

London Assembly Investigation into Apprenticeships

Background Briefing for the GLA Economy Committee:

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1. Purpose of this briefing note

This briefing note addresses the following questions:

- Why are the number of apprenticeships falling in London when we are experiencing sustained/rapid job growth?
- What issues/barriers affect SME engagement and the employment of apprentices?
- What impact do we predict the Richard Review having on apprenticeship volumes in London?
- What can the Mayor do to positively influence the take up of apprenticeships for the remainder of his term of office and beyond?

2. Summary

Providers view the planned changes by Government to apprenticeship curriculum, funding and regulation (the Richard review) as a strategic gamble - if it goes wrong it could lead to a significant decline in the overall number of apprentices in London.

Whether this is a gamble worth taking depends on your position on the current apprenticeship offer.

The Apprenticeship provider view in London is that we support:

- curriculum reform that gives employers influence, flexibility & choice,
- a simpler regulatory framework,

but

- we oppose the introduction of tax credits as an unnecessary performance risk.

In essence we believe the Government is confusing the means (money) with the ends (more and better apprenticeships).

The Mayors target of 250,000 apprentices will not be achieved in his current term of office without concerted action. Volumes are in decline and the 'run rate' of new apprentices is falling.

The question we attempt to answer is what options are open to the Mayor to drive up volume and outcomes.

3. Overview of performance – the provider perspective.

In London, apprenticeship outcomes outperform many other publicly funded employment and skills programmes – the system obviously isn't broken, it can be improved upon, but the frustration is we have insufficient demand from employers.

Apprenticeship providers have been portrayed in the media as 'part of the problem that needs fixing' but the evidence suggests that London has a vibrant and competitive offer. The key points to note are:

- Ofsted reported in 2013 that 80% of apprentices in London are trained by apprenticeship providers classified as 'good' or 'outstanding'.
- Over 70% successfully complete the training (close to the national average), but significantly in London 91% according to BIS achieve a positive progression with employment & promotion, self-employment, and access to further/higher education.
- The key difference in London compared with all other English regions is that over 100 independent providers deliver over 80%+ of total volume.
- FE Colleges drawdown 31% of funding but outsource over 50% of volume to third party subcontractors. This makes supply chain management of critical importance to growing London's capacity to deliver.

London has evolved into a highly competitive market reliant on many small privately owned family businesses, 'not for profit' organisations and locally based charities. The Mayor is dependent on this 'eco-system' of independent provider organisations to deliver his target. They need to be engaged and supported by policy makers to make this happen.

Current operating issues that affect providers ability to deliver are:

- System management failures by the Funding Agencies have left providers unsure if they are on budget and will get fully paid for work done in the current year. The longer this drags on the more uncertain the future.
- The operating margin in London for many providers is in decline, the downside of this is that overheads are being reduced, and investment is on hold at a time when they are being encouraged to grow capacity.
- Providers are increasingly risk averse to both employers and individuals given the consequences of any performance shortfall (SFA contracts) and quality failure (Ofsted inspection) to 'take a chance' with an apprentice.
- Provider's increasingly mediate between the employer and apprentice tackling sensitive issues such as time off for learning, pay and conditions, and tackling

discriminatory practices. These are significant unseen time/cost issues in London particularly for SME's.

The promotion of apprenticeships in London critically relies upon the expertise of NAS. If they didn't exist the London provider view is that they should be invented.

But NAS is being absorbed organisationally into the SFA, with a loss of up to 40% of headcount. Our mutual aim is to ensure that there is sufficient operating capacity and technical leadership in NAS at a critical period of promotional activity and system transition in London.

The full effect of the Government's planned changes will take effect after the current Mayors term of office. However the planned rollout does have potentially significant implications for the next 2.5 years.

4. Why are the number of apprenticeships falling in London when we are experiencing sustained/rapid job growth?

On the face of it the Mayors policy aspiration of 250,000 new apprenticeship starts should be tough but achievable. Logically apprenticeship volume should be increasing but the volume 'run rate' of starts is in decline.

Why employer demand for labour restricts the take up of apprenticeships

- Over 50% of all jobs now require graduate or postgraduate level qualifications – with up to 30% of all UK graduates annually competing for work, but London has very few higher-level apprenticeships currently less than 3% of the total.
- Whilst at the 'bottom end' close to 30% of jobs require little or no long-term commitment to skills acquisition. Firms in general do not over train and 75% of all London's apprenticeships concentrated in three sectors: retail, care and business admin.
- The so-called middle ground of jobs requiring intermediate skill levels (Level 3) is being squeezed out either by explicit job design or reduced employer expectation. This is the key area that Government aims to target the future in apprenticeships with the Richard Review.
- The fragility of the apprenticeship offer was exposed when the Government introduced loans for Level 3 apprenticeships for individuals aged over 24 in April 2013 - this assumed over 20,000 applicants. Government is now abandoning this with less than 500 applicants after 8 months. There is an almost complete market failure for the product where previously there was widespread take up.
- EU nationals are a significant competitive alternative for employers and can provide a flexible and relatively risk free recruitment solution when compared to employing local under qualified labour.

How the supply of labour is constrained by the current system of education?

When employers choose the apprenticeship option they often find themselves 'fishing' in a relatively small talent pool.

- Schools increasingly use the RPA legislation as a 'staying on at school' policy and careers IAG is weak and fragmented.
- 95% of all public funding for 16 -18 year olds (academic + vocational) is directed to 500+ Schools and 40+ FE Colleges who compete ruthlessly (with each other) for the same cohort. This restricts the supply of relatively high achieving 16-18 year olds into apprenticeships thereby frustrating employers.
- The key barrier for the individual to progress into a Level 3 apprenticeship is the ability to pass English and Math's. In spite of the great progress made by London's schools close to 35% of all 16 year olds do not have a C in both English and Math.s. This is the greatest single barrier to securing a good job with training after leaving school/college.
- The introduction of University fees has opened up public demand for employment led routes into higher education. This demand for a progression based apprenticeship offer for 18 year olds is currently reliant on a few large employers who offer insufficient vacancies.

5. What issues/barriers affect SME engagement and the employment of apprentices?

SME's are believed to employ over 70% of all apprentices in London. In effect they carry the Mayors policy aspirations. Business recruits an apprentice because they have a vacancy – apprenticeships are not a scheme like work experience.

Essentially:

- Most SME's choose the apprentice option because they are sold the proposition on the first occasion.
- Large employers already have the option of taking a contract with the SFA but rarely do so.

Advertising campaigns are critical for awareness raising either by NAS, the Mayor and/or the Evening Standard. Apprenticeship providers convert the referral lead and often supply the employer with suitable labour through the NAS vacancy matching service.

Generating the lead by NAS and converting the referral by the Provider are the critical processes for securing a return on investment in promotion and advertising. Apprenticeship providers are then accountable for all delivery/performance risks.

The key points are:



- Businesses tend to recruit apprentices in 1 & 2 's, so business size is secondary to scalable volume. This is the single most important measure to determine the effectiveness of public policy - successful outcomes and repeat business. The latter point is critical to sustaining long-term scalable volume. Once a business has had a successful experience employing an apprentice they tend to recruit more but are only rewarded for market entry not growing the volume.
- London is the most expensive place in the UK to deliver work-based learning, and SME's carry the highest cost of delivery and performance risk for the Apprenticeship provider.

As we know SME's encounter specific problems in London when recruiting an apprentice, namely:

- The quality and range of individuals applying.
- The internal business cost & consequences can overwhelm the business.
- Incentives do not reward performance.

Businesses are frustrated that:

- Competing publicly funded offers exist - such as the Adult skills funded provision, DWP work programme, Traineeships and work experience as part of current study programmes.

Critical strategic questions are how can businesses become informed customers, and how random is the selection of a training provider in an invisible market? It would be interesting to understand why employers in London do not employ apprentices – is it a lack of information, poor experience, or cheaper/easier recruitment options? Is the Government's rationale correct?

6. What impact could the Richard Review having on apprenticeship volumes in London?

Will the Richard Review empower businesses to expand the offer and drive up apprenticeship volume, or will the comparative cost and scale of risk lead to a 'withering on the vine' of the current offer?

The strategic risk is that the outcome of these changes reduces London's competitive apprenticeship offer and restricts individuals' chances of becoming an apprentice.

London provider currently assume a significant decline of volumes, with estimates ranging from a drop of 50% to 80% of existing provision.

We also assume new provision will be created but the overall net position is a substantial loss of volume based on a neutral view of funding per apprentice.

Last summer over 200 businesses replied to a major survey conducted by the LWBLA and by a clear majority they wanted to retain the existing system of funding apprenticeships.

If public expenditure is 'privatised' into tax credits then the economic cycle and business owners become the key drivers of public policy. Risk is transferred from a state regulated sector into a private marketplace.

The Government would have to accept that it has limited or no influence over the purchasing and distribution of outcomes. This system has been tried in only two OECD countries - Canada and Holland. It collapsed in Holland after two years in 2013 because the tax bill rose rapidly and outcomes declined.

This reform also raises broader strategic questions about the long-term role and impact of expenditure based programmes such as the adult skills budget, and the capacity of the state to intervene locally when different policy and funding regimes are in play for broadly the same customer groups. This appears at odds with the Mayors desire to secure control of the Adult Skills Budget. Providers would understand either delegate everything or nothing. The 'worst case' scenario is a mix of the two with differing strategies and disconnected funding models in play.

Providers believe the desire of business to recruit apprentices will therefore be driven by the following key considerations:

- The financial value of the tax credit.
- Scale and reach of the 'red tape', and
- Suitability & usability of the new qualifications.

Financial Value of the Tax Credit

The Government will set the level of tax credit. Everything flows from this.

- If the cash per apprentice is reduced the logical outcome is either a reduction in the amount of training delivered, or a reduction in the number of apprentices. It is very difficult to envisage a scenario where the funding per learner declines but volume, quality, and outcomes are improved.
- In view of the Government aim to ensure employers invest in their own training this could subtly reduce the cost to the taxpayer but creates a culture of 'cutting corners'.

The questions providers are currently thinking through include the following:

- Will the tax credit vary according to the size of the firm, the sector of training to be undertaken, and the location? The current funding formula critically includes a London weighting and additional learner support. If the Government opts for simplicity with a national average tax credit it may choose a single rate – in which case will London lose out - businesses will pragmatically decide if the cost/benefit is acceptable in such a high cost location.
- Will the total tax credit be capped by volume or total amount claimed, or is it on a 'first come first served' basis?
- How will EU state aid regulations apply to large firms?

- Fundamentally how much rebadging, displacement and 'deadweight' will tax credits generate?

Ethics

- In our survey of over 200 SME's in London businesses last year they raised the 'moral hazard' question:

"Why should large businesses that they compete with, who pay no/little UK corporation tax be entitled to the same tax credit just because it's the payroll?"

There is real anger from some SME's that they are put at a competitive disadvantage by the prospect of tax credits subsidizing operational business decisions of large firms. The corporate world of large employers see apprenticeships as either part of its CSR (corporate social responsibility) or as an explicit part of its HR strategy.

- The later point gives rise to the allegation of 'deadweight training' – large businesses would have done it anyway.
- So would existing employees eligible or only new vacancies?

Trade Unions are supporting the Richard Review in the belief that employer ownership of the training will improve working conditions & pay. We are unable to source any direct evidence to substantiate this view. Indirectly providers think that employers may well dilute the current mandatory obligations in place for an apprentice because the provider is unlikely to continue provide a mediating role.

Impact on Apprenticeship Providers

- Apprenticeship providers become suppliers of a service to business. For apprenticeship providers invoicing the customer shifts the current 'publicly funded 'cash positive' business model on a 'negative' cash flow. Apprenticeship providers who are most likely to weather this change are those with the 'deepest pockets' irrespective of quality and performance.
- The main fear in London is that competitive providers engage in a price-cutting 'race to the bottom' as employers will purchase the training.
- Currently there is no VAT to the delivery of Government funded training but tax credits will see the introduction of VAT. Will this lead to a leakage of funding meant for training?

Red Tape

SME's generally oppose all forms of bureaucratic 'red tape'. The scale and reach of any regulatory impact on business will be the central policy question that determines whether business will buy into the concept of a tax credit.

The questions being raised by providers to be covered in the technical consultation in the Spring of 2014 are:

- How much information will the employer supply to HMRC on the apprentice and their progress?
- What evidence trail will be required to drawdown the tax credit, if the training is internal to the business how is the cost authenticated?
- Will there be benchmark performance rates that Government expect to see achieved within the funding envelope to demonstrate that the tax credit has been used for the stated purpose?
- How will complaints be managed and resolved, particular from the perspective of the apprentice?
- Will safeguarding legislation apply to 16-8 year olds in the workplace ?
- Will Ofsted inspect business that recruit a significant volume of apprentices?

It is assumed that HMRC will support up to 200,000 business customers who remain largely invisible to public agencies and Local Authorities..

This raises the question of system risk, cost, and accountability compared with managing 600 regulated apprenticeship providers.

Curriculum change - introducing Occupational Standards

The Governments key message is 'rigour' when agreeing the new occupational standards.

We are at the outset of a debate on how the standards will be delivered – at this stage none have been agreed, and providers are pragmatically seeking assurances that these new standards will be tested and evaluated before the switch in funding.

There are the current issues that drive provider thinking in response to the new apprenticeship 'trailblazer' design process:

- Access & entry requirements – will the minimum entry requirement stipulate a grade C in both Math's and English in all sectors? If the Government enforces this then in London up to 60% of the current volume is under threat. The tighter the entry requirements the fewer the applications, the smaller the pool for employers to fish from. The unintended consequence of this policy is that it becomes socially divisive, coupled with the fierce competition for A level students this further reduces the 'talent pool' for employers to recruit from.
- If employers can recruit an apprentice without Math's and English will they then be responsible for ensuring the apprentice passes the English and math's as part of, or outside of the apprenticeship standard? If it has to include Math's and English to achieve the standard - are the performance/accountability risks acceptable to the employer? Many employers react negatively to paying for or, being accountable for, what they describe as 'remedial education'.
- On the job and off the job training – will the trailblazers require new qualifications to be designed or will it be a 'pick and mix' of existing qualifications according to

the employers requirements? If it's the latter it opens up the question of simply putting 'old wine in new bottles'. Whatever the outcome providers want time to test and fine-tune the delivery models.

- End testing – a key design innovation, but when is the end 'the end' when the employer can flexibly mix the delivery of training. This may seem an obscure point but from a quality assurance perspective the end tests may mean different things to firms in the same industry generating variable pass rates.
- Progression – once the apprentice has successfully completed the apprenticeship how do they progress to higher forms of qualification? The key strategic risk with the new standard is a lack of recognition out side of the business & sector. This issue drives the 'use' and 'esteem' value of the apprenticeship. Will professional bodies and Ofqual approve these new standards? If not, does this expose a risk that Head Teachers will not recommend a learning pathway that has no visible progression route.

Impact of curriculum change on Apprenticeship providers

Providers are assuming an unprecedented level of internal investment will be required over the next 5 years to upgrade staff to be capable of meeting the new standards.

Providers assume that there will be extensive market testing and modifications made where necessary in advance of the new funding system being introduced. The LWBLA believe this to be a fundamental requirement to minimise the risk of product failure.

7. What can the Mayor do to positively influence the outcome of this debate?

These suggested recommendations are a blend of the strategic and the practical.

Richard Review

The Mayor could consider:

- Requesting HMRC/Treasury to provide an impact analysis of switching to tax credits in London.

and

- Lobby to ensure the value of the tax credit does not disadvantage London when compared to the current system of funding per apprentice.
- Seek reassurance that SME's will not be disadvantaged from the switch in policy.

Increasing apprenticeship take up in London

The following suggestions are designed to make a substantive difference to the apprenticeship offer in London over the next three-year time horizon. Many have a nil or small cost – but what they do require is leadership, commitment, and strategy from the LEP.

These are our suggestions to the GLA economy Committee:

Nil Cost:

- *Expertise* - The LEP Membership – the Skills and Employment sub group does not have any provider whose core business and expertise is apprenticeship delivery. The LWBLA recommends an apprenticeship provider/representative to join the Skills and Employment group.
- *Universities* - Invite Universities to meet with the Mayor to agree a targeted plan with NAS for higher-level apprenticeships in London, in partnership with FE Colleges and independent providers.
- *NAS* - Ask the SFA to provide a quarterly regional analysis of trends and business take up by size, sector, and location. Strategically confirm that the NAS can continue to provide key activity and support infrastructure to 2017 with an agreed resource and service offer.
- *Supply chain* - Create an internal task group within the GLA 'family' of statutory bodies to showcase a commitment to recruit apprentices through supply chain procurement contracts.
- *Link to economic development* – work with Boroughs to introduce a standard condition of numeric apprenticeship opportunities to be advertised through the NAS AVS for all major regeneration and physical developments.
- *LEP Growth Fund* – ask the LEP to agree to contractually binding 'stretching' targets for apprenticeship volumes with any provider who seeks capital investment funding through the LEP.
- *Thank businesses* - The Mayor can write to employers to congratulate the recruitment of apprentices and host a reception at City Hall for employers & providers.
- *ESIF* - Maximize the opportunities to use ESF programmes to support employer engagement by targeting SME's collaboratively with London's Apprenticeship providers.

Low cost:

- *Informed business customers* – Help SME's in London by creating an online 'one stop shop ' for all of London's public funded skills and employment offers with the relevant Agency & provider support.

- *Establish a Financial Services task team* to draw up a procurement plan for delivering apprenticeships in Financial Services industry with an emphasis on SME support.
- *Foster provider collaboration* - Use the recent LEP Skills Summit to design and consult on a three-year skills strategy with apprenticeships and employer engagement at the heart of it - do this jointly with the LWBLA and AoC.
- *Apprenticeship advocacy* - Bring together & coordinate the apprenticeship ambassador networks – employers, apprentices and providers to ‘sing from the same hymn sheet’ with the Mayor and NAS.
- *London has 40,000 16-18 year olds who are either NEET or ‘not known’* – they could be anywhere. The Mayor should work with Boroughs to set benchmark targets for the NEET and ‘not known’ 16-18 year olds with a public action plan involving all schools and providers to promote apprenticeships.

With a budget of up to £10m. what could the Mayor/LEP achieve?

In essence we would recommend the following ideas as possible projects designed to procure new apprenticeship volume in key sectors and locations. This is designed to reverse the declining ‘run rate’ of apprenticeship starts, and build a long-term pipeline of employer commitment to recruiting apprenticeships through a combination of sectoral investment and spatial targeting.

Sectoral Investment

- *Reward SME recruitment* – assess the risk and return of rewarding performance outcomes for all SME’s - say for every 5th successful outcome in a 12-month period reward the employer with a grant.
- *Establish an apprenticeship investment fund* in technology-based sectors such as digital media, IT software with leading expert providers.
- *Establish an investment fund* for a University led higher-level apprenticeship offer in STEM subjects.

Spatial targeting

- Offer SME’s who are tenants of commercial & industry landlords in the outer London boroughs’ who have a declining indigenous workforce targeted n apprenticeship recruitment grant.
- Offer a local High St. recruitment package for independent retailers in local regeneration areas.
- Design an investment package for promoting apprenticeship recruitment amongst Care employers.
- Reward employers with a recruitment grant who employ apprenticeships in the Enterprise Zone and Business Improvement Districts.

- Target the 10 highest welfare dependent Boroughs in London.

Finally on a strategic note:

Consider commissioning an enquiry into the future of vocational learning in London for the following reasons:

- As the OECD have noted 80% of all funding for vocational learning in England is delivered in the classroom, with less than 20% in workplace.
- This strategic imbalance that holds back London's residents from maximizing career and employment opportunities. The outcome is higher welfare costs and a sharp rise in unemployment from the age of 19 onwards. This can be tackled if we rebalanced the vocational offer in London.
- Colleges of Further Education in London face an unprecedented financial squeeze with the combined effect of budget reductions planned for the adult skills budget over the next 4 years, funding for 18 year olds being reduced by 17.5% in 2014, and the cash deficit business model created by tax credits for apprenticeships in place from 2016 onwards. It is unclear how many FE Colleges can survive and what impact this could have on London's vocational learning offer.
- Finally vocational curriculum reform is increasingly complex and runs the risk of creating a dual market: regulated and unregulated qualifications that the neither the public nor employers in London understand when compared to academic alternatives.

I would like to personally thank the Economy Committee for the opportunity to set out the LWBLA perspective on the future of apprenticeships in London.

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