

The Future of
Apprenticeships in England:
Funding Reform Technical
Consultation –
Summary of responses

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The Future of Apprenticeships in England: Funding Reform Technical Consultation

Overview

The 2014 Future of Apprenticeships in England: Funding Reform Technical Consultation ran from 6 March to 1 May 2014. It explored the implementation of reforms to apprenticeship funding including two potential mechanisms for routing funding to employers: PAYE and the Apprenticeship Credit Model. The Government published an interim statement on the consultation in July 2014.

There was a total of 1,459 responses to the consultation, which was a considerably larger response than to the related 2013 consultation on apprenticeship funding principles. Employers were by far the largest group of respondents, accounting for over two-thirds of all responses, compared to a fifth of responses in 2013.

Respondents raised a wide range of points in relation to the proposals; however, there were two areas of broad concern. Firstly, despite the focus of the consultation being on implementation of the funding model, respondents were most interested in discussing their concerns about the overall funding principles, including employer cash co-investment. Views were broadly consistent with the response to the 2013 consultation. While many respondents supported the aim of raising the quality of apprenticeships, a significant number thought that the specific proposals could have a negative impact on employer participation in the programme.

Secondly, respondents also highlighted perceived issues with the two mechanisms proposed for routing funding to employers. Concerns widely raised in relation to both mechanisms included potential administrative burdens, negative impact on cash-flow and additional costs, especially for small employers. Respondents were keen that administrative burdens were minimised and there was support for thorough trialling of any funding model and mechanism to be taken forward.

At the time of the consultation the full details of the funding model, including the level of employer cash co-investment had not been published. This may have contributed to some misconceptions about the proposed reforms. It is also estimated that almost a quarter of responses were part of several campaigns associated with the consultation. These increased the volume of overall responses and also amplified the level of concern about the potential negative impact of the reforms on small employers.

Key points:

- Almost 75% of respondents stated that the Government's proposals to implement the new funding reform principles could have an adverse impact on employer engagement with apprenticeships
- Employers' main concerns related to a perceived increase in administrative and financial burden, potential adverse impact on cash-flow and a lack of capability to negotiate with training providers
- Large employers and business representative organisations were, in the main, the most supportive of the funding reform principles
- There was no clear preference for either the PAYE or Apprenticeship Credit payment mechanism - concerns relating to cash-flow and increased administration were mentioned in relation to both.
- The need to keep administrative requirements, such as data collection, to a minimum was consistently emphasised.
- Small and medium employers, in particular, were eager that intermediary organisations and training providers should provide administrative support to SMEs in implementing the funding reforms
- Provision of information on eligibility for funding, funding levels and information on training providers were identified as being critical to enabling employers to engage with the reformed system
- Providers stated that under an employer-controlled funding system, employers should be required to meet the same assurance/audit requirements as training providers currently
- Respondents suggested that the Government needed to pilot the proposed model and mechanism and further raise awareness among employers about the reforms.

Introduction

1. The Future of Apprenticeships in England: Funding Reform Technical Consultation ran from 6 March to 1 May, 2014. It generated 1,459 responses, a considerably larger response than the 2013 consultation on the principles of funding reform. This report presents the results of the analysis of the consultation responses.
2. The 2014 technical consultation sought views on the implementation of the proposed new funding model, including the implications of two different ways to route apprenticeship funding via employers:
 - employers deducting the Government contribution to the cost of training an apprentice from their PAYE return
 - employers paying for training via an Apprenticeship Credit account, which the government automatically “tops up” with its contribution.
3. The Government’s reform programme aims to ensure that apprenticeships in England are more rigorous and responsive to employers’ needs.
4. The initial Consultation on Funding Reform for Apprenticeships in England was launched in July 2013 and received 366 responses. It covered the key principles of the funding reforms. It also set out three potential options for routing funding through employers, including: a direct payment model, a PAYE model, and a provider payment model (which was the preferred payment model for half of respondents to the 2013 consultation).
5. Building on the 2013 consultation, the Future of Apprenticeships Implementation Plan was published in October 2013. It set the way forward based on clear, genuinely employer-owned standards, rigour in the assessment of competence, and restated plans to give employers direct control over the funding for the external training of their apprentices.
6. The basic principles underpinning the new apprenticeship funding model were announced in the 2013 Autumn Statement. The first new apprenticeship standards developed by employer-led trailblazers were published in March 2014, followed by a second set of standards published in August 2014.
7. The 2014 technical consultation was therefore part of an on-going process to develop, refine and test the constituent elements of the new apprenticeship system. It is important to note, though, that while extensive groundwork was undertaken in advance of the consultation, when it was launched in March 2014 details about the operation of the proposed funding model had not yet been announced, including the level of cash co-investment required from employers. This and other aspects of the funding model were announced in the “Future of

Apprenticeships in England: guidance for trailblazers” [document](#) published on 23 May, 2014.

Overview of respondents

8. Table 1 at the end of the end of this report provides a breakdown of the 1,459 respondents to the 2014 technical consultation. Two-thirds (67%) of respondents were employers, a significantly higher proportion than for the 2013 consultation (22%). There was a notably large response from small employers and micro-businesses, which accounted for nearly half (47%) of all respondents.
9. Even though there was a slightly higher number of education and training provider respondents in 2014 compared to 2013, the overall share of provider responses fell from around 38% to around 10%. This reflects the substantial increase in employer input to the second consultation.

Implementing the new funding principles

10. Although the consultation asked for respondent views on *how to implement* the funding principles, the vast majority of responses focused on debating the principles themselves rather than specific implementation considerations.
11. The objective of ensuring high-quality apprenticeships was generally supported by most respondents and across all types of respondent. There was significant opposition expressed to the implementation of cash co-investment. Almost 75% of respondents stated that the Government’s proposals to implement the new funding reform principles could have an adverse impact on employer engagement with apprenticeships. The specific reasons for this given by employers related to:
 - Perceived increase in administrative and financial burdens
 - Increased risk of cash flow difficulties
 - Lack of knowledge about training costs and a related lack of capability to negotiate with training providers.
12. Smaller employers were generally more critical of the new funding reform principles. Their responses often linked the principle of cash co-investment to uncertainty about actual funding levels, including the maximum level of the government contribution.
13. The unavailability of information on funding levels at the time of the consultation also influenced more general concerns raised about the impact of the reforms. It contributed to some misconceptions about planned implementation and may have led to certain assumptions being made about the reforms that did not reflect the actual proposals.

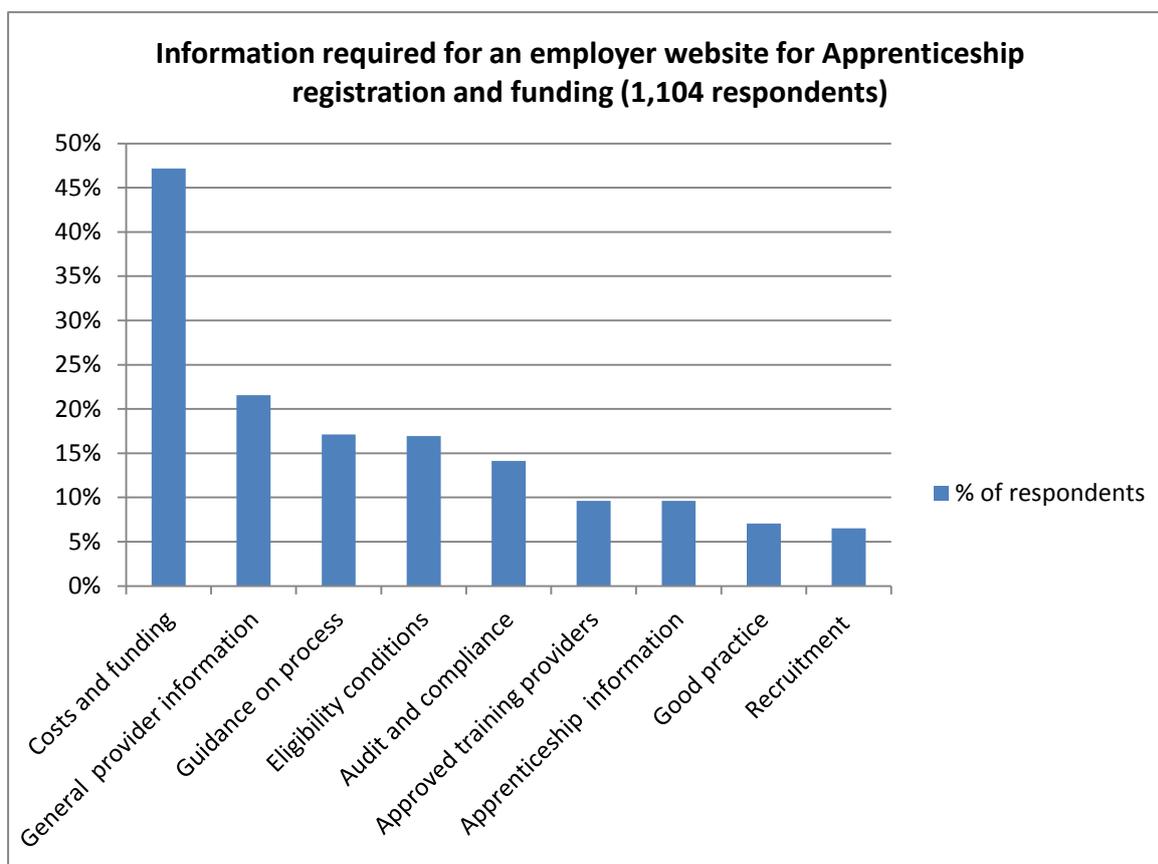
14. Concerns expressed about implementation of the co-investment principles were very similar to those emerging from the 2013 consultation. For example, the perceived size of the administrative and financial burden associated with co-investment was frequently mentioned by small and micro employers in 2013.
15. There was some support for the principles of employer control of funding, especially from larger employers. Some respondents mentioned having positive experiences of cash co-investment in practice.
16. The reasons for supporting cash co-investment were similar to those provided during the 2013 consultation. Larger employers, in the main, stated that co-investment presented an opportunity to increase employer engagement with apprenticeships and they welcomed the opportunity to have control over content and delivery. They also stated that cash co-investment could enhance the overall experience for the apprentice and ensure adequate supply of skills for the sector.
17. Few employer respondents explicitly rejected making any sort of contribution, although throughout the consultation this was generally couched in terms of groups of employers not wanting to pay more than they do now. It was also emphasised by employers that they currently cover indirect costs of training apprentices, including wages, in-house mentoring, staff support and mitigating the impact on day-to-day business. It was felt to be important that these costs should be taken account when considering co-investment.
18. Around 18% of respondents, generally employers and education and training providers, highlighted concerns around the ability of employers to negotiate and set prices with training providers. One of the main concerns raised, especially by smaller employers, related to a perceived lack of internal capability to identify and specify appropriate training. This was identified as a potential barrier to ensuring high-quality apprenticeships.
19. There were concerns from a range of stakeholders that this could lead to a “lowest cost” approach to selecting training providers, although it was unclear why this would necessarily be the case and this was not something that employer respondents generally felt that they would do themselves. On a practical level, it was felt that intermediary organisations, such as Group Training Associations (GTAs), sector bodies or trade associations, could play a valuable role in supporting employers to identify their needs, to navigate the purchasing process and to broker relationships with training providers.
20. Around 7% of respondents expressed reservations about the payment-by-results model, partly because they were unclear about the proportion of funding that would be retained. There was some confusion among respondents about what would constitute a successful outcome. There were concerns that linking some of the payment to outcomes could make employers less likely to take a risk on apprentices who may have additional support needs or who may be considered less likely to be successful.

21. In terms of additional financial support for employers, 20% of respondents sought further information on the incentive payment for 16-18 year olds. There was general support for the principle of this incentive payment, although given the uncertainty relating to the level of the payment, concern was expressed as to whether it would be sufficient in size.
22. There were a wide range of views offered regarding the role and viability of Apprenticeship Training Agencies (ATAs) under the funding proposals. One group of respondents thought that ATAs were crucial to retaining small employer engagement with apprenticeships by reducing the perceived administrative burden. Others believed that it would be increasingly difficult for ATAs to resource their services, as there was insufficient detail to understand how ATAs could be funded.

Payment mechanism options: eligibility and registration

23. There was general consensus about the kind of information required on the proposed employer website for apprenticeship registration and funding. The need for clarity, certainty and easy access to information was a key theme identified by respondents to help them register apprentices and confirm their eligibility for funding
24. Information on the costs of training and the levels of funding that would be made available to employers was highlighted as a major priority for any potential employer website (mentioned by 47% of respondents – see Figure 1). Small and micro employers, in particular, emphasised the need for clarity on how much funding would be available, what level of additional support would be available for small employers, how a small employer was defined in this context, and when funding would be paid. Related to this, 17% of respondents said that the website should provide the mechanism to confirm an employer's eligibility for funding.

Figure 1: Overview of themes highlighted by respondents to Question 3



25. The majority of respondents (78%) stated that they would require full information on funding available before beginning the apprentice recruitment process and would need this information early enough in the process to inform business planning. Being able to use the website to quickly determine eligibility for funding was also considered to be important by employers.

26. Around 22% of respondents felt that the website could usefully support the identification of training providers, in terms of general information about training providers (eg contact details, training offered). Around 10% of respondents stated that the employer website should also include information on provider quality.

27. General guidance about navigating the process was requested by 17% of respondents, including a briefing on how to use the website and a helpline for users. Respondents also reported a need for the website to contain information on audit, compliance and legal information (mentioned by 14% of respondents), apprenticeship content and assessment (10%) and on the recruitment and selection process (7%).

28. Around 22% respondents rejected the idea that data collection requirements could in any meaningful way be 'minimised'. In these cases, respondents

assumed that data collection requirements were made necessary by the introduction of the new funding model and saw any substantive requirements on employers as a burden.

29. The need to keep the administrative requirements to a minimum was evident in other responses. There was a general focus on the need to ensure that data collection was a straightforward and simple process for employers. Suggestions of how to achieve this included:

- Only collecting data that was critical and indispensable
- Using a national online system that was connected to existing data systems (such as PAYE)
- Giving responsibility for data collection to training providers or other bodies
- Setting protocols for employers and providers about who submits particular funding or certification information to which bodies
- Using National Insurance numbers or the Unique Learner Number (ULN) in framing data requests.

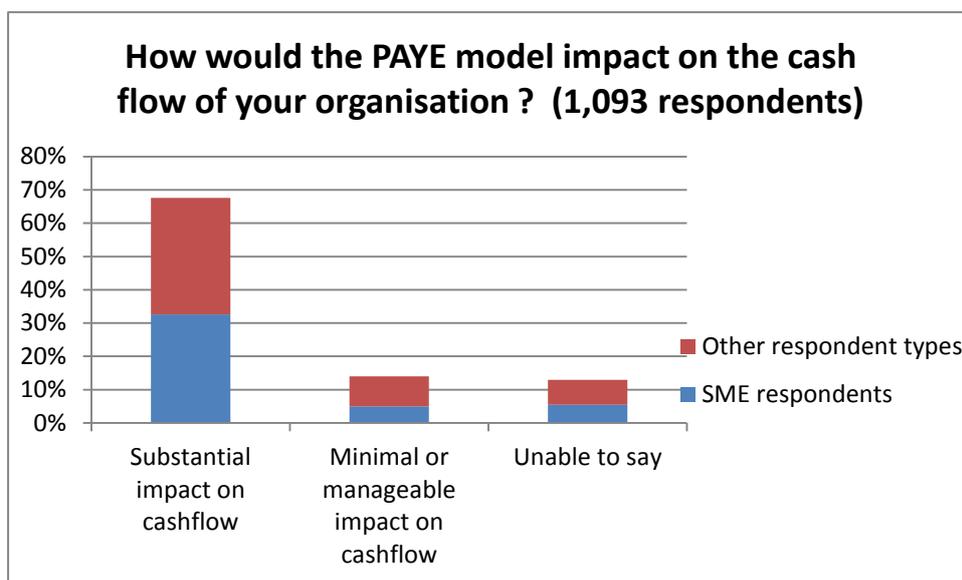
30. Many respondents approached questions on data and administrative requirements assuming that employers would have to manage this on their own. Others assumed that it would be part of the service offer from training providers. The assumptions different respondents brought to these questions tended to inform views about how workable the employer role was.

31. Small and micro employers, when discussing this need for support, mentioned the importance of having a close relationship with their training provider as being a key factor in facilitating and motivating their engagement with apprenticeships. Training providers and business representative organisations, in particular, typically highlighted examples of excellent relationships that current exist between some training providers and employers.

Payment mechanism options: PAYE Model

32. Concerns were expressed about the impact of the proposed PAYE model on employers, especially in terms of cash flow and administrative requirements. Around two-thirds (68%) of respondents anticipated that the PAYE model would have a substantial adverse impact on employers' cash flow. Small employers, micro employers and training providers accounted for just under 50% of these responses, as seen in Figure 2.

Figure 2: Perceived impact of the PAYE model on cash flow



33. Respondents tended to assume that providers would require an upfront payment (in cash) and thought that this would cause severe difficulties in managing cash flow (especially as reimbursement would be done through credits). This was predominantly a view expressed by small and micro employers. Large employers considered that the cash flow impact would be manageable.

34. In terms of what could be done to address the anticipated impact on cash flow, suggestions included:

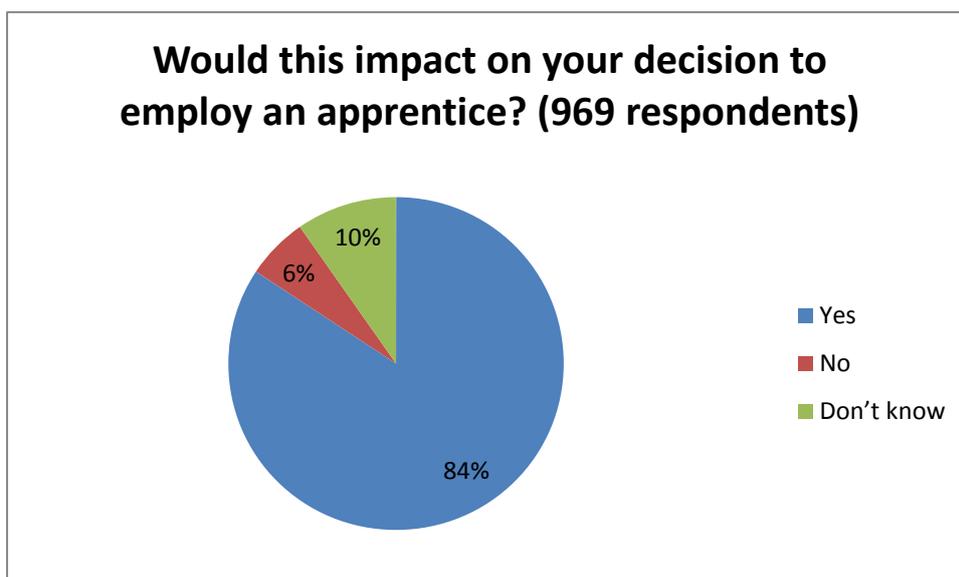
- Organising PAYE reconciliation and reimbursement to be done on a monthly basis
- Employers avoiding large upfront payments to training providers
- Minimising the lag between payment of training providers and reimbursement of employers.

35. Additional administrative costs from the PAYE model were widely anticipated, especially for organisations with multiple payrolls. It was difficult to distinguish from the responses the extent to which these were one-off set-up costs or additional administrative time that would be needed on an on-going basis. Little detail about specific costs was provided.

36. Additional charges resulting from the PAYE model, including updating payroll software, were anticipated by 68% of respondents. Relatively few respondents had a contract with a payroll provider that included software updates as a matter of course. Other costs mentioned included increases in accountant fees or extra fees charged by payroll outsource companies.

37. Around 37% of respondents regularly pay for PAYE software updates already, compared to 31% who do not. The costs of these updates varied considerably according to the size of the organisation, ranging from annual costs of several hundred pounds for small and micro businesses to between £3,000 and £5,000 (or, in some cases, up to £10,000) for large employers.
38. Significant reservations about the PAYE model related to a lack of respondent experience with PAYE and lack of expertise in payroll systems among small and micro employers. This was particularly evident when discussing the calculation of PAYE deductions for multiple apprentices.
39. For example, 47% of respondents stated that it would be difficult to calculate PAYE deductions for multiple apprentices. Just under 55% of small and micro employer respondents thought that it would be difficult to do so, compared to 37% of large and medium-sized employers. Just under half of respondents (49%) were not confident that they would be able to calculate the correct deductions.
40. An even higher percentage of respondents (58%) were not confident that any errors in PAYE calculations would be simple to resolve. This lack of confidence that errors would be easily resolved was especially evident among small and micro employers (67%) compared to medium (50%) and large (38%) employers.
41. Only 5% of small and micro employer respondents suggested that the proposed reimbursement model for employers with insufficient PAYE payments would be 'very easy' or 'relatively easy'. Furthermore, around 84% of respondents reported that their lack of confidence in implementing the reimbursement funding model could impact on their decision to employ an apprentice (see Figure 3).
42. In particular, 90% of small and micro employer respondents stated that they would pursue alternative avenues to apprenticeships, including employing more experienced candidates, offering vocational qualifications (NVQs) or, most commonly of all, simply providing training in-house (unaccredited).
43. Concerns were expressed by 17% of respondents (especially training providers) that HMRC procedures would not be responsive or flexible enough to resolve issues that employers might have with payments. Additionally, it was suggested that employers were risk averse and that because of the penalties which can be incurred from HMRC for compliance failure, employers would be reluctant to engage with the model. This was highlighted as a major reason for the lack of confidence in the PAYE model.

Figure 3: Impact of reimbursement funding model on employing an apprentice



Payment mechanism options: Apprenticeship Credit Model

44. Various concerns were raised about the Apprenticeship Credit model. On balance, it was perceived as being less problematic than the PAYE model (especially among SMEs), although consultation respondents were not explicitly asked to suggest a preference.
45. Just over half (52%) of respondents stated that they used electronic payment gateways, online accounts or made electronic payments to purchase training or other products for their organisation (although only 41% of small and micro employers did so). In discussing desirable features of online payment systems in general, respondents drew on examples and features of good practice from their own experience, such as:
- Flexible and simple reporting functions
 - Records of all transactions performed via the account
 - A single log-in point to access all data
 - Compatibility with major banking networks and credit cards
 - Accessible and intuitive design
 - An effective support service (eg a helpline or a user handbook).
46. Priorities for an online system were simplicity and accessibility (71% of respondents) and the security of data and funds transferred using the system (65%). Being able to use the system efficiently and with confidence was considered to be an important factor in ensuring that the administrative burden for employers was kept to a minimum. Other priorities mentioned by

respondents included the need to ensure an overall positive user experience (12%) and the importance of user support (5%).

47. There was a slight preference among respondents to set up the Apprenticeship Credit account before negotiating or agreeing training with a training provider (39% of respondents). The main reason for this was so that employers could get clarity on the level of public funding available. However, 23% of respondents preferred to set up the account only when training had been agreed.
48. Cash flow was the major factor affecting how frequently employers would make payments into the Apprenticeship Credit account (particularly for small and micro employers), identified by almost 50% of respondents. Typically, small and micro employers expressed a preference for monthly or quarterly payments to minimise the impact on the business. Some larger employers wanted as few payment points as possible. Other factors determining the frequency of payments into the account included the provider's payment requirements (11%), the extent of other demands on the business at the time (10%) and the level of satisfaction with the training (4%).
49. Reservations about the Apprenticeship Credit model appeared to be driven by similar concerns to those expressed with regard to the PAYE model. Almost 60% of respondents (over half of which were small and micro employers) felt that the Apprenticeship Credit model would have a substantial impact on cash flow. The reasons were similar to those reported in relation to the PAYE model.
50. Around 28% of respondents highlighted the perceived administrative burden of the Apprenticeship Credit model. There were widespread concerns that employers (especially SMEs) did not have the skills and capacity to effectively set up and operate an Apprenticeship Credit account and that administration would be particularly burdensome where only a single apprentice was employed.
51. Other concerns highlighted in relation to the Apprenticeship Credit model related to how payment and funding arrangements would be organised under the model (15% of respondents), the level of support that SMEs would require (8%) and issues relating to audit and fraud (6%).

Assurance

52. The highest priority identified for developing a register of providers was the need to take account of information on training quality, as reported by 33% of respondents. Similarly, 27% of respondents emphasised the importance of accounting for provider track record and success rates. Ofsted ratings were a priority consideration for 15% of respondents.
53. Including information on training costs in the register was mentioned by 12%; generally as part of a discussion of value for money or considered jointly with quality. Around 11% of respondents said that the existing register of training

organisations should be used. Other factors identified for developing an effective register of providers included due diligence on financial stability (9%) and providing information on endorsements by employers and skills bodies (9%).

54. As with the discussion on data collection requirements, there was a general view that administrative requirements for employers relating to assurance and good budget management should be kept to a minimum. Suggestions to achieve this included:

- The use of a national online system to oversee collection of data
- A role for training providers and/or intermediary organisations
- A support service for employers
- Using existing systems for assurance.

55. However, training providers were more likely to suggest that a focus on assurance of public funding outweighed the need to reduce the burden on employers. Additionally, providers expressed the view that under an employer-controlled funding system, employers should be required to meet the same audit requirements as training providers.

56. In general, respondents felt that government should play a fairly active role in helping employers manage their relationship with providers. Specific suggestions included providing:

- Effective signposting to third parties that could support employers, including ATAs, Local Enterprise Partnerships, Industrial Partnerships and sector bodies
- Templates for standardised agreements with providers
- A named contact who would act as a support to employers
- Information on procedures to resolve disputes with providers.

Transition and implementation

57. Suggestions on how to achieve smooth transition to the new funding model through the Trailblazers included:

- Provision of case studies on how funding reforms might work in practice
- A peer support network for Trailblazers
- The need to consult with a representative cross-section of employers in testing the funding principles via the Trailblazers
- Account managers/advisers who would have responsibility for assisting each organisation taking on a Trailblazer apprentice.

58. A sector readiness programme for employers was considered to be a near-necessity, mentioned by 48% of respondents. This would include guidance for employers about their new responsibilities under the reformed model. Small and micro employers were keen that any sector readiness programme took account of the particular circumstances of SMEs.
59. Almost 10% of respondents identified priorities for providers within a sector readiness programme. Providers would reportedly benefit from guidance on building relationships with employers, information on resolving disputes with employers and on the data implications of the new model.
60. Respondents expressed particular uncertainty about funding arrangements during transition. Clarity was sought on arrangements for the transition between current funding arrangements and the new arrangements. The need for piloting and testing of the new model was highlighted by small and micro employers.
61. There was broad support for a communications campaign targeted at employers. The campaign would be designed to raise awareness about the changes, the implications for employers and the new responsibilities they would have. Related to this was the desire for government to continue to “make the case” for the reforms. Reservations held by employers about the reforms could be addressed by a concerted campaign to highlight advantages that the new model would have in delivering high-quality apprenticeships for employers.

Respondent breakdown

Table 1: Number and type of respondents to the 2014 technical consultation by detailed stakeholder group

Category of Organisation	Type of Organisation/ Respondent	Total	Percentage of total respondents	Percentage of respondents in category
EMPLOYERS (955)	Large business (over 250 staff)	140	10%	15%
	Medium business (50 to 250 staff)	142	10%	15%
	Small business (10 to 49 staff)	328	23%	34%
	Micro business (up to 9 staff)	345	24%	36%
EDUCATION AND TRAINING PROVIDERS (154)	Independent training provider	92	6%	60%
	College	55	4%	36%
	School	7	1%	5%
REPRESENTATIVE GROUPS	Business representative	76	5%	77%

Category of Organisation	Type of Organisation/ Respondent	Total	Percentage of total respondents	Percentage of respondents in category
(99)	organisation			
	Professional body	18	1%	18%
	Trade union or staff association	5	<1%	5%
OTHER (279)	Individual	142	10%	56%
	Local government	41	3%	16%
	Charity or social enterprise	20	1%	8%
	Awarding organisation	5	<1%	2%
	Various	48	3%	18%
	TOTAL	1,459	100%	

This report was prepared by Séin Ó Muineacháin and Colin Howat of ICF International on behalf of the Department of Business, Innovation and Skills.



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