AELP Submission: #116

Autumn Statement

October 2023

Summary

The Association of Employment and Learning Providers (AELP) welcomes the opportunity to make a submission to HM Treasury ahead of the 2023 Autumn Statement in November. Last month AELP published our Skills Means Growth future vision for the further education sector. 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 six specific asks from the Government in the upcoming Autumn Statement which in summary are:

1. ***Fair funding for apprenticeships: Closer alignment between the DfE's apprenticeship programme budget with the apprenticeship levy.***
2. ***Intervention to protect employer choice as a result of fast-emerging apprenticeship supply-side issues, causing gaps in provision.***
3. ***Support for SMEs through scrapping the 5% cash co-investment apprenticeship requirement.***
4. ***Prioritise the much-needed increase in functional skills qualification (FSQ) funding.***
5. ***Increased support for young people through fully funding 16-18 apprentices from the DfE's 16-19 core budget and increased incentives targeted at young people for employers and providers.***
6. ***Additional investment in adult education, including the adult education budget and skills bootcamps along with more flexible funding for all provider types.***

1) Realignment of the DfE's apprenticeship programme budget with the apprenticeship levy

Last month, 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 just under £100m. Despite this, the overall DfE apprenticeship programme budget increased in the last year to £2,554m and actual spending on apprenticeship training and assessment increased again.

In the prior year (FY21-22), 99.6% of the DfE's apprenticeship programme budget (£2,466m) was spent, however this did include over £200m of employer incentive payments which were funded through the Plan for Jobs initiative as part of the Covid-19 recovery programme. In the first five months of this financial year, the apprenticeship levy take has continued to increase, up by 8% (£123m) in the first five months compared to the same period the previous year.

The original purpose of a separate apprenticeship programme budget to the apprenticeship levy was to provide certainty to the Department for Education (DfE) and at the same time recognising 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 budget, and the levy take (even after devolution deals have been factored in).

In FY22/23 the levy raised £3,580m, with the possibility the levy could raise close to £4,000m in FY23/24, comparably in the early years of the levy it raised £2,271m in FY17/18 and £2,713m in FY18/19. 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 apprenticeship levy was set up to fund high quality apprenticeship training and assessment. Employers told us that 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 concerns regarding affordability.

Recommendation 1: AELP again urges HM Treasury to ensure a closer alignment of the apprenticeship levy and the DfE's apprenticeship programme budget.

2) Intervention to protect fast-emerging apprenticeship supply-side issues and gaps in provision

Whilst the commitment in the summer of the Institute for Apprenticeships and Technical Education (IFATE) to review 100 of the "most used" apprenticeships standards by December 2023 was much needed there is still a question of the scope and remit of the IfATE and the speed required to accurately review and update apprenticeship standards, assessment plans and associated funding bands.

Employers told us their main concern and perceived risk at the moment is the instability in the provider market, with providers going bust, withdrawing from offering apprenticeships in specific occupations or pulling out of apprenticeship training completely. One large retailer for example told us that they could not find a training provider willing or able to offer them a national retail apprenticeship offer.

A secondary concern we heard from employers was the current system of reviewing the apprenticeship product and the associated funding was simply not responsive enough. Some standards haven't been reviewed now for over five years, but furthermore, some standards get stuck in the review process also simply take too long to resolve. These standards are out of date and the funding available is in no way reflective of the true cost of delivery with well-documented increases in costs, especially staff cost, and a brain drain of occupational specialists returning to industry whose rates of pay are much higher.

With employers "hungry" for skills and apprenticeships, it is vital that demand can be supported. After all, the purpose of the apprenticeship levy is to fund that specific need, with a reduction much needed in the latent levy surplus being unallocated. AELP has called for the DfE apprenticeship programme budget to be more closely aligned to the overall levy take and for this to introduce a minimum funding threshold of £5,000 per year of delivery for all standards and an across-the-board increase in apprenticeship funding of 10% so payment rates more closely match the actual current costs of delivery.

The IfATE's apprenticeship funding model also still does not accurately recognise the true cost of delivery. Specifically, the "fixed inputs" in their funding model are based on legacy data from a pre-pandemic research project commissioned out to IFF Research. Areas which are out of date include a range of fixed inputs on cost such as administration, formative assessment and more critically one of the biggest direct costs which is delivery staffing costs where inflation has caused significant increases in all sectors.

Until this research is refreshed and a timelier process of funding reviews takes place, an uplift across all apprenticeships would be a suitable intervention which is much needed and needed now – and this would also follow similar approaches utilised in uplifting both the adult education budget rates and funding for 16 to 19 provision.

Recommendation 2: AELP urges HM Treasury to support the introduction of a minimum annual funding rate of at least £5k for all apprenticeships and a 10% uplift to the funding for all apprenticeship standards to ensure financial viability for delivery to protect employer choice - more decisive response until the IfATE funding model and process is updated and can expedite a review of standards in a timelier basis.

3) Scrap the 5% cash co-investment apprenticeship requirement to support 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 employers with the apprenticeship programme who do not pay the apprenticeship levy remains extremely worrying. Smaller employers face a range of significant barriers in terms of accessibility, and cost and are generally also 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.

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.

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.

4) Prioritise the increase in Functional Skills Qualification (FSQ) funding uplift

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

AELP has long argued that there should be no differentiation in cost for classroom-based and work-based functional skills rates. If anything, the cost of support in the workplace is higher than group delivery on a classroom-based model. Despite this welcome commitment to increase funding as part of the Maths to 18 agenda, there remain challenges on the suitability of reformed functional skills qualification content, assessment and wider policy on applicability – all of which AELP will continue to work closely with Ofqual and the DfE on.

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, with thousands of apprentices all but occupationally competent, but stuck at the gateway stage as they cannot pass one or both of their functional skills qualifications.

Recommendation 4: AELP is now calling on HM Treasury to prioritise the deployment of this change of funding rate for functional skills qualifications and that this funding increase is applied to apprentices already on the programme to ensure the funding uplift supports them to complete which in turn will help boost the wider apprenticeship achievement rate.

5) Fully fund 16-18 apprentices from the DfE's 16-19 core budget and introduce targeted incentives

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 77,520 in the last full year of published data in FY21/22, 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 and ultimately from the apprenticeship levy, allowing funds to be freed up and targeted at other areas.

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. Also recognising the cost of such investment, AELP advocates an incentive scheme that is targeted specifically at apprentices aged between 16-24 and supports employers and encourages provider behaviour to more actively seek out more opportunities for young people – again apprenticeships for young people are more weighted in the non-levy employer market.

Recommendation 5: 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 both employers and training providers.

6) Additional investment in adult education, 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, 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 6: 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.

About AELP

Members of the Association of Employment and Learning Providers (AELP) support employers in the delivery of 70% of apprenticeships in England, and 89% of skills bootcamps and they also deliver other publicly funded skills and employment programmes through engagement with 350,000 employers. The majority of AELP's 700+ members are independent, private, not-for-profit and voluntary sector training and employment services organisations with employers, universities, FE colleges, schools and end-point assessment organisations joining AELP in increasing numbers.

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