Three options are presented in the funding review consultation:

- Direct payments to employers
- Tax credits to employers
- Provider contracting

The Government introduces the concept of 'co-investment' for all three options and assumes that employers will make cash contributions to a set % for all apprentices.



Advocates such as the CBI believe that empowering the employer will drive up the overall volumes, increase the range of apprenticeships on offer, improve quality, and drive down the price and costs of training delivery.

Employers become the customer purchasing what they want when they want, at the price they decide upon. It is a compelling perspective – but what are the issues and consequences for pursuing such a radical shift in thinking. On balance what should the Government do?

Government assumes that if you give employers a tax credit on PAYE that this is a simple and easily understood way for employers to co-invest in the recruitment and training of apprentices.

In parallel with this debate is the requirement form advocates that all forms of 'red tape' are abolished or rendered irrelevant. Providers will in future deliver services under contract to an employer and cease to have direct funding relationship with Government.

3. What are the potential risks for Government?

In the main the LWBLA believes the following issues should be fully considered as part of a thorough risk assessment before taking decisions:

- The economic cycle: what is the modelling/projection of aggregate demand & volume of future job creation - who would be most affected – scale, impact and consequences particularly in a recession?
- Are there any 'moral hazards' attached to using PAYE tax breaks i.e.; to companies that pay no taxes in the UK?
- How realistic is it to secure business sentiment on a sufficient scale over the long term where radical variations of economic p exist at the local / regional level?
- Will SME's have the expertise to manage performance risk?
- How can/do employers objectively compare government offers when some are free - Traineeships?
- How much re-badging, displacement and deadweight of training is acceptable?
- Can you convince the public that this is the right policy re: safeguarding the interests of young people when compared to staying on at school or going to college?



4. What are the consequences?

Understanding how the replacement of one system by another affects the education landscape the following consequences have been raised:

- Does a relatively 'visible' system of accountability and compliance through training providers become relatively 'invisible' with employers?
- Are all localised solutions marginalised or rendered redundant?
- Can you objectively measure quality of training in the workplace without Ofsted?
- Will apprentices aged 16-18 remain fully funded?
- Can Apprentice rights in the workplace be safeguarded?
- Does the switch from expenditure to tax credits reduce the scope for future Governments to respond to changing priorities affecting Post -16 education?
- Does it matter if some of the best providers exit the market and the sector is deregulated?
- Would applying VAT lead to a net reduction in the amount spent on publicly supported training?

5. The International perspective

G20 Governments have spent the past two years looking at how to tackle youth unemployment & strengthen progression into employment. Published reports have highlighted the important contribution apprenticeship systems can make - all recognise the importance of employers to create jobs – but no country is proposing to go down the route of the UK.

6. Apprenticeships: Regionalism & Localism

London: Scale & Context in Post -16 education:

- 10,000 16-18 year old apprenticeships in London compared to 140,000 School 6th Form and FE College students.
- Level 3 (equivalent to 2 A Levels) Apprenticeships are most in demand as an alternative to going to University.
- Apprenticeships often seen as a targeted solution to NEET, educational under performance and school engagement.
- Local and regional policy target apprenticeships as a means to tackle both social exclusion and economic competitiveness.



In London: since 2010 sustained progress on all fronts.

- Apprenticeship volumes have doubled over the past three years.
- 70% achieve a framework - comparable with school performance for 5 A-C's at GCSE.
- 91% progress into employment and/or further education.
- Ofsted confirm that 78% of all apprentices (in London) are now trained by providers who are 'good' or 'outstanding'.
- Approx. 80% of apprentices are employed in an SME.
- An active market of suppliers with over 100 providers well organised in a trade association.

7. What do providers think?

Whilst some providers see deregulation and service contracts with employers as a progressive move, the consensual majority believe that evolution of the current arrangements is a more stable and sustainable long term view. From the LWBLA's consultation the recurring comments are:

- 'The system isn't broken'.
- Employers already drive the recruitment and appoint a provider without being accountable for performance risks.
- London has a highly competitive market place and so providers have to be proactive in sourcing young people and employers.
- We are relatively well organised & engaged in local initiatives.
- Very low take up of adult learning loans since April 2013 = a small pipeline of adult apprenticeships – is this evidence of wider market failure or a lack of public awareness?

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