A Sustainable Future Apprenticeship Funding Model

Introduction

This paper sets out a number of discussion points aimed at helping to rebalance the apprenticeship system, improving productivity and social mobility while also helping to ensure we have a healthy and sustainable long term funding model which addresses the current deficiencies and unintended consequences which have developed since the implementation of the Apprenticeship Reforms in 2017.

Despite the overall start numbers being down significantly from previous years, especially at level 2, at non-levy paying employers and for apprentices aged under 25, the funding for non-levy paying employers is running out and has been capped with no funding to support any future growth between April 2019 to March 2020. This is against a backdrop of a new NAS multi-million pound advertising campaign "Fire it Up", aimed at generating additional new interest and demand from non-levy paying employers.

The growing pressure on the apprenticeship budget has been driven by a number of factors. The key factors include the following:

- In most cases apprenticeship standards, including the new end point assessment, carry a substantial financial premium over previous apprenticeship frameworks. Numbers are down, but the cost per start has increased. In addition, the new higher level apprenticeships (levels 4-7) are significantly more expensive, therefore leading to a major increase in the average cost per apprentice.
- The government's decision to move away from historic fixed rates to a model assumed that employers would naturally drive down the unit price per apprenticeship from the funding band cap through price negotiation. This model was untested and has proved to be flawed as in reality the vast majority of agreed pricing has been at the funding band limit due to the cost of delivery and ensuring quality is maintained. Government believed significant discounting would take place, thus helping offset the cost of the increase in cost of apprenticeship standards.
- The introduction and increase in availability and subsequent growing take-up of new level 6 and level 7 apprenticeships which attract significantly more funding than the historically popular level 2 and level 3 programmes which dominated the market prior to the Apprenticeship Reforms has increased the funding consumption and put significant pressure on the finite budget.
- The government's hypothecated assumption that £1bn of the apprenticeship levy would go unspent each year and this would offset the government's need to directly fund the non-levy paying marketplace has again been showed to be deeply flawed. The aforementioned points explain this erosion of available unspent levy.

Discussion Points

In order to rebalance the apprenticeship system and to ensure long term sustainability, the following points are proposed for discussion and consideration:

1. The complete **removal of level 6 and level 7 apprenticeships from being in scope for government funding**. These programmes should be funded either commercially by the employer and/or through a student loan taken out by the individual or whatever combination of student / employer / government grant contribution the government proposes for degrees following the Post-18 Education and Funding Review.

   By removing funding for the level 6 and level 7, this will reduce the growing pressure on the apprenticeship budget. Prior to the introduction of degree apprenticeships and funding from government, employers and individuals directly funded this high level provision. Indeed, there were 135,000 employer funded degrees prior to the levy being introduced. As of February 2019 there have been 77 fully approved level 6 and level 7 apprenticeships with an average funding band cap of £22,519. The February 2019 Statistical First Release (SFR) published by the Department for Education has recorded 1,696 L6/L7 starts in FY16-17, 10,846 L6/L7 starts in 17-18 and YTD 18-19 already 12,897. In total this accounts for 25,439 starts at either level 6 or level 7 since August 2016.

   Excluding any discounting on price, taking the aforementioned average funding for level 6 and level 7 standards and multiplying by the number of recorded starts, this already represents a total possible funding commitment over the duration of the programme for those starts of circa £573m with what are tiny overall numbers. These current levels of uptake still remain driven by early adopters and the growing trajectory of higher level starts in the second half of FY18-19 coupled with the volumes of HEIs now on the RoATP mean that the cost of funding this level of provision will continue to grow significantly and quickly. AELP has long stated that level 6 and 7 apprenticeships would consume more than half of the apprenticeship levy and these figures provide further tangible evidence that this will happen if unchecked. Universities and employers are clear that they see this part of their offer increasing substantially over the next two years. Indeed, one of the brakes to growth has been the tortuous process of getting any standard approved by the IfATE and it is these higher education institutions who have complained about this the most.

2. There should be a **core level 2 and level 3 entitlement for full funding by government for both adults and young people** to correct market failure and provide a basic social mobility entitlement, as well as productivity gains as identified by the government, to all the learners that wish to undertake an apprenticeship. There are many sectors where coming in at level 2 is a prerequisite and necessary to enable progression through the roles and building a career. This core entitlement will help improve social mobility and support the government's own social mobility agenda. For young apprentices, this would give parity with learners who remain in school at no cost to the learner and for adults, this would have synergies with the current government policy of a fully funded entitlement offered as part of the Adult Education Budget (AEB). In summary:

Apprenticeship Level	Young Apprentices	Adult Apprentices
Levels 2-3	100% funded by government 0% co-investment contribution by employer	
Levels 4-5	95% government funded 5% co-investment contribution by employer	
Levels 6-7	No government funding available 100% contribution by employer and/or individual (via student loan)	

3. Government should rebalance the funding bands for young people which were diluted to fit all age apprenticeship funding rates in May 2017 with the **introduction of a young apprenticeship premium uplift** to support the development of early talent and to offset this previous reduction. It is fact that the most significant decline in volumes have been apprentices under the age of 25, studying at level 2 and working for SMEs and micro sized employers. Action is required in rebalancing a shift to upskilling existing staff which will not help address the policy intent of closing the widening skills gap in sectors such as care, hospitality and retail where history shows apprenticeships can help play a significant role.

4. A guaranteed **minimum budget for non-levy employers of at least £1bn per annum** is required to fund the demand for non-levy paying employers. This figure is based on pre-levy delivery and average cost so will not necessarily fund the shortfall, but along with other measures described in this paper can provide the components to ensure the system has long term sustainability.

5. As a result of the success of the apprenticeship levy policy, government should continue to **increase the scope of the apprenticeship levy** through a combination of reducing / removing the £3m payroll threshold and/or by increasing the current 0.5% levy on those currently in scope. Government should expand the current scope of employers paying the apprenticeship levy as opposed to solely focusing on attempting to drive down the cost of the apprenticeship product which will lead to a reduction in apprenticeship quality. The rhetoric of "quality replacing quantity" (3m target) needs to align with the policy approach. Increasing the scope of the apprenticeship levy would be a more effective strategy in providing additional funding to support the growing demand for the apprenticeship programme.

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. 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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