association of employment and learning providers

AELP Briefing Paper No. 6

# Apprenticeship Funding Proposals – The Evidence Base

### 1. Background

AELP has always supported continuous improvement to programme development. The Apprenticeship programme has been the most successful employer work based learning programme of recent years but we believe we can build on this success. However these changes need to be based on evidence. This paper sets out the current evidence base for change. The changes are being driven from an employer perspective but the evidence shows that most employers do not want the changes that are being proposed.

### 2. The Initial Proposals

The original proposals set out by Doug Richard were not based on any large scale survey of employers or other stakeholders in the sector. Prior to the report, there was no evidence of a drive from employers to take more ownership of the funding route. There had been evidence that employers wanted to be more involved in the training content of the frameworks but there had been no evidence that employers wanted to take responsibility for the funding directly. Satisfaction levels with the programme had never been higher with scores of 83% from employers and 88% from apprentices. The highest scoring elements were the services received from training providers. Issues of funding routes were never raised by employers in these surveys.

In its original funding consultation document released in 2013, the government put forward three options for funding routes: a direct funding through contracts, a PAYE system and a provider based system. In all of these options, the government included a mandatory cash contribution and a mechanism for the employers to agree a price for funding with the training provider.

### 3. Responses to the First BIS Consultation

The first consultation did not get a big response from employers. A total of 80 employers responded directly which seems to suggest that there was no demand or even interest in changing the routing of funding. This table from BIS shows the breakdown of responses.

| Respondent type (total number in brackets) | Direct Payment | PAYE | Provider Payment | Did not state a preference |
|---|---|---|---|---|
| Small and micro (32) | 2 | 3 | 16 | 11 |
| Medium (18) | 4 | 4 | 10 | 0 |
| Large (30) | 10 | 3 | 15 | 3 |
| Providers (138) | 4 | 3 | 119 | 16 |
| Others (148) | 15 | 16 | 53 | 85 |

The table shows that 61% of all employers that expressed a view preferred the funding to be routed through the training provider. Only 15% wanted to use the PAYE methodology which was the only option that survived to the next stage of the consultation. The route of funding that had the least support was the only one that the government retained for the next phase of the consultation.

If we include all stakeholders in the figures, then there were 277 responses from organisations that expressed a preference. 77% wanted to retain the provider based funding route. Only 10% preferred the PAYE route and 13% preferred a direct contract route. As we have said, only the least popular option survived to the next stage of the consultation. If we include all respondents (i.e. including those that did not express a preference), only 8% of respondents wanted the PAYE route. That does not appear to reflect any sort of drive from employers to take ownership of the direct management of the funding.

The AELP survey also showed that there was clear support for the provider based model from employers. The full details of the survey responses are included at Annex 1 of AELP's response to the original funding consultation.

AELP received 243 full responses of which:

- 45% were providers (ITPs, Colleges, LA, third sector, etc)
- 54% respondents were employers (36% of which are SME employers – under 50 staff)
- 1% other

- 77% do not think any of the three options will improve the funding system.
- 72% of employers do not think any of the three options would improve the funding system.

- If respondents had to choose one option, 88% would go for option 3; 10% would choose option 1; 2% would choose option 2.
- 83% of employers said they would choose option 3; 14% said they would go with option 1 and 2%[1] chose option 2!

**4. BIS Survey Evidence**

In March 2014 the government also released some research papers that looked at the issue of funding routes. In BIS Research Paper No 161 'Employer Routed Funding', the findings highlighted that it was very difficult to get a coherent employer view because employers and sectors were very different. As a result there was no single view of what employers wanted and indeed some employers were very clear that direct funding would become a barrier to their ongoing involvement in the programme. The BIS paper stated:

***Employers' views on employer routed funding***

[1] For simplicity, these figures have been rounded to the nearest percentage point so will not always total 100%.

*Employers were split on whether or not they wanted funding routed through them. Some welcomed the idea because it would allow them to obtain greater influence over the provider. This was not in order to influence the content, delivery and assessment of Apprenticeships – as noted above most felt they had the influence they wanted - rather it was to ensure that the quality of service provided to the employer was of the standard they wanted.*

*Other employers were resistant to the idea of funding being routed through them because of concerns over the amount of administration involved, concerns about the complexity of any system which may be introduced, and the risk of reputational damage should something inadvertently go wrong in managing public money.*

It is clear from this extract and the further details provided in the paper that there is no drive from employers to manage funds directly. Many of the employers that responded positively to direct funding already get their funding directly from government within the current system so it is not surprising that they support the continuation of the current system. So does AELP; in fact we would extend that system of choice to many more employers.

The research paper goes on to consider the issue of mandatory cash contributions from employers. The evidence from this analysis suggests that the engagement of many employers will be affected by these contributions. Employers already recognise the cost of delivering an Apprenticeship in terms of recruitment, salary costs, time off the job, training support and provision of equipment etc. Cash contributions would affect many employers once the level of contributions was over 20%. The BIS paper stated:

*In summary, the tipping point at which employers will substantially reduce their engagement in Apprenticeships lies between 20 and 50 per cent contribution. From the discussion with employers this feels as if it will be nearer 20 than 50 per cent.*

The evidence from the government's research is very clear that employers having to make cash contributions will have a negative effect on the involvement of employers, especially SMEs. More and more employers are now making cash contributions to training (nearly 40% in some sectors) and all employers have to make other contributions to the costs of training. It is clear that employer commitment can be grown without enforced cash contributions.

The BIS Research Paper No 162 'Employer Influence on Apprenticeships' sets out a number of issues based on a limited number of interviews. The findings were clear that there was no clear drive from employers in terms of wanting or needing more influence over Apprenticeships nor was there any evidence that the routing of funding was currently an issue. The paper noted:

*Not all employers wanted to influence their Apprenticeship training, and the main reason for this was that they were already satisfied with it and saw no need to get any further involved.*

In terms of the control of funding, it was clear that there were no strong views from employers. The paper stated:

*We asked small employers if they were to have more direct control over the government portion of Apprenticeship funding. SMEs' views were essentially mixed, with three different segments emerging from the research.*

The views of employers varied and tended to reflect the satisfaction of delivery. In other words, those that did want control were normally those that had not had a good experience with their training provider. We would agree that the service from providers can be improved but the funding route is not the best route to fix quality. When asked about greater contributions, employers had a clear view that it would have an impact on take-up. The BIS paper stated:

> *When asked about the potential impact if employers had to make a greater cash contribution to the cost of Apprenticeships, most of the SMEs we interviewed felt this would encourage them to be more vocal with their training provider if they were dissatisfied. At the same time, almost all of them said that having to pay more would mean they would have to recruit fewer apprentices or stop recruiting them altogether.*

It is clear from the Government's research that the risk of losing employer engagement by increasing cash contributions is very high. Some employers did support direct funding but these tended to be the larger employers that already had a direct contract. This was recognised by the research and the paper noted:

> *However, unlike SMEs, this was a unique group of employers characterised by their ability to draw on large scale resources, who employed large volumes of apprentice learners across multiple Frameworks. Therefore, it is likely that SMEs would need additional support in order to reap similar benefits from an expanded Direct Grant funding model.*

> *Other SMEs [were] concerned that it would create new administrative burdens for little additional reward, in particular where they did not want any further influence and were satisfied with their existing provision. Notably, Direct Grant employers also highlighted the administrative complexity of Apprenticeship funding and voiced concerns that very small employers would find this model difficult to navigate, pointing to a need for further simplification. The majority of the SMEs we interviewed also remained reluctant to pay a greater cash contribution towards Apprenticeship training in the tight economic climate: an important consideration in light of reforms which emphasise the principle of employer co-investment.*

The paper concludes by putting forward some recommendations about how the system can be improved for SMEs without changes to the funding route, namely improved understanding of Apprenticeships, building SME empowerment and providing supportive brokerage and funding mechanisms. These suggestions reflect the recommendations set out by AELP and we would encourage a review of how this could be implemented to deliver the objectives of the Apprenticeship reforms rather than the current funding proposals which are not driven by employer demand and will put at risk the involvement of many SMEs. Further details about our recommendations on the way forward can be found in our Briefing Paper No 4.

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