



Association of  
Employment and Learning  
Providers

# **AELP Submission: #53**

## **Autumn Budget 2018**

**August 2018**

## Autumn Budget 2018: A Submission from the Association of Employment and Learning Providers (AELP)

### About AELP

Members of the Association of Employment and Learning Providers (AELP) support employers in the delivery of 75% of apprenticeships in England and they deliver other publicly funded skills and employment programmes through engagement with 380,000 employers. The majority of AELP's 950+ members are independent private, not-for-profit and voluntary sector training and employment services organisations with employers, universities, FE colleges, schools and end-point assessment organisations joining AELP in increasing numbers.

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### Introduction

AELP believes that a well-funded well-defined skills system is vital to Government achieving its objectives as set out in the Social Mobility Agenda, the Industrial Strategy and equally important, meeting labour market challenges that will be exacerbated by Brexit.

It has now been over a year since the introduction of the apprenticeship levy, and while some employers have been utilising the opportunities the levy brings, many have not. Out of the £1.39bn the levy has raised, only £207m has been withdrawn by employers, and with funds set to start expiring from April 2019, there are concerns that this funding will not be spent as employers desperately wait for apprenticeship standards to be approved for delivery. With regard to the Government's 3 million high-quality apprenticeship starts target, latest statistics<sup>1</sup> show that apprenticeship starts for March 2018 have declined by 58% compared to March 2017 which means the number of starts required per quarter now stands at 206,400. These figures also illustrate a shift toward higher level apprenticeship starts between Jan-March 2018 whereby 42% were Intermediate, 44% Advanced and 15% Higher. In the previous quarter (Oct-Dec 2017), these stood at 45% Intermediate, 44% Advanced and 11% Higher. Therefore, the proportion of Higher apprenticeships has increased by 4 percentage points. While it is important that Higher Apprenticeships are established, in particular transforming social mobility in HE, this can have a negative impact on social mobility at the lower levels - the first vital steps - and AELP have published a paper on the importance of level 2 qualifications in a post-Brexit economy<sup>2</sup>. If Government wishes to successfully pursue the 3 million target and work towards achieving their social mobility and productivity goals, we urge ministers to address the issues identified in this AELP paper.

In addition, the Review of Post-18 Education and Funding has placed Higher Education at the forefront of debate as to how we ensure the system works for everyone. Given the rise in tuition fees and high levels of debt students are saddled with, degree apprenticeships have

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<sup>1</sup>Department for Education (2018) *Apprenticeship and levy statistics: June 2018* [online]. Available from: [https://www.gov.uk/government/statistics/apprenticeship-and-levy-statistics-june-2018?utm\\_source=eshot&utm\\_medium=email&utm\\_campaign=CountdownIssue879](https://www.gov.uk/government/statistics/apprenticeship-and-levy-statistics-june-2018?utm_source=eshot&utm_medium=email&utm_campaign=CountdownIssue879) [Accessed 4 June 2018].

<sup>2</sup> AELP (2018) *The Importance of Level 2 Skills Provision* [online]. Available from: <https://www.aelp.org.uk/news/news/press-releases/government-urgently-needs-to-boost-lower-level-skills-training-to-be-ready-for-brexit-says-new-aelp-policy-submission/> [Accessed 4 June 2018].

the opportunity to not only bridge the divide between academic and technical studies, they have the potential to revolutionise the way in which we learn at degree-level.

AELP's submission for the Autumn Budget 2018 illustrates how measures could enhance outcomes with the sector working together to ensure these are realised. We believe our proposals warrant continued dialogue with officials and urge Government to consider our recommendations.

**In summary, AELP is calling for support on eleven specific areas:**

1. A guaranteed budget of £1bn supported by the Treasury for apprenticeship delivery to non-levy employers that guarantees a minimum level of apprenticeships in non-levy employers.
2. A proportion of the current Higher Education fees budget to be made available to support higher and degree apprenticeships.
3. English and maths functional skills to be adequately funded when delivered as part of an apprenticeship programme in line with other delivery.
4. Apprenticeship frameworks to have adequate funding to ensure high-quality delivery until they are fully replaced by standards.
5. The entire Adult Education Budget (AEB) to be commissioned.
6. The ESF's successor fund, the UK Shared Prosperity Fund (UKSPF), should prioritise education and skills provision given the predicted skills gaps the UK is expected to face post-Brexit.
7. A review of the current disadvantage funding arrangements for apprenticeships is required to undo the damage of the most recent changes.
8. Open up apprenticeship levy transfers to support more SMEs.
9. Full funding for SMEs' apprenticeships for 16-24 year olds, or at least provide incentives against the cash co-investment and also demonstrate explicitly the 'in-kind' support from employers.
10. A commitment to more funding to be spent on frontline delivery rather than unacceptably high subcontracting fees.
11. Growth in Traineeships urgently needs to be restored.

**A guaranteed budget for non-levy apprenticeships**

Although there was an increase in the non-levy budget from £450m to £650m, there is still no guarantee of a budget for non-levy employers if demand exceeds supply and we are to achieve 3 million apprenticeship starts by 2020. As employers adjust to the levy reforms and apprenticeship standards are increasingly approved for delivery, we expect to see an increase in levy-paying employers utilising their funds. This will mean that less funding filters through the system to support the 98% of employers who do not pay the apprenticeship levy.

The Office for Budget Responsibility<sup>3</sup> has estimated that apprenticeship levy revenue will be 8 per cent lower than initially predicted - bringing the total amount generated down from £11.6bn to £10.7bn by 2021, a reduction of £900m. This financial year will see £2.6bn raised from the levy rather than the £2.7bn previously expected - a reduction of £100m. Reductions in funding will ultimately hit non-levy paying employers most severely, therefore a guaranteed non-levy budget is vital to supporting SMEs. This means there will eventually be fewer funds available to non-levy employers which will have negative consequences both in the short-term and long-term.

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<sup>3</sup> Office for Budget Responsibility (2018) *Economic and fiscal outlook*. [online]. Available from: [http://cdn.obr.uk/EFO-MarCh\\_2018.pdf](http://cdn.obr.uk/EFO-MarCh_2018.pdf) [Accessed 4 July 2018].

The Education and Skills Funding Agency's annual report and accounts for 2017-18 states that where the Agency identified significant underspends, the DfE "redeployed them to ministerial priorities"<sup>4</sup>. The accounts showed an underspend of £314m while the Department's own annual report and accounts for 2017-18 identified a "£337 million Resource DEL cash underspend, which is primarily the result of unused budget cover set aside at Supplementary Estimates to cover volatility in demand-led programmes such as apprenticeships"<sup>5</sup>. We recognise that the reallocation of budgets is not a simple exercise but a guaranteed non-levy budget for SMEs should be a 'ministerial priority' because based on previous delivery and any changes being made to the co-investment model, providers are confident that they can re-engage SMEs with the apprenticeship programme on a similar scale to before across all areas of the country.

*AELP encourages the Treasury to guarantee a budget of £1bn for apprenticeship delivery to non-levy employers that guarantees a minimum level of apprenticeships in non-levy employers.*

### **Using current Higher Education funding to support degree apprenticeships**

Degree apprenticeships provide an opportunity for learners to embrace a combination of work and study, whilst receiving financial remuneration throughout its duration. In addition, the apprentice graduates with no personal debt to repay, which represents a game-changing opportunity and significant benefits to Social Mobility within Higher Education.

The Post-18 Education and Funding Review presented itself in a timely manner when tuition fees are at their highest ever recorded and the average student is now graduating with £50,000 worth of debt and no guarantee of employment in their sector upon completion with roughly 50% not getting a graduate job on leaving university.

*As discussed in our response to the aforementioned Review, AELP strongly believes that over time, a proportion, possibly half, of the annual £10bn spent on tuition fees should be made available for apprentices, to support the growth in higher and degree-apprenticeships. We strongly believe this to be one solution to solving the current funding crisis the higher education sector is facing. Furthermore, we believe there should be a review to look at the notion of match-funding between the employer (levy) and learner (loans).*

### **English and maths functional skills to be appropriately funded when delivered as part of an apprenticeship programme.**

While these vital qualifications have the potential to advance the social mobility of the most disadvantaged learners, low-level qualifications tend to be inadequately funded despite being taken up by the some of the most challenging individuals who need the most support. For example, a learner's development of English and maths can be adversely impacted by poor funding for these essential elements of apprenticeships. This is the case for Functional Skills whose current funding rate (£471) is significantly lower than the standalone rate (£725) paid for every other learner. Our own research shows that the cost of delivery exceeds the funding available.

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<sup>4</sup> ESFA Annual Report and Accounts 2017-18, page 60:

<https://www.gov.uk/government/publications/education-and-skills-funding-agency-annual-report-and-accounts-2017-to-2018>

<sup>5</sup> DfE consolidated annual report and accounts 2017-18, page 47:

<https://www.gov.uk/government/publications/dfec-consolidated-annual-report-and-accounts-2017-to-2018>

Our Social Mobility Paper<sup>6</sup> explains that as a barrier to the programme's growth and successful completion rates, the issue has worsened since the levy's start and new funding rules in May 2017 which demand that teaching for additional English and maths cannot count towards the 20% of working hours spent training off the job as part of an apprenticeship. Many employers tell AELP member providers that they simply cannot afford employees to be away for this long from 'productive' working, so fewer apprenticeship opportunities are being offered.

Furthermore, AELP is concerned that the capacity of the FE sector workforce to deliver English and maths provision is insufficiently supported compared to that available for the schools and HE sectors. We believe that this reduced funding is discriminatory in comparison to other sectors who need not be concerned about this.

*Therefore, as explained in our response to the Post-18 Review, AELP wants funding rates for Functional Skills in apprenticeships to be aligned with the standalone rates as well as a robust and coherent national strategy for the delivery of English and maths from "cradle to grave". Furthermore, all apprentices should be encouraged to continue English & maths beyond the requirements of the standard, if the employer and learner wish to do so. All such learning should qualify as eligible for funding within a programme.*

### **Apprenticeship frameworks to have adequate funding to ensure high-quality delivery until they are fully replaced by standards.**

Whilst AELP welcomes the extension for the transition deadline from apprenticeship frameworks to standards beyond 2017 to 2020, we are concerned that the transitional funding on frameworks is driving down the quality of provision and forcing good quality providers out of the marketplace in a number of key sectors. Providers are keen to transfer to standards, but when there are none available they are left with no other option but to continue with frameworks.

Two of the most popular level 2 frameworks are Business Administration and Childcare; however, both are now funded against an upper funding limit of just £2000. How can a training provider be expected to deliver a high-quality training programme which lasts at least 12 months in duration and includes at least 20% off the job training for a maximum of just £166 a month? If the Government is serious about wanting "high quality" apprenticeships, then the availability of appropriate funding needs to support these aspirations which we all share. Once again the first step learners are suffering from inadequate support and undermining the contribution to social mobility- something apprenticeships should be in at the heart of.

*AELP believes there should be an urgent review of the derisory funding for apprenticeship frameworks due to the elongation period of transitioning to apprenticeship standards.*

### **The entire Adult Education Budget (AEB) to be put out for commissioning.**

AELP welcomes Government's objective of devolving the adult education budget (AEB) to Mayoral Combined Authorities (MCAs) with a timetable that provides clarity for stakeholders. It is vital that local involvement in the commissioning of skills and employability provision is achieved under clear, national frameworks to maintain accessibility and transferability. In addition, we hope that this will bring an end to the unacceptable ring-fencing of grant funding

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<sup>6</sup> AELP (2018) *Securing social mobility for the young and the most disadvantaged: Rectifying unintended consequences of the Apprenticeship Reforms* [online]. Available from: <https://www.aelp.org.uk/media/1855/apprenticeships-as-driver-of-social-mobility-aelp-paper-jan-18-update.pdf> [Accessed 4 July 2018].

budgets for AEB which is going unspent each year. Much of the current subcontracting on AEB is the by-product of an inefficient funding system as government procures non-grant funded AEB whereas grant funded providers are given an annual allocation to spend that is consistently underspent. This impacts on the quality of provision on offer which cannot be consistently guaranteed and means support doesn't get to those who most desperately need it.

*AELP is calling for the entire AEB to be put out to public procurement to ensure full value for money and all providers to be subject to common funding, inspection and audit regulations on the basis of a level playing field. Furthermore, in areas which do not have Mayoral Combined Authorities (MCA), the budget should be procured through Local Enterprise Partnerships (LEPs).*

### **ESF's replacement, the UK Shared Prosperity Fund must prioritise skills provision post-Brexit**

Case studies from our membership highlight the importance of ESF; for example, Preston College leads on an ESF-funded programme titled 'Lancashire Moving on Project' which supports 14-19 year-olds and young people up to age 24 if they have an Education, Health and Care Plan (EHCP), to bridge the gap between a young person being disengaged or at risk of becoming disengaged and getting them into paid employment, education, apprenticeships or traineeships. The outcomes so far include an 80% success rate with the majority of young people going on to do an apprenticeship or participate in education. This illustrates the importance of additional support for disadvantaged young people who are most likely to enter their education at level two. With the future of ESF in doubt, vital services that assist young people to enter the labour market may cease to exist; therefore, it is crucial that the government funds these programmes to ensure continuity and support a cohort that would otherwise be left behind.

As ESF funding is due to conclude in 2020, the successor UK Shared Prosperity Fund must ensure that education and skills remain a priority for future funding. Given the high proportion of low-level programmes ESF currently funds, it is vital that they are protected and continue to serve learners in areas of disadvantage who may otherwise have no alternative opportunities to acquire skills needed for employment.

*AELP supports the need to address the future of the European Social Fund (ESF) post-Brexit, funding totalling £8.7bn (for the period 2014-20) which assists in the provision of technical education to a variety of learner cohorts, from young disadvantaged to prisoners.*

### **A review of the current disadvantage funding arrangements for apprenticeships is urgently required.**

The replacement of the previous effective system of disadvantage funding significantly reduces the funding for individuals with the greatest need of support. AELP believes that the methodology implemented from May 2017 to provide additional funding to support disadvantaged apprentices is not fit for purpose. Learners that need the most support are suddenly finding it is non-existent and this is preventing them from entering and achieving in the apprenticeship market. The change in arrangements now sees a dramatic reduction in support for individuals who specifically need it most.

*As a matter of urgency, AELP calls on the government to re-introduce the previous disadvantage funding methodology in order to support the apprentices who need it most.*

### **Open up apprenticeship levy transfers to support more SMEs**

When the notion of transferring levy funds was initially introduced, levy-paying employers were given the option to transfer up to 10% of their apprenticeship funds; however, this was restricted to a single employer only. More recently, the Skills Minister announced that this will be broadened to allow funds to be transferred to multiple employers in a bid to improve flexibility in the system.

*Whilst this has been welcomed by the sector, AELP believes more needs to be done to support SMEs and to enable levy paying employers to support and develop their own supply chains, therefore we call on the government to allow employers to transfer up to 50% of last year's levy bill as opposed to the current figure of just 10%.*

### **SMEs to be fully-funded for 16-24 year olds, or at least waive the cash co-investment and replace it with an 'in-kind' alternative**

From May 2017, SMEs have been required to pay a new 10% co-investment payment for all age apprentices. Micro employers (less than 50 employees) are required to pay 10% contribution for 19+ apprentices, although 16-18 remain 'fully funded' by government. For large numbers of employers having to make a cash contribution for the first time, there becomes even less of an incentive to pay when additional work is required to support the most disadvantaged apprentices or younger apprentices with less initial work and life experience. There is plenty of evidence to show that the majority of the most disadvantaged individuals will only make the first step into work and training close to home – it is often into the service sector which comprises of many businesses operating at low margins with many cost pressures. The expectation that they should then pay for an apprentice is often a step too far given the other costs that an employer faces while supporting an apprentice.

In a bid to increase apprenticeship starts, we believe there should be an incentive payment system for learners who undertake level 2 apprenticeships and for those that progress from a level 2 to a level 3 apprenticeship. Doing so would support SMEs (where starts have plummeted since the introduction of the levy), and assist in improving apprenticeship starts overall of which the latest figures (March 2018) show a 58% decline year on year. To date, there have been 1,348,800 starts this Parliament- therefore, to achieve 3 million by March 2020, a minimum of 206,400 starts per quarter is required and yet the most recent figures show that only 76,400 per quarter is actually being achieved<sup>7</sup>.

*AELP believes that all 16-24 apprentices undertaking a level 2 or level 3 apprenticeship should be fully funded by the government if they are employed by a non-levy paying employer or by a levy paying employer who exceeds their levy pot. Failure to address this challenge will not only endanger the government's self-imposed 3 million starts target but could also oversee a generation of displacement and lost opportunities for young people in England – in particular, the most disadvantaged needing the most support.*

### **A commitment to more funding to be spent on frontline delivery as opposed to being spent on unacceptably high subcontracting fees**

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<sup>7</sup> Department of Education (2018) *Apprenticeship and levy statistics: July 2018* [online]. Available at: <https://www.gov.uk/government/statistics/apprenticeship-and-levy-statistics-july-2018> [Accessed: 6 August 2018].

Although the FE system has always had an element of subcontracting, there have been various changes of policy that have increased activity; for example, the Skills Funding Agency's policy of minimum contracting levels for prime providers forced small prime contract holders to hand back their prime contract or transfer it to a large prime and become a subcontractor with no direct access to government funding. The ESFA procurement exercises for the partial procurement of the Adult Education Budget and non-levy apprenticeship funding have created similar circumstances where many providers now have to enter into a new prime and subcontracting relationship to have access to any funding.

In the view of AELP, the core fee charged by the prime provider for legitimate management overheads for quality and contractual compliance aspects should be between 0% to 20% depending on what is provided and the extent of what is provided. The expectation should be that it is capped at no greater than 20% and generally will be much less. The fee should be based on the funding provided for on-programme training and no other funding such as for EPA or residential costs should be included in the calculated fees.

Subcontracting has become an integral element of the FE system. It has grown and evolved mainly because of changes to the funding system and policy development and, as such, little has been written on what good practice looks like. Therefore to fill this vacuum, AELP, Collab Group and HOLEX have worked together to produce a short good practice guide<sup>8</sup> to support both the prime and subcontractor on the key principles of subcontracting.

*AELP believes that Government should invoke a mandatory hard fixed cap on subcontracting fees of no more than 20%, but in most cases should be considerably less by which a main provider can charge a subcontractor.*

### **Growth in traineeships urgently needs to be restored**

As part of a very disappointing trend that has continued for two years, official data reported for the first three quarters of the 2017-18 academic year show that there were 15,000 traineeship starts, a decrease of 11.4 per cent from 17,000 in 2016-17. This is happening when the UK is enjoying record employment figures but youth unemployment remains stubbornly above 500,000. Traineeships can potentially act as a ladder to apprenticeship opportunities for young people and as a programme to secure sustainable employment, and many AELP provider members believe that they represent a highly effective tool for social mobility.

AELP is not seeking additional funding for traineeships in order to encourage an increase in starts on the programme. Instead the Government needs to instruct the Education and Skills Funding Agency to remove traineeships from the calculation of individual providers' Qualification Achievement Rates (QAR) because the ESFA continues to penalise providers through their QAR data even when trainees are progressing into outcomes officially defined as the programme's goals, namely employment, an apprenticeship or further education/training<sup>9</sup>. AELP has been pressing for this change for four years. With starts declining and previously enthusiastic providers withdrawing from the programme, a lack of action on the QAR rule may result in traineeships withering away altogether.

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<sup>8</sup> AELP (2018) *Best Practice Guidance for a Relationship between a Prime Provider and a Subcontractor* [online]. Available from: [https://www.aelp.org.uk/media/1978/best-practice-guidance-for-a-relationship-between-a-lead-provider-and-a-subcontractor-march2018\\_1.pdf](https://www.aelp.org.uk/media/1978/best-practice-guidance-for-a-relationship-between-a-lead-provider-and-a-subcontractor-march2018_1.pdf) [Accessed 11 July 2018].

<sup>9</sup> For more information, see the AELP briefing paper 'Tackling the Growing Barriers to Traineeship Success- July 2018' available at: <https://www.aelp.org.uk/resource-and-information-centre/resource-and-information-centre/briefing-papers/briefing-paper-56-tackling-the-growing-barriers-to-traineeship-success-july-2018/>

*To reverse the decline in programme starts, the Government should remove traineeships from the calculation of individual providers' Qualification Achievement Rates.*

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