

Serious funding shortage for apprenticeships in SMEs starting to bite

Smaller businesses are in danger of being starved of apprenticeships because funding for them is running out. The solution is for the government to use the Spending Review to restore the £1bn a year budget which was available to SMEs before the apprenticeship levy was introduced in April 2017.

Even though only large employers are required to pay the levy, the proceeds from it are meant to fund the apprenticeships of all employers in England who want them. As highlighted in a recent NAO report, the emerging problem stems from the fact that the levy payers are placed first in line to claim back on the levy for their own apprenticeship programmes before the remaining funding is made available to the non-levy paying employers. The levy is now being used up by the large employers because of the cumulative effect of funding both apprentices already on a programme and new programme starters each year. The government also badly miscalculated how much funding was going to be consumed by more costly apprenticeships at the higher levels.

While a separate funding pot was set aside this year for SMEs, none is currently planned for after April 2020 and the projected use of the levy by the large employers in future years means that there will be no money remaining for smaller businesses to use for apprenticeships unless the government acts. In fact a government agency has now confirmed that there is likely to be a £500m overspend on the £2.2bn levy proceeds for 2018-19 and the deficit is projected to rise to £1.5bn during 2021-22.

Possible post-Brexit migratory controls, workforce productivity and social mobility all form compelling reasons for the government to take action now. Another reason is that the local economies in many areas of the country are almost entirely dependent on non-levy paying SMEs and so there is the threat that these areas become apprenticeship deserts for the young people who need to get skills and jobs.

AELP welcomed the Chancellor's ordering of a review of the levy in the Autumn Budget which offers an opportunity to put things right. In our view (see our review proposals: <http://bit.ly/2FyflgO>), the required action should comprise:

- a. a minimum £1bn a year budget for SMEs to access to fund their apprenticeships
- b. full state funding of intermediate and advanced (levels 2 and 3) apprenticeships
- c. a system of escalating financial contributions from the employer and/or the apprentice for higher level apprenticeships
- d. a review of the funding cap on each apprenticeship standard which takes account of changes proposed above, especially in relation to young people
- e. a digital account management system which allows a levy payer's chosen training provider to facilitate transfers of any unspent levy to SMEs who want to offer apprenticeship opportunities
- f. no government controls on how much levy business an employer can place with its chosen apprenticeship provider, consistent with apprenticeships being an 'employer driven' programme.

The review should also address the DfE's refusal to respond positively to last October's Education Committee recommendations on apprenticeships in respect of two key respects. Firstly, many employers in the public and private sectors still complain about the challenges raised by the government's insistence that every single apprenticeship should include at least 20% of the training taking place off the job. Ministers make inaccurate 'apples and pears' comparisons with practice abroad and the select committee was right to say that they should adopt a more flexible approach to off-the-job training according to the business sector and level of apprenticeship. Moreover the value of an apprenticeship lies in what is learned ON the job.

Secondly more of the funding should be reaching frontline training but instead of adopting the committee's recommendation that management fees which are taken by lead providers when subcontracting out training provision should be capped, the government continues to prevaricate over the matter. This means that we are not getting full value for money from the funding of apprenticeships.

Effective launch of T Levels still in question

Despite the DfE's permanent secretary requesting a ministerial direction on the implementation of T levels, the government is determined to press ahead with its timetable for the introduction of new technical qualifications at level 3 and above. The specification of T levels requires a 45-60 day industry placement but instead of championing a partnership approach for their delivery, the DfE seems very reluctant to utilise the employer links of independent training providers to ensure a successful launch. The department has also so far failed to come up with a proper level 2 pathway to get on a T level course for school leavers who need one. At the same time, it needs to resolve the issue of progression from T levels – the competency/employability gained will not be the same as a level 3 apprentice and so it cannot be assumed that the learner will make a smooth transition on to a higher level apprenticeship if desired.

Making the Adult Education Budget work for the elected mayors

At the two main party conferences last year, elected mayors from the Mayoral Combined Authorities (MCAs) were in agreement that the current publicly funded skills system did not give them the skills training needed for their local economies. As a first step towards rectifying this, 50% of the £1.5bn Adult Education Budget (AEB) has been devolved to the MCAs and London and some of the devolved funding has been put out to tender instead of all being retained for grant allocations. In the light of the huge underspends that has devalued the AEB's impact in recent years and led to poor value subcontracting, the moves towards tenders and considering measuring successful outcomes regionally in a different way are to be welcomed. However AELP believes that the mayors will only see a discernible impact on their areas if they put all of their AEB funding out to tender and the same message applies to the Education and Skills Funding Agency's management of the budget for the non-devolved areas.

An alternative to the failed GCSE resits policy

Ministers remain convinced that a compulsory GCSE resits policy for maths and English is a good thing despite 120,000 young people failing a resit each year and only 30,000 passing. The frustration is compounded by the fact household name employers are perfectly happy to recognise the acquiring of applied Functional Skills as an alternative in the new apprenticeship standards. A proper upfront assessment for 16 year olds who failed the GCSEs first time on which option they should follow would surely end unnecessary disaffection and enable them to get relevant maths and English development.

September 2019 will see the introduction of a strengthened curriculum for Functional Skills, but the government has no plans to change the funding of their teaching within an apprenticeship even though it stands at half the classroom rate. Astonishingly the DfE tries to justify this on economies of scale when apprenticeship training providers are often teaching the subjects to one or two apprentices at an employer's workplace while a teacher in a classroom environment can teach 30 at a time. If the government wants apprenticeships at the lower levels to remain viable for delivery, fair funding of Functional Skills must be addressed.

An intermediate apprenticeship for Business Administration needs recognition

For a government committed to improving social mobility, it is incredible that its agencies are turning a deaf ear to calls from NHS Trusts and other major employers to recognise a new apprenticeship standard for Business Administration at level 2. A detailed and high quality specification has been submitted to the Institute for Apprenticeships which would enable thousands of young people to embark on a successful career in the public or private sector. Only snobbery is preventing this being taken forward and the government must change its response.

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