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| Monday 05 September 2016 |

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|  | Apprenticeship Funding Proposals |
|  | A response from London Councils |

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|  | London Councils represents London’s 32 borough councils and the City of London. It is a cross-party organisation that works on behalf of all of its member authorities to make the case for powers, freedoms and resources to best serve the needs of London’s residents and businesses. London Councils welcomes the opportunity to comment on the Government’s apprenticeships funding proposals. |  |
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# 1. Funding Bands

London Councils supports the principle of introducing new funding bands to help with consistency and aid business in negotiating better prices with training providers in some areas. While it is important to ensure that public money is spent appropriately and the taxpayer receives value for money, it is also important to ensure that undue burdens are not placed on business and the quality of apprenticeship provision is maintained to a high standard.

However, we are concerned about the way the government is proposing to calculate the new bands. The proposed upper limits take no account of the current additional funding for 16-18 apprentices, the disadvantage uplift for an apprentice living in a deprived area, or the Area Cost Adjustment (ACA) provided to London and the South East, all of which would have a significant effect on apprenticeship provision in London.

London has previously seen an Area Cost Adjustment (ACA) applied across all adult skills provision, including 16-18 and 19+ apprenticeships to reflect that the cost of establishing an apprenticeship in London is higher than in other parts of the UK.

An Area Cost Adjustment ensures that differences in the cost of providing services between regions are fairly reflected in funding allocations. Without an adequate ACA, London would not be able to access the same level of resources as the rest of the country or provide an equivalent level of service. Staffing costs vary significantly across the country. Wages are much higher in London, driven by the cost of living and particularly the higher cost of accommodation in the capital. It is essential that the area cost uplift is maintained.

The removal of the disadvantage uplift is also significant and has the potential to harm the social mobility agenda. This will be particularly acutely felt in deprived areas of London where both this uplift and the ACA were applied. There is a serious risk that this formula will place apprenticeship frameworks in bands that fail to properly reflect the costs of providing courses, particularly in London, leaving employers liable to pay substantial additional costs, or significantly fewer apprenticeship starts. This is a situation that could be exacerbated further in London, due to the demand for higher-level skills, which are more expensive to deliver. The additional £1,000 payments to cover additional costs for 16-18 year olds are welcome, but will not be sufficient to avoid this problem. Recent analysis published by FE Week indicates that for an apprentice living and working in the most deprived area in central London, the government’s proposed changes would lead to a funding cut of 52%[[1]](#footnote-2).

We are also concerned about the impact that these changes may have on some frameworks important to London’s economy – specifically health and social care, hospitality and catering and business administration. According to recent modelling from Learning & Skills, Events, Consulting & Training[[2]](#footnote-3) (LSECT) these frameworks would see a reduction in funding ranging from 41%-54%.

# 2. Co-Investment

London Councils supports the principle that the funding accumulated through the apprenticeship levy should include supporting smaller companies who are non-levy payers. This is essential if the government is to meet its target of creating 3 million apprenticeships by 2020, and was a position supported by London Councils in our previous consultation submission on the levy.

However, the requirement for employers to co-invest, alongside finding and part-paying a training provider represents an administrative burden which could create an additional barrier to SMEs recruiting new apprentices.

Requiring employers to pay their co-investment share directly to training providers rather than through their digital account will add to this burden. If it is impossible for the government to implement a system to allow this in the first year, it is important that they set out a clear timetable for how they intend to deliver this at the earliest possible opportunity.

While we recognise that the model proposed by Government is designed to place more control in the hands of employers, the approach implies that all employers have sufficient capacity and knowledge.

Greater financial control for employers could provide the incentive to work more closely with providers to shape provision. Giving employers the flexibility to procure specialist external training that is over and above what would have ordinarily been delivered will help mitigate the risk of deadweight (i.e. government subsidising training that employers would have delivered anyway) and bring greater value to apprentices and the public purse.

This approach would be suitable for the 22 per cent of employers who already make cash contributions for apprenticeships. However, for others, it will create additional challenges within the apprenticeship system. Most notably:

* **Additional administration** – Employers have expressed concern at the perceived level of bureaucracy within the existing apprenticeship system and the demand on resources. The proposals would involve additional bureaucracy, through a reporting mechanism, which will be an additional cost to businesses. This is likely to be an additional barrier to entering the apprenticeship system, particularly for small businesses with limited capacity.
* **Negotiation with colleges and learning providers** – The government’s proposals would bring, potentially, many tens of thousands of employers into the funding system for the first time, with limited or no experience of the apprenticeship system. In such cases, it would be difficult for employers to determine a fair price for training by local providers as well as judge what constitutes good or excellent training. In addition, employers may not have the resources or the inclination to enter into multiple negotiations/brokering deals with training providers.

Information on the return to the bottom line of apprenticeships and costs and funding should be provided by government and worded in language which highlights the value for money employers are getting above other courses. For example, the cost of the apprenticeship should be given alongside the amount of funding the government is putting towards it, to enable employers to see that these programmes are more cost effective.

Given the importance of SMEs to the London economy, they represent a significant vehicle to offer new apprenticeship opportunities. An on-going dialogue needs to be established between the government and employers to ensure that the proposals for co-investment are workable, do not place an additional drain on resources and add additional and unnecessary administrative burdens.

Allocating a proportion of the levy to support small businesses to overcome the barriers outlined above and make use of resources available through the levy would also be welcome. This support should be available at a London-wide and local level.

The government’s ambitions for apprenticeship growth will not be met without building the capacity of and raising the quality of the provider base to ensure apprenticeships are employer and learner focused and use available funding in more innovative ways to support growth needs. In particular, providers have on the whole been slow to embrace Higher Apprenticeships and Traineeships. Indications are that some providers will need support with business development and commercial awareness in any new funding system.

# 3. Additional Payments

**Training Younger Apprentices**

In our previous submission on the apprenticeship levy, London Councils called for apprenticeships for 16-19 year olds to remain fully funded, particularly given the government requirement for all young people to remain in education and/or training and the need to urgently address high youth unemployment in England. While we welcome the recognition from government that there are additional costs associated with training 16-18 year olds, we are concerned, as outlined in section 1, that the overall changes that are being proposed to the funding bands will lead to significant cuts in funding rates in London. While we understand the government’s desire to simplify the system, it is important that any changes do not disadvantage areas, reduce opportunities or discourage recruitment.

It is also important to ensure that young people actually take up the opportunities offered. This requires young people to be given the right guidance at the right time to make them aware of all post-16 options, including apprenticeships, to enable them to make an informed decision. Anecdotally, London boroughs are reporting a drop in the number of young people taking up apprenticeship opportunities across a range of different sectors. London local government, as outlined through the publication of London Ambitions, has stated that every young Londoner should have access to impartial, independent and personalised careers education, information, advice and face-to-face guidance in their local community.

Councils, developers and employers already face difficulties attracting interest from residents for apprenticeship roles. With employers wanting to ‘claw back’ payments made through their levy contributions there will be increased demand for apprentices. More needs to be done through the National Apprenticeship Service to promote apprenticeships, not just through schools but with parents and a wider demographic to change perceptions of apprenticeships being age restricted.

**Support for Care Leavers and those who have an Education, Health and Care Plan**

The proposals on providing £1,000 to employers and providers to help with additional costs and for the government to pay 100% of the training costs for smaller employers with fewer than 50 employees are welcome.

Getting vulnerable people into an apprenticeship can be extremely rewarding, but it is typically more expensive when compared to other cohorts of young people. Boroughs have estimated that the unit cost per starter for getting a person into an apprenticeship could vary from £1,500 to £5,400 depending on their level of need. Clients with more complex needs risk not receiving the necessary support to bring them closer to the labour market due to the cost and time involved.

While the government’s proposals provide some incentives for employers to take on apprentices from some vulnerable backgrounds, there are vulnerable people who will not fall into the categories for which support is offered. As well as excluding vulnerable people with particularly complex needs, such as mental health problems, other vulnerable people will also be excluded on grounds of age, as the government’s proposals focus on 16-18 and 19-24 age brackets. Although the proposals to maintain the additional support for apprentices with learning or physical disabilities will help some of these individuals, they will not help everybody.

In London Councils’ view, the proposed government support does not sufficiently mitigate the wider risk that employers will focus on “quick wins” by rebadging existing training as apprenticeships or spending on cheaper, lower-quality apprenticeships, restricting opportunities for vulnerable individuals to benefit from an apprenticeship.

The government should consider developing an additional allowance to support employers to recruit and retain apprentices from difficult backgrounds, such as offenders or long-term unemployed residents to incentivise employers and support them with additional pastoral care and support needed.

**English & Maths**

London Councils supports the proposals put forward to ensure that everyone has a basic level of English and maths in the workplace. It will be important for government to keep the level of the flat rate under regular review to ensure that it continues to fully fund the cost of training up to Level 2.

**Learning Support**

While the proposal to continue providing the current level of support for training providers to cover additional costs for apprentices with a learning or physical disability is welcome, we are concerned that the guidance does not refer to the Paul Maynard taskforce recommendations[[3]](#footnote-4) on improving accessibility of apprenticeships for people with learning disabilities. Consequently we are concerned that any additional costs associated with the recommendations have not been factored into the proposals and funding bands.

As stated earlier, we are also concerned that the package of support proposed by the government does not go far enough to ensure that all vulnerable people are able to benefit from an apprenticeship.

# 4. Equivalent and Lower-Level Apprenticeships

It is important that all employers have sufficient flexibility within the system to ensure that they are able to fill skills gaps and ensure their employees are able to sufficiently benefit from skills training. We support the proposal to allow employers to use their digital account funds to allow eligible employees to undertake an apprenticeship at a higher level than a qualification than they already hold. This will also help in meeting the high demand in London for higher level skills.

The proposal to allow individuals to be funded to undertake an apprenticeship at the same or lower level than an existing qualification is also important. For local authorities who are undertaking significant transformation in the way they deliver services, it may allow them to retrain existing staff members in new skills as part of that process. It is important, though, that how this pathway is used is carefully monitored to ensure it doesn’t make it easier for employers to focus their spending on cheaper, low-quality apprenticeships for existing staff to recoup their share of the levy.

# 5. Directing Funds in a Digital Account to Another Employer

London Councils supports employers having the flexibility to decide if they want to spend their apprenticeship funding on training for apprentices that are not their employees, but the cap of 10 percent of the levy for this is too small to make a substantive difference. This is particularly important for London local authorities who have been extremely effective at using their supply chains to create apprenticeships, while some London boroughs are also outsourcing an increasing number of their services. Since 2009, a total of 3,215 apprentices have been recruited directly via London boroughs supply chains and a further 1,008 through Apprenticeship Training Academies (ATA).

If London boroughs do not have the ability to use the levy to support their suppliers to generate apprenticeships, this would have a detrimental impact on achieving the government’s overall apprenticeship target. Allowing larger employers to spend their apprenticeship funding on apprentices within their supply chain would also allow an industry wide approach to addressing skill shortages.

A number of London boroughs employ a large number of their apprentices via an ATA. If boroughs are only able to redirect 10% of their levy funds to an ATA from 2018, and no funds at all in the first year of the levy, then boroughs will struggle to sustain their current intake of apprentices. This will have significant effect on apprenticeship numbers and slow down progress on meeting the target of creating 3 million apprenticeships by 2020.

1. **6. Public sector apprenticeship target**

The government has still not announced the outcome of its consultation of the public sector apprenticeship target. Under the government’s current proposals, London boroughs will need to significantly increase their creation of apprenticeships. Since 2009, London boroughs have created 4,834 apprenticeships via direct recruitment. Under the government’s current target, London boroughs would have to deliver 4,674 apprenticeships per year – an increase of 577 per cent. The target as proposed is unrealistic for local authorities in London to deliver and is also based on a number of flawed assumptions:

* **Exclusion of supply chain apprenticeships** – The target omits the large number of apprenticeships created through local authority supply chains. A number of London boroughs are also outsourcing an increasing number of their services, so a change to including supply-chain apprentices in the target would put boroughs back on a level playing field. Generating apprenticeships through supply chains and contractors has a cost and time implication for local authorities. The combination of not including these apprenticeship starts as part of the public sector target and the limited scope for how the apprenticeship levy can be used in this area means that there is a high risk that this route to generate apprenticeships will not be fully utilised in the future. This will undermine progress on meeting the 3 million target.
* **Use of head count data** – The target should also be based on Full Time Equivalent (FTE) data rather than a straight headcount to provide a more accurate picture of the workforce in each organisation. Staffing structures also often include part-time employees or people working reduced hours contracts as well as full-time employees. According to London Councils’ analysis, for 2015, the headcount figure for all London boroughs and the City of London Corporation was 2,777 whereas the FTE was 2,457.
* **Inclusion of grant maintained local authority schools** – These should not be grouped with local authorities for the purposes of the target and should be grouped separately, like academies, and responsible for meeting their own target. Local authorities are not responsible for recruitment activities or decisions at these schools, yet including school staff in the headcount increases the target that local authorities have to meet by approximately 50 per cent. This means that a significant proportion of a London borough’s target is not connected to organisations they have direct control over or procure services from. It would be more appropriate for the target to be based on local authority staff data that does not include maintained schools.

London boroughs are committed to increasing apprenticeship starts and opportunities and have a strong track record of supporting – and exceeding – apprenticeship targets. In 2009, London Councils and the London boroughs set a target to create 2,000 apprenticeships through direct recruitment and supply chains in the capital by 2012. This target was exceeded with a total of over 2,700 apprenticeships created and by 2015, 7,126 apprenticeships had been created. However, in order to capitalise on the existing activity in London, it is important that any stretching target is based on appropriate data and supported by all parties.

1. <http://feweek.co.uk/wp-content/uploads/2016/08/Business-admin-L2.pdf> [↑](#footnote-ref-2)
2. LSECT’s Nick Linford’s presentation at the For Skills event 18/08/2016 [↑](#footnote-ref-3)
3. <https://www.gov.uk/government/publications/apprenticeships-improving-access-for-people-with-learning-disabilities> [↑](#footnote-ref-4)