Association of
Employment and Learning
Providers

# AELP Submission: #54

## Effecting a transition to a sustainable apprenticeship system

***Embargoed until 21 September 2018, 00.01hrs***

# The non-levy apprenticeship transition and creating a sustainable apprenticeship system: Response from the Association of Employment and Learning Providers (AELP)

## In response to the announcement of a transition period and the need for a long term sustainable funding model, AELP is calling for the following:

1. A more robust and refreshed Register of Apprenticeship Training Providers (RoATP), which acts as the gateway to direct funding for apprenticeships for all employers.
2. A more streamlined Apprenticeship Service (AS) system designed to work for smaller employers along with a review of the associated funding agreement required.
3. Government must support and harness the power and reach of providers to help non-levy paying employers transition.
4. A transitional period, incorporating a dual running model of existing prime procured contracts and the Apprenticeship Service for *all* providers on the RoATP which concludes by April 2020.
5. A guaranteed minimum budget for non-levy employers of £1bn per annum.
6. Avoiding at all costs a future funding model and methodology which results in a “Stop-Go” approach to accessing apprenticeship funding.
7. All 16-18 year olds are fully funded whatever the size of the employer or level of learning. As a minimum level 2 and level 3 should be funded for all apprentices under the age of 25.
8. Review of the use of employer contributions and consider using different sources of contribution to fund degree level provision. Contributions proposal to underpin the future apprenticeship market as follows:

| Apprenticeship Level | Government Contribution | Employer Contribution | Apprentice (Loan) Contribution |
|---|---|---|---|
| Level 2 | 100% fully-funded | 0% contribution | 0% contribution |
| Level 3 | 90% funded | 10% contribution | 0% contribution |
| Level 4 | 80% funded | 20% contribution | 0% contribution |
| Level 5 | 70% funded | 30% contribution | 0% contribution |
| Level 6 | 50% employer contribution from levy or government for non-levy budget and 50% apprentice contribution (via student loan) or employer contribution (but not from the levy). | | |
| Level 7 | 50% employer contribution from levy or government for non-levy budget and 50% apprentice contribution (via student loan) or employer contribution (but not from the levy). | | |

### A more robust and refreshed Register of Apprenticeship Training Providers (RoATP)

AELP believes the register in its current form is not robust enough to act as the gateway to allow providers to directly access funding from government for apprenticeships. Previous iterations of the register were hampered by the fact that the RoATP was the PQQ (Pre-Qualifying Questionnaire) to the non-levy apprenticeship procurement round and on that basis, Public Contracting Regulations restricted the ability to focus weight on specific criteria such as track record and past performance. As a result, a number of high-quality providers were unsuccessful whereas new providers with no track record were able to join the RoATP. New provider monitoring visits conducted by Ofsted since November last year have highlighted how some of the new providers to the sector have not been fit for purpose, which adds weight to the argument about the effectiveness of the RoATP in its current form as the suitable mechanism moving forward.

Around 1 in 3 providers on the RoATP currently have yet to deliver any direct provision. There are a number of legitimate reasons why some of these providers are in this position, including waiting for standards to become approved so that they can commence delivery or that they applied early than planned as they were concerned when the RoATP might reopen and therefore wanted to ensure they save their place for all possible eventualities. On this basis alone the current RoATP provides somewhat of a false picture in terms of readiness, coverage and capacity on the supply-side of apprenticeships. Moving forward we need a more flexible RoATP which operates in the same way as the Register of End Point Assessment Organisations (RoEPAOs) with continuous openings would improve visibility and certainty and allow providers to apply when actually ready to deliver.

Prior to the transitional period commencing a refresh and a reopening of the RoATP is required. Moving forward the RoATP needs to:

- Thoroughly test the competency and capacity of new providers, including those providers on the register, but have not delivered any provision and therefore have not been in scope for either inspection or assurance visits.
- Take into account appropriate previous track record and readiness to deliver.
- Take into account external verification of expertise and quality of provision delivered e.g. formal reports from Ofsted, Ofqual, QAA and other similar bodies.
- Ensure robust financial health and adequate financial trading history for all categories of providers.
- Encourage and incentivise new providers to consider utilising the ‘supporting provider route’ to enable them to work in collaboration with an established provider to capacity build and to support long-term sustainable high-quality provision.

### A more streamlined Apprenticeship Service (AS) system designed to work for smaller employers and associate funding agreement required

Pivotal to the success of the future approach moving away from direct contracting will be having a version of the Apprenticeship Service which meets the needs of a wide range of non-levy paying employers. The current Apprenticeship Service was built to specifically support levy paying employers. The system for non-levy paying employers needs to be far more streamlined and less bureaucratic and will need to cater for a wide range of needs and capabilities. At one end of the spectrum, and AELP believes that the majority of non-levy employers will utilise, the Apprenticeship Service needs to be administrable by the employer's delegated provider to set up and the employer simply validates the request. The other extreme would be when the employer has the facility to control the system and be fully in the 'driving seat'. The current system does not allow this and therefore change is required as one size does not fit all.

Coupled with the move to the Apprenticeship Service more thought is required on how to make the funding agreement which will be required between the non-levy paying employer and the ESFA more streamlined and workable. The current contracting cycle between the ESFA and levy paying employer and the levy paying employer and provider has been particularly arduous, time consuming and in many cases has slowed down the recruitment process considerably. Deploying the same model and contracting arrangements onto non-levy employers will create a sizeable barrier and therefore in many cases will make employers reject the opportunity to invest in apprenticeships. We must learn from past experiences and avoid this outcome at all costs.

### Support and harness the power of providers to help non-levy paying employers transition

We are often asked how should government engage with non-levy paying employers about apprenticeships and best support them in a transitional process? The answer is simple – harness the expertise and already established strong relationships that the provider base has with the hundreds of thousands of SMEs and micro-employers. Government should focus its engagement with employers through the provider community and local networks and facilitate this engagement rather than attempting to replicate it through direct engagement.

However, it is vital that government recognises that the transitional process itself presents a significant change in process and approaches to providers too. Government should, therefore, invest adequate capacity building resource in supporting the upskilling of providers suitably to enable them to support employers with making a seamless transition from the old to the new system – in particular using the revised Apprenticeship System and concept proofing the revised service to work for the non-levy employers.

### A transitional dual running model of contracts and the Apprenticeship Service

AELP supports the notion of commencing the transition period as soon as practical and this is very much being dependent on when the Apprenticeship Service has been modified and streamlined to support the wide breadth of needs and requirements for smaller employers who do not pay the levy.

AELP is calling on government to work towards the following timeline:

- National support programme for providers on transitioning: Quarter 1 of 2019.
- Pilots to commence on dual running from April 2019.
- Start of the full transitional from August 2019 for all providers on the RoATP.
- Completion of transitional period March 2020.
- End of dual running model, all apprenticeship starts for levy and non-levy to be funded through the Apprenticeship Service – April 2020.

In running a transitional period until the end of March 2020 this means that there is no need for a further unnecessary procurement exercise. From April 2020 the dual running transitional process would cease and all new starts would be funded solely through the Apprenticeship Service. AELP believes a process which incorporates a period of piloting dual running, then followed by a full 8-month transitional period is the most appropriate approach and will achieve the desired outcome along with ensuring best value for money.

As part of the transitional period where all providers recognised on the main provider route of the RoATP will have access to non-levy funding it is key that government deploys adequate controls to manage the risk when deciding how much providers without a current non-levy contract are able to initially directly access.

**Avoiding at all costs a future funding model and methodology which results in a "Stop-Go" approach to accessing apprenticeship funding**

Ultimately the sector will be moving away from the legacy system of direct government contracting and allowing providers and employers to jointly agree to commercial arrangements which include elements of government funded support. The controlling mechanisms around expenditure, performance management and capacity building which underpin the current direct contracting model will be no more, so a new approach will be required to be implemented.

Any government-led approach of establishing a non-levy apprenticeship funding pot which employers can 'reserve' funding from must be considered with a degree of caution. What must be avoided at all costs is establishing a new system which culminates in a "Stop-Go" approach i.e. demand of funding outstrips supply and a hard close, be that monthly or at periods within the academic or financial year, is required to stop an overspend of the overall budget. Any such system would have a *catastrophic impact* on provider's ability to manage cash flow and staffing resource and also to remove any confidence from providers to make long-term financial commitments to fund and develop new programmes and provision. To enable a strong provider market servicing employers (and this includes employer-providers, colleges and universities as well as independent training providers) it is vital this is understood.

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 anything close to the 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. That is why AELP has always called for a minimum annual budget for non-levy payers of £1bn – the amount of budget allocated by government prior to the apprenticeship reforms.

AELP have been calling for a guaranteed non-levy budget at the level of previous non-levy activity prior to the introduction of the new policy in 2017. This budget should be £1bn as a minimum.

**Review of the use of employer contributions including using different sources of contribution to fund degree level provision**

aelp
Association of Employment and Learning Providers

One piece of undeniable evidence is the effectiveness that introducing mandatory employer cash contributions has been as a method to reduce employer demand. In the future model, it should be used as the key lever to manage not only the budget but also to incentivise key segments of the ecosystem linked to social mobility, productivity and helping the country transition through and out the other side of the Brexit process.

Contributions proposal to underpin the future apprenticeship market:

| Apprenticeship Level | Government Contribution | Employer Contribution | Apprentice (Loan) Contribution |
|---|---|---|---|
| Level 2 | 100% fully-funded | 0% contribution | 0% contribution |
| Level 3 | 90% funded | 10% contribution | 0% contribution |
| Level 4 | 80% funded | 20% contribution | 0% contribution |
| Level 5 | 70% funded | 30% contribution | 0% contribution |
| Level 6 | 50% employer contribution from levy or government for non-levy budget and 50% apprentice contribution (via student loan) or employer contribution (but not from the levy). | | |
| Level 7 | 50% employer contribution from levy or government for non-levy budget and 50% apprentice contribution (via student loan) or employer contribution (but not from the levy). | | |

AELP strongly believes that level 2 apprenticeships should be fully funded by government, correcting market failure and providing a basic social mobility entitlement to all the learners that wish to undertake an apprenticeship at this entry level. Currently 16-18 year olds in SMEs with employees under 50 are fully funded.  We believe this should be extended for all 16 – 18 year olds.  Nowhere else in the education system does anyone have to pay for education pre-18. AELP also believe that level 2 and level 3 should be fully-funded for under 25s.

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 – this represents a game-changing opportunity. 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 now graduating with £50,000 worth of debt with no guarantee of employment in their sector upon completion. As covered 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 apprentice (via the student loan system).

AELP believes this model will adequately control the demand from employers and individuals and indeed may lead to spare levy money. The remaining levy, or other funding, can then be used to incentivise against government priorities – national, regional, and local, by sector or level or type of apprentice. For example, a desire to drive up the number of healthcare workers at level 3 and 4 could be incentivised by the employer contribution being removed for 12 months or being removed for 10,000 healthcare workers. The employer contribution could be funded to target STEM subjects or females going into engineering. In addition, LEPs and devolved combined authorities could be given a fund to incentivise, by removing the employer contribution, local priorities / apprenticeship shortfalls. The options are limitless and the approach provides a very flexible system. At the same time this approach provides a very clear stable funding model for all employers and providers with a baseline that won't be changed. This enables employers and providers to plan and make core business and investment decisions while at the same time managing employer demand and keeping control over the government funding commitment of apprenticeships.

## Context

In early August 2018, the Education & Skills Funding Agency (ESFA) announced that "despite planning that all employers would be able to use the apprenticeship service to access apprenticeship funding from April 2019 ... having listened to feedback about the scale and pace of the apprenticeship reforms that we have introduced since May 2017, we want to make sure that future changes are introduced in a *gradual, well-managed way*. This is to give time for employers and training providers to prepare to take full advantage of the new approach and to keep *stability* in the marketplace. To ensure a *more gradual transition*, we will *extend current contracts* for training providers delivering training for employers that do not pay the apprenticeship levy for 12 months, from April 2019 to March 2020." Full ESFA statement on Apprenticeship service transition.

After a period of significant and unprecedented change in the FE sector AELP welcomes the concept of ensuring *stability* in the marketplace and a transitional period which includes *all providers* on the ESFA's Register of Apprenticeship Training Providers (RoATP). Last year's procurement of non-levy apprenticeship funding ended in the well documented unfair outcome which penalised good and outstanding providers through both the pro-rata and the minimum £200k contracting threshold. One significant consequence of this was to force those unsuccessful providers, many of whom were long established and recognised as *outstanding* quality of provision, to have to subcontract. If they wished to continue to work in the non-levy segment of the market this was their only option in a system of funding rules difficult to operate in and with the backdrop of a number of prime providers charging illicitly high fees and charges to access funding.

The Register of Apprenticeship Training Providers (RoATP) acts as the gateway for all provider types to directly access funding for apprenticeships for all employers. Currently being on the RoATP as a main provider allows any of the circa 1,900 main providers access to direct funding for levy-funded apprenticeships, but only circa 700 have access to funding directly via a prime contract they have with the ESFA for non-levy funded apprenticeship provision.

The Office for Budget Responsibility[1] 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.

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"[2]. 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"[3]. 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.

Alongside the transitional period, the other area to address is the future model and methodology for non-levy apprenticeship provision post the end of direct contracting as providers know it. The future system is new territory for all sector stakeholders and any new model is equally if not more important.

Published September 2018

**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 1,000 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.

Association of Employment and Learning Providers (AELP)
A: 9 Apex Court, Bradley Stoke, Bristol, BS32 4JT
T: 0117 986 5389
E: enquiries@aelp.org.uk
W: www.aelp.org.uk

[1] Office for Budget Responsibility (2018) *Economic and fiscal outlook*. [online]. Available from: http://cdn.obr.uk/EFO-March_2018.pdf [Accessed 4 July 2018].
[2] 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
[3] DfE consolidated annual report and accounts 2017-18, page 47: https://www.gov.uk/government/publications/dfe-consolidated-annual-report-and-accounts-2017-to-2018

Association of
Employment and Learning
Providers

Association of Employment and Learning Providers
2nd Floor,
9 Apex Court
Bradley Stoke
Bristol
BS32 4JT

t: 0117 986 5389

e: enquiries@aelp.org.uk
www.aelp.org.uk
@AELPUK
AELP