



AELP Submission: #118

Spring Budget Submission 2024

**AELP Submission to HM Treasury
– FE and Skills**

Summary

The Association of Employment and Learning Providers (AELP) welcomes the opportunity to make a submission to HM Treasury ahead of the 2024 Spring Budget in March. In Autumn 2023, AELP published [Skills Means Growth](#) our vision for the future of the further education sector, highlighting the link between skills and economic growth. This builds on our recent [Save Our Skills System](#) campaign and open letter to the Secretary of State for Education. AELP's submission leans on both our campaign and our future vision and focuses on five specific asks from the Government in the upcoming Spring Budget which in summary are:

1. *Closing the gap between the DfE's apprenticeship programme budget and the apprenticeship levy take.*
2. *Focusing on the value of an all-age apprenticeship system.*
3. *Removing barriers to support for SMEs.*
4. *Increasing social mobility through the skill system by aligning the different components more effectively*
5. *Investing in adult education funding*

1. Closing the gap between the DfE's apprenticeship programme budget and the apprenticeship levy take

In FY22/23 the Apprenticeship Levy raised £3,580m, with the Office for Budget Responsibility (OBR) predicting the Levy could raise close to £4,000m in FY23/24. The combined Levy receipts for FY2023/24 so far are £2,832m, compared to £2,624m at this stage last year. This represents an 8% increase, showing Levy receipts continuing to rise. Comparably in the early years of the levy it raised £2,271m in FY17/18 and £2,713m in FY18/19.

Meanwhile the Department for Education (DfE) apprenticeship programme budget sits at £2,554, with a commitment in the last Comprehensive Spending Review to increase this to £2,700m by the end of FY 2024/25. In the absence of full transparency, it is estimated that the Treasury is now top-slicing over £500m before the allocation is made to England's apprenticeship budget and Barnett formula-based allocations are made to the devolved nations. **The Government rightly encourages business to invest in skills to power the economy, but business is not getting access to the funding it is paying for through the Levy.**

The apprenticeship budget is being spent, showing demand from business is there. Last year, figures published in response to a parliamentary question by Lord Storey have shown that the total amount of Apprenticeship Levy unspent and returned to the Treasury for FY22/2023 amounted to £96m.

In the prior year (FY21-22), 99.6% of the DfE's apprenticeship programme budget (£2,466m) was spent.¹ Business is ready to upskill, it need the government to match that ambition.

The original purpose of separating the apprenticeship programme budget from the Apprenticeship Levy was to provide certainty to the DfE and at the same time recognising that levy funds are also proportionally distributed to the devolved nations. However, it is now well recognised that there is a significant misalignment between the DfE apprenticeship programme budget, and Apprenticeship Levy receipts (even after devolution deals have been factored in).

Employers paying the Apprenticeship Levy tell us that they quite rightly want to be able to access an increase in apprenticeship funding – after all the levy was set up to fund high-quality apprenticeship training and assessment. Employers have concerns about the supply of apprenticeship training and their ability to access it and reducing choice – in an employer-led system this is a tough pill to swallow. With such a high proportion of the DfE's apprenticeship programme budget now being spent there is limited headroom to support much needed increases in funding bands due to affordability concerns.

¹ This included over £200m of employer incentive payments which were funded through the Plan for Jobs initiative as part of the Covid-19 recovery programme.

*Recommendation 1: AELP again urges HM Treasury to close the gap between the apprenticeship levy and the DfE's apprenticeship programme budget. **Extra investment in the DfE programme budget from the increased apprenticeship levy take. No need to increase the scope of the parameters of the levy itself, but ensure closer alignment between the budget and the levy.***

2. Focusing on the value of an all-age apprenticeship system

The apprenticeship programme budget is being spent. On average, over the last two years, 98% of the Apprenticeship Programme Budget has been spent. AELP believes that despite this, HM Treasury should resist calls to ration apprenticeship provision, whether limiting funding for various levels or ages. The Apprenticeship Levy should continue to fund an all-age-all-year apprenticeship system, as was originally envisioned in the government's vision for apprenticeships.

The modern economy demands a culture of lifelong learning. The typical individual is now likely to change career between five and seven times during their working life. This means the apprenticeships concept will be increasingly relevant for people of all ages as they change career, or develop their career, throughout their lives.

Recommendation 2: AELP again urges HM Treasury to maintain an all-age, all-levels, apprenticeship system.

3. Removing barriers to support for SMEs

Since the advent of the apprenticeship reforms, there has been a gradual tapering of employer co-investment required for smaller employers that do not pay the Apprenticeship Levy. The original trailblazer pilot required a significant 33% investment, this became 10% when the mainstream reforms began in April 2017 and the then Chancellor Phillip Hammond recognised the need to reduce it further to 5% in April 2019.

The current picture of participation by smaller non-levy paying employers with the apprenticeship programme remains extremely worrying. Prior to the introduction of the levy SMEs made up 54% of apprenticeship starts, this has reduced significantly since the introduction of the levy to 38% in 2019/20 with a small increase in 2020/21 to 41% of market share². Smaller employers face a range of significant barriers in terms of accessibility, and cost and are more likely to be time poor. Further stimulus is required to strip out as many of these barriers as possible to restore SMEs as the backbone of the apprenticeship system in England.

One of the successes of the previous Plan for Jobs was the deployment of incentives to support employers in recruiting new hires and training them through the apprenticeship pathway. Incentives can and do work, but the current £1k incentive for 16-18 apprentices is too narrow and not impactful enough. Instead, larger targeted employer incentive payments for SMEs who employ apprentices aged 16-24 should be introduced. This could mirror the incentive payments during the COVID-19 pandemic, where employers received:

- £3,000 per apprentice hired of any age.
- £1,000 extra for apprentices hired aged 16-18 OR under 25 and has an education, health and care plan or has been in the care of their local authority.

We believe this would encourage more opportunities and starts within this key age group as well as supporting employers with financial support to ease barriers that SMEs currently experience when employing an apprentice.

² "Apprenticeships in England by industry characteristics" <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-in-england-by-industry-characteristics#dataBlock-46dee684-e9d4-42af-a1bf-c8c666dee6bb-charts>

In addition, apprenticeship provision remains the only part of the education sector where 16-18 young people are not fully funded by the state. Ever since the start of the apprenticeship reforms which saw incentives for providers through increased funding priority and the removal of fully funded provision for employers, there has been a sharp decline in young people, and career starters entering the job market through the apprenticeship route. In FY17/18 there were 106,570 starts on 16-18 apprenticeships and just 77,720 in the last full year of published data in FY22/23, a decline of 27%. It is critical that barriers are removed, and appropriate incentives leveraged to reverse this decline in young people accessing the job market.

AELP believes that returning to a fully funded model for all 16-18 apprentices would be an important step to support reversing this decline. AELP also believes that funding 16-18 from the DfE's core 16-19 budget is more appropriate than funding this provision from the DfE apprenticeship budget. This would enable the funds that are freed up from the apprenticeship levy, to be made available for the removal of co-investment and targeted employer incentives that are proposed above.

Recommendation 3: AELP believes that HM Treasury should scrap the current 5% mandatory cash co-investment requirement and fully fund apprenticeships to support a greater number of smaller employers realising the benefits of apprenticeships moving forward.

Recommendation 4: AELP is calling on HM Treasury to fully fund 16-18 apprentices from the DfE's 16-19 core budget and introduce targeted incentives for apprentices aged 16-24 for SME employers and training providers.

4. Increasing social mobility through the skill system by aligning the different components more effectively

Functional Skills Qualifications

AELP was delighted at the government's commitment last year to increase the rates of funding for vital functional skills qualifications that are part of an apprenticeship by 54%.

Social mobility and the government's stretched ambition of an overall apprenticeship achievement rate of 67% by 2025 can be unlocked if the key barriers to functional skills qualifications are addressed. Functional Skills Qualifications are currently an exit requirement for an apprenticeship, leaving with thousands of apprentices occupationally competent, but stuck at the gateway stage as they cannot pass one or both of their functional skills qualifications. Bringing apprenticeships into line with A levels, making English and Maths functional skills a requirement of funding and not an exit requirement, would ensure HM Treasury transforms the apprenticeship experience for tens of thousands of learners, and gets the most out of its current investment in skills.

Additional Learning Support

AELP and its members believe that the requirements for providers on Additional Learning Support (ALS) is overly bureaucratic, and therefore hinders social mobility. Solutions include reducing the need to evidence each month of an ongoing reasonable adjustment, or making ALS an eligible cost and adding it to the funding formula for apprenticeships so it becomes an embedded element.

National Apprenticeship Wage

In terms of the wider policy landscape, with the possibility of the abolishment of the National Apprenticeship Minimum Wage (NAMW) on the agenda, whilst this would be beneficial for apprentices being paid this rate, many smaller employers will no longer be able to financially afford to be able to recruit apprentices. Therefore, the removal of the current requirement of a 5% employer co-investment would also cushion the impact of this policy change on apprentice pay were to be adopted.

The notion of co-investment has always been positioned as ensuring all employers have "skin in the game". However, AELP believes smaller employers already have significant skin in the game, by employing apprentices and releasing them to undertake their off-the-job training.

On lower-level and lower-funded apprenticeship standards, the 5% contribution in many cases is more costly to administer and collect than the financial value it brings to the provider. Therefore, the process becomes largely a meaningless bureaucratic and costly paper chase. Often impacting provider's ability to claim completion payments in a timely manner, in turn impacting the viability of provision.

Child Benefit for 16-18 year-old apprentices

Recent reports suggest the Chancellor of the Exchequer is considering extending child benefit by raising the earnings threshold. AELP believes that families with apprentices should be eligible for child benefit. Currently, families with apprentices are one of the only 16-19 education and training cohorts who aren't eligible for child benefit, on account of the earnings of apprentices. Extending child benefit to the families of apprentices would increase participation in apprenticeships and having a significantly positive impact on social mobility.

Recommendation 5: AELP is calling for Additional Learning Support to be made an eligible apprenticeship cost, enabling providers to fund diagnostic testing and ongoing support for learners in a less bureaucratic manner as IfATE would be able to incorporate this into apprenticeship funding band recommendations.

Recommendation 6: AELP is calling for Additional Learning Support to be made an eligible apprenticeship cost, so it can be baked into apprenticeship funding bands.

Recommendation 7: The Chancellor should extend child benefit for the families of young apprentices.

5. Investment in Adult Education Funding: including the adult education budget and skills bootcamps along with more flexible funding for all provider types

Over the last ten years, the investment in the adult education budget (formerly the adult skills budget: ASB) has halved from over £3bn to £1.5bn, of which around 60% is now devolved to mayoral combined authorities and delegated to the Greater London Authority (GLA).

With over 8 million adults without a level 2 qualification, 6 million adults without good levels of core English and maths and, according to the ONS, nearly 8.5 million adults economically inactive, there has never been more of a need for support for adults to reskill, retraining and be supported in transitioning back into the workplace. The recent ESFA non-devolved AEB procurement round for provision from FY23/24 onwards was again significantly oversubscribed with demand for funding outweighing supply availability. The commitment of additional funding for skills bootcamps in the Spring Budget earlier in 2023 was most welcome.

AELP is calling for greater flexibility in funding for both AEB and Skills Bootcamps. As part of the funding and accountability reforms, we welcome moves to instigate longer contracting periods and funding flexibility between funding lines was a major step forward. However, disappointingly it was only FE Colleges in scope. Such flexibility to allow providers to have the confidence to invest and offer a broader array of provision and such flexibilities should apply to all providers, including procured contract winners and independent training providers. On Skills Bootcamps the programme outcomes are too narrow and do not properly recognise positive sustainable and high-quality outcomes when learners drop out early into employment or achieve outcomes in sectors or roles that are not 100% aligned to the boot camp programme.

Recommendation 8: AELP is calling on HM Treasury to double the current investment in the adult education budget to reverse the previous decade of cuts and erosion. Funding flexibilities on contracting terms should be applied to all providers and a broad set of outcomes for skills bootcamps are required to incentivise and reward providers where the training provided achieves positive outcomes as a direct result of that high quality training.

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About AELP

The Association of Employment and Learning Providers (AELP) is a national membership body, proudly representing its many member organisations. AELP members support thousands of businesses and millions of learners in England by delivering a wide range of training, vocational learning, and employability programmes.

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