LEARNING AND WORK INSTITUTE

Three million careers

Making the Apprenticeship Levy Work

October 2016

In January 2016, NIACE and the Centre for Economic and Social Inclusion merged to form Learning and Work Institute

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Patron: HRH The Princess Royal | Chief Executive: Stephen Evans
A company limited by guarantee, registered in England and Wales
Registration No. 2603322 Registered Charity No. 1002775
Registered office: 21 De Montfort Street, Leicester, LE1 7GE

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Published by National Learning and Work Institute (England and Wales)

21 De Montfort Street, Leicester LE1 7GE

Company registration no. 2603322 | Charity registration no. 1002775

Learning and Work Institute is a new independent policy and research organisation dedicated to lifelong learning, full employment and inclusion.

We research what works, develop new ways of thinking and implement new approaches. Working with partners, we transform people's experiences of learning and employment. What we do benefits individuals, families, communities and the wider economy.

We bring together over 90 years of combined history and heritage from the 'National Institute of Adult Continuing Education' and the 'Centre for Economic & Social Inclusion'.

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Summary

The Government has a target of three million apprenticeship starts in England by 2020, and is introducing an Apprenticeship Levy on the payroll of large employers to fund this increase and to encourage greater employer engagement with apprenticeships.

Concerns have been raised about whether there should be a delay to get the details right; adequacy of funding rates for 16-18 year olds and deprived areas; and the proposed funding caps, which allow lower prices to be negotiated.

The commitment to more apprenticeships and the Levy are welcome.

We want key safeguards to ensure high quality, accessible apprenticeships:

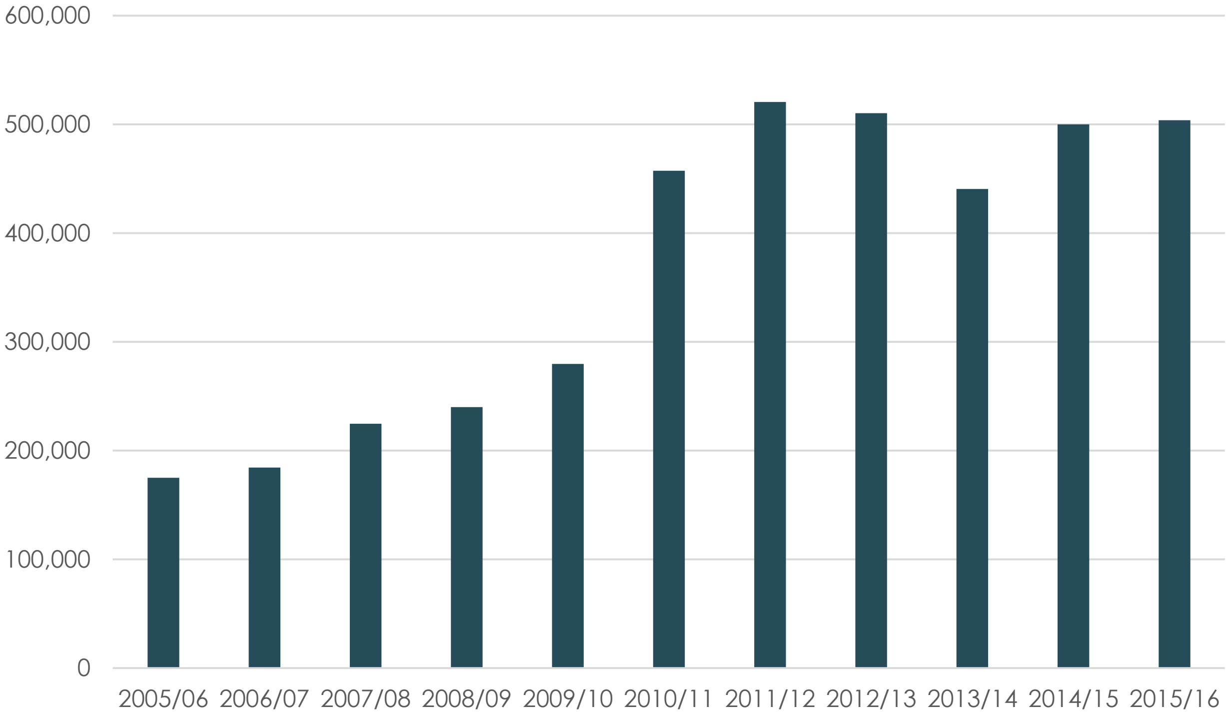
- **Getting it right.** The Government should stick to its ambitious timetable for implementation as far as possible to provide certainty, but more can be done to ensure reforms are successful;
- **Focus on quality.** Prices should be fixed for each Standard. Providers should compete on quality alone, avoiding a race to the bottom;
- **Better for young people.** A Levels or vocational courses are fully funded for 16-18 year olds. Young people choosing apprenticeships should not be disadvantaged.
- **Apprentice Premium.** There should be a new Apprentice Premium, higher than the currently planned £1,000 for 16-18 year olds, to ensure high quality support. This should be extended to priority sectors in line with industrial strategy, disadvantaged areas and topped up by devolved areas; and
- **Sharing the evidence.** The Government should share the basis for its proposed funding rates.

The Apprenticeship Levy is a real opportunity. Getting the details right is essential to ensuring it helps build 3 million careers.

1. What changes are proposed?

Over the last decade, there has been a significant rise in the number of people in England taking part in an apprenticeship. Numbers have risen from 175,000 in 2005/6 to 457,200 in 2010/11, to 503,700 in 2015/16.

Apprenticeship starts in England



Source: SFA, 2016

The bulk of apprenticeships are started by those over 19 years of age (75 per cent) and at Level 2 (57 per cent), which is equivalent to GCSE grades A*-C. The larger number of older apprentices is not a problem so long as this represents a real skills improvement that benefits careers, rather than an accreditation of existing skills.

The increase in apprenticeships has been driven by a consensus among politicians and policy makers that they can be a great way for people to build careers and employers to meet their skills needs. People with a Level 3 apprenticeship can earn an additional £77-117k over their lifetime.

As a result, the Government has a target of three million apprenticeship starts across England by 2020. The introduction of an Apprenticeship Levy is central to funding this increase and encouraging employers to increase the number of apprentices they take on.

The Levy will take effect from April 2017, and will be a payroll tax on large employers (those with annual wage bills of £3 million or more). Money paid by employers in England will be held in a digital account, which they can use to pay for the training and assessment costs of apprenticeships. Employers across the UK will pay the Levy, but Governments in Scotland, Wales and Northern Ireland will decide how to use their share of this funding.

Underpinning this are a number of proposed changes to the way that apprenticeships are designed and, from May 2017, the way funding works in England:

- **Employer-led Standards.** Rather than requiring apprenticeships to include certain elements such as qualifications, employer groups are tasked with designing frameworks that show what an apprentice needs to do in their job. The apprentice will then be assessed at the end of their apprenticeship to see if they have met these requirements. The aim is to ensure apprenticeship content is employer-led, however, the risk is the loss of portability that qualifications can bring and that content may be too specific to a particular job role or employer;

- **Funding rates.** A maximum funding rate will apply to each apprenticeship standard. Employers can then negotiate, if they wish, a lower rate with providers. This is intended to simplify the current system which includes a range of premiums for age, sector and geographic area. An additional £1,000 for both employers and providers recruiting 16-18 year old apprentices is proposed, along with additional funding for English and Maths support; and

- **Levy funding.** The Government will top up Levy funding by 10 per cent in England, and funds in an employer's digital account will expire if not used after 18 months. The Government is considering whether employers should be able to use any Levy funding to increase apprenticeships in other firms, such as supply chains. Non-Levy paying businesses will need to contribute ten per cent of training costs for most apprenticeships.

Apprenticeships will only benefit individuals and employers if they are high quality and everyone who can benefit is able to access one.

Government has implemented a range of reforms aimed at underpinning quality, including Ofsted inspection of training quality and requiring that apprenticeships last at least one year. However, concerns remain, particularly in some sectors and among some categories of apprenticeships.

Ultimately, apprenticeships will not be the best route for workforce development for all people and all employers – a focus on increasing apprenticeships should not crowd out other forms of training and skills development.

2. What are the challenges?

There are a number of challenges with the Government's proposals, including:

1. **Risk of focus on price not quality.** The proposals have a maximum funding rate for each apprenticeship, with employers and providers able to negotiate a lower price if they wish. This could help to drive new ways of delivering more cost-effectively - but the risk is a race to the bottom, given price is a much more visible variable than quality.

2. **Ambitious timetable.** Eligible employers will start to pay the Apprenticeship Levy from 6 April 2017 and the apprenticeship funding system will change for all employers from 1 May 2017. This is stretching, particularly given that many of the details of how this will work in practice have yet to be resolved. It takes time for employers, individuals and providers to fully understand the new system, plan and implement new approaches. At the same time, certainty is also needed for all concerned.

3. **16-18 year olds.** A further £1,000 for both provider and employer will support the extra costs of supporting 16-18 year olds. However, analysis by sector newspaper FE Week suggests that, combined with other funding rate changes (see below) in some subject areas this will result in a reduction in funding[1]. In addition, firms employing more than 50 people but below the Levy-paying threshold will need to pay 10 per cent of the training costs for this age group. This places some young people choosing an apprenticeship at a disadvantage to those choosing school or college where their learning programmes are fully funded.

4. **Disadvantaged areas.** The proposals remove the premium for delivering apprenticeships in deprived areas. This will have a double impact in areas such as London, which have both areas of high deprivation and additional delivery costs due to the high cost of living.

5. **Funding rate changes.** FE Week's analysis suggests the proposals change the funding rates in many areas. For example, a 50 per cent reduction for a 16-18 year old business administration apprentice in a deprived area, compared to a 67 per cent increase for a 24+ Level 2 business administration apprentices. The rationale for the changes has not been published.

[1] http://feweek.co.uk/2016/08/19/exclusive-funding-rates-cuts-up-to-50-for-the-most-deprived-16-18-apprentices/

The new system sees incentives change for both employers and providers, and any change could improve incentives for one, while worsening them for the other. For example, keeping the current funding rates would arguably provide better incentives for providers. They would gain a higher fee for 16-18 year old apprentices and for working in deprived areas. Current proposals would dis-incentivise them to do this: the opposite of the policy intention.

This is in part why the Government has proposed the £1,000 additional payment – it is an incentive to both providers and employers. The issue then becomes whether this is set at the right level and if it should also apply to other groups and to deprived areas, as well as whether the proposed changes in overall funding caps for each framework are at the right level to deliver high quality apprenticeships.

The current funding levels should not be defended just because they are the status quo. However, there are risks of unintended consequences which could:

- reduce the incentive for providers and / or employers to recruit 16-18 year old apprentices or work in disadvantaged areas;
- lead to a reduction in both price and quality, particularly in sectors without a long history of apprenticeships and lower levels of productivity; and
- exacerbate rather than ameliorate current inequalities in access to apprenticeships.

The success or otherwise of the Government's apprenticeship policy is not just about the Levy; it's about ensuring the content is right; making apprenticeships a driver of productivity by linking policy with efforts to drive economic growth; and working with employers to raise demand. Nonetheless, getting the Levy right is critical.

The test for any change (as well as the current system) is whether it improves both the quality of and access to apprenticeships.

3. What should happen next?

We have five key messages and ideas we argue the Government should incorporate into the apprenticeship funding and quality reforms:

1. **Getting it right.** The Government has set itself an ambitious timetable, which should be maintained in the interests of certainty for all parties. In particular, the Levy should be introduced as planned. However, other reforms should only proceed as policy is agreed and systems are in place. Ultimately, it is better to get it right later than wrong now;

2. **Better deal for young people.** An unintended consequence of the current proposals seems to be a reduction in funding for some young people in deprived areas, and a worse deal for some young people than if they choose to stay on in school or college. The Government should waive the requirement for employer co-funding for 16-18 year olds for all employers. A new Apprentice Premium (see below) would provide greater resource than the currently planned £1,000 for employers and providers, enabling young people to get the highest quality support;

3. **An Apprentice Premium.** The Government should introduce an Apprentice Premium, mirroring the Pupil Premium. This would be an additional amount paid to employers and providers recruiting apprentices with particular characteristics. This should start with 16-18 year olds and be higher than the current £1,000 proposed. It could be extended to apprentices from deprived areas or in priority sectors and occupations in line with industrial strategy, and topped up by devolved cities and local areas in accordance with local priorities.

4. **Focus on quality.** There is a clear case for fixed pricing for each apprenticeship Standard, with a reduction for the largest employers. Over time, working with employers and providers, rates could be changed or price flexibility introduced (for example, in sectors with high quality, as shown by good employment and earnings outcomes for apprentices, apprentice feedback and other measures); and

5. **Building the evidence base.** Funding rates should not be set in stone, but agreed through a collaborative approach with employers and providers so they support high quality apprenticeships and value for money for taxpayers. The Department for Education should publish its evidence base for the apprenticeship funding bands currently proposed. Beyond this, the Institute for Apprenticeships should regularly engage with employers and providers to consider changes to rates and the introduction of price flexibility (outlined above).

We must make sure that three million apprenticeship starts are the start of three million careers.

This paper builds on our response to the Government's consultation.