



Department  
for Business  
Innovation & Skills



Department  
for Education

# **A Consultation on Funding Reform for Apprenticeships in England**

**July 2013**

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# Ministerial Foreword



Apprenticeships are a success story. More businesses offer Apprenticeships than ever before – testimony to the value they create in enhanced productivity and long-term workforce development.

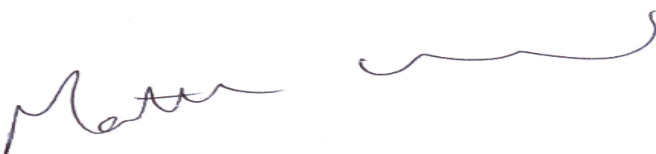
While the best Apprenticeships are outstanding, we need to ensure that all Apprenticeships are just as rigorous, and as responsive to the needs of employers and individuals. In March, we set out a radical vision for the Apprenticeship programme – building on the recommendations of Doug Richard. This will re-focus Apprenticeships on their original conception, in which their core is the relationship between the Apprentice and the employer.

One crucial aspect of this reform agenda was deliberately not addressed in March – funding. This Government has always been clear that we cannot create a responsive system by central planning, nor by placing more requirements on training providers. The only way to achieve it is to ensure that funding for Apprenticeships is directed through the end user – the employer.

Through the Employer Ownership Pilot, we have already seen the positive and innovative response of employers when directly funded to deliver the training that they want. For Apprenticeships we need a simple system that dispenses with the complexity of large numbers of government-set funding rates. Employers are the best judge of which training is worth investing in. Therefore we propose that Government will provide funding in proportion to the investment employers are willing to make themselves. This means that training providers will compete for business – both on quality and on price.

This consultation sets out three possible approaches designed to achieve this objective. The most radical fund employers directly – either utilising the PAYE system, or through a new online Apprenticeship system. The third reforms the existing funding structure.

While the approach underlying all three options is similar, we want to ensure we design a system which works for all the users of the system. We therefore strongly urge you to contribute your views to enable us to select and refine the most effective model.



**Matthew Hancock**

**Minister for Skills**

# Section 1: Introduction

## Rigorous and responsive Apprenticeships

Over the past few years, Apprenticeships – a time honoured part of the skills system – have returned once again to play a crucial role in delivering the skills we need. The number of people starting an Apprenticeship has doubled since 2010. But as well as this increase in quantity, we must increase the quality of Apprenticeships. In November 2012, Doug Richard set out his vision for the future of Apprenticeships in England. In March, we accepted his reform principles and consulted on their implementation. This consultation seeks views on how we implement the funding reforms proposed in the Richard Review.

At the heart of Doug Richard's recommendations is that control of Apprenticeships should be placed more firmly in the hands of employers and that all Apprenticeships should be rigorous and responsive to their needs. Clearly, the way that Apprenticeships are funded underpins this vision. This document sets out options for how that can be done.

The Richard Review recommends that Apprenticeships should be redefined, to focus where they can add most value, to strengthen the brand and to raise our level of ambition. It recommends a sharp emphasis on quality and rigour, so that training is trusted and transferable. It reminds us that at their core Apprenticeships must be about the relationship between an employer and an Apprentice, and challenges us to put employers at the heart of the system's design and delivery. It also recommends that the government should focus on outcomes – what Apprentices can do at the end of their Apprenticeships – and free up the process by which they get there.

We have already endorsed these recommendations, and the previous consultation looked at the practical steps needed to turn this vision into reality. We are currently analysing your responses and will confirm our future approach and implementation plan in autumn 2013.

Underpinning this reformed system is the proposal for new industry standards, developed by employers themselves, which are widely recognised, trusted and easy to understand. These will describe what an employer wants an Apprentice to be able to do at the end of their training, to be deemed competent in that occupation. Employers will then be free to choose the training their Apprentice needs to meet that standard – purchasing the training which is most relevant to the Apprentice's and their business's needs, and which represents the best value. Apprentices will then be assessed by approved organisations to determine whether they have reached the standard, and thus achieved their Apprenticeship.

At the heart of any quality Apprenticeship is the relationship between the employer and Apprentice, and these reforms are about reaffirming this founding principle. Within this, the employer plays a vital role in supporting the training and development of their Apprentice and we fully recognise this. This funding consultation however focuses on the additional training that employers buy from training providers in support of the Apprentice completing their Apprenticeship journey.

## A reformed funding system

Funding reform is central to delivering our Apprenticeship vision. Without radically reforming the funding system, and giving employers control of the government contribution to funding, it is

impossible to achieve our long-term vision of an employer-focused programme which provides relevant, high-quality Apprenticeship training, most highly valued by employers and learners themselves.

At the heart of the reformed system is that employers agree with training providers the content and price of training which helps their Apprentice to reach the industry standard. The government will fund a proportion of this, but only after employers have paid their share. This will ensure that employers have strong incentives to demand high-quality training from providers, holding them to account for delivery, and that providers have strong incentives to respond to businesses' needs. These reforms are also crucial in giving employers the flexibility to choose the most relevant training for the Apprentice and for their business.

## An all age programme

The importance of funding reform in creating an Apprenticeship programme which is valuable to learners, employers and the economy, applies to Apprenticeships at all ages. However, we must recognise that younger Apprentices have less labour market experience, which means the costs of getting them to the industry standard are potentially higher. We are therefore exploring ways of funding 16-18 year-olds more generously than older Apprentices, whilst maintaining the incentives for employers to demand relevant, high-quality training from providers. This could be done by providing an additional, fixed one-off payment for these Apprentices.

## Three models for delivering funding reform

This document consults on the best way to position employers as the customer, giving them control of government funding. We are inviting responses on the relative merits of three ways of doing so:

1. **Direct Payment Model:** Businesses register Apprentices and report claims for government funding through a new online system. Government funding is then paid directly into their bank account.
2. **PAYE Payment Model:** Businesses register Apprentices through a new online system. They then recover government funding through their PAYE return.
3. **Provider Payment Model:** Government funding continues to be paid to training providers, but they can only draw it down when they have received the employer's financial contribution towards training.

These models are similar in many ways. They each ensure employer co-investment and each give employers control of funding. The key difference is the way in which government funding is provided – directly to businesses (either into their bank accounts or through the PAYE system), or directly to training providers. We are inviting views on the relative advantages and disadvantages of each.

## Next Steps

The precise timing and detail of implementation will depend upon the model which is chosen to deliver the reforms. We recognise the importance of carefully managing the transition from the

current system to a new one, and this will be central to our plans in the lead-up to implementation.

For the purposes of this consultation, we have necessarily had to assume some aspects of the implementation of the wider Richard reforms. These will be confirmed in an implementation plan due to be published in the autumn, but the assumptions made in this document are a sensible starting point from which to think about the delivery of funding reform.

For the purpose of this consultation, the amount of government funding provided under all three options would be the same. Nevertheless, any figures relating to funding referred to in this document are for illustrative purposes only.

This consultation will take place alongside the review launched by the Deputy Prime Minister into the employment, education and training of 16-24 year olds, as part of the Government's commitment to developing a simpler system that provides a route into work and a coherent offer for businesses. The 16-24 year old review will report to the Prime Minister and Deputy Prime Minister in the autumn.

## **A consultation on options to deliver funding reform**

The rest of this consultation outlines our proposals in more detail, with each section setting out the key questions on which we are inviting your views:

- *Section 2* outlines the main features of a reformed funding system, and how this differs from the current system of Apprenticeship funding.
- *Section 3* outlines three possible models for delivering this reformed funding system – highlighting the key features which distinguish them.
- *Section 4* addresses the key questions which will determine the choice between the three models.

# Section 2: The Case for Funding Reform

## The current Apprenticeship programme

The number of Apprenticeships has grown rapidly in recent years. In the last academic year, more Apprentices and employers participated than ever before. Over 200,000 employer workplaces participated and over half a million new Apprenticeships started. The programme today is a good investment for the economy, employers and Apprentices themselves. A recent study estimates that those undertaking Higher Apprenticeships could earn around £150,000 more over their lifetime – comparable to the return for the average graduate<sup>1</sup>.

However, Apprenticeships are too important for us to be satisfied with what we have achieved. We want to go further:

- While over 200,000 workplaces employ Apprentices, this represents only 13% of all employers<sup>2</sup>. We want to raise employer engagement in high-quality Apprenticeships.
- Employers already make a significant contribution to the cost of Apprenticeships, including by paying Apprentices' wages and by providing management and support. But they rarely make a direct financial contribution to training providers towards Apprenticeship training. Only 11% of Apprenticeship employers make any payments in this way<sup>3</sup>. We want to raise employer investment in Apprenticeships which are relevant and responsive to their needs, and which they truly value.
- We have taken steps to raise standards and improve the quality of Apprenticeships: cracking down on poor quality provision; strengthening requirements on English and maths; and ensuring that every Apprenticeship lasts long enough to embed new knowledge and skills in workplace practice. But the quality and value of Apprenticeships could still be improved. We want all Apprenticeships to be rigorous, delivering high-quality training which is valuable for the economy, employers and Apprentices.

Under the current system of funding, it is impossible to move to a position where employers have the strongest incentives to demand high quality training from providers, holding them to account for delivery, and where providers have the strongest incentives to respond to businesses' needs. We endorse Doug Richard's recommendation that positioning employers firmly as the customer of Apprenticeship training – giving them control of government investment as well as their own – is crucial in raising employer engagement and investment in high-quality and valuable Apprenticeships. Under these reforms, training providers will form a more normal supplier relationship with Apprentices' employers.

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<sup>1</sup> AAT and CEBR (2013), 'University education: is this the best route into employment?'

<sup>2</sup> UK Employer Perspectives Survey (2012), UK Commission for Employment and Skills

<sup>3</sup> BIS Research Paper No. 77 (2012), 'Evaluation of Apprenticeships: Employers'

## Apprenticeships as a joint investment

Apprenticeships are a joint investment. It is right that the cost of Apprenticeship training should be shared between individuals, employers and the government, reflecting the benefits to each:

- The *individual* benefits from new transferable skills and increased lifetime earnings, and so should contribute to the cost of training – for example, by accepting a reduced wage during training.
- The *employer* benefits from a more productive workforce with lower staff turnover, and so should pay wages, provide on-the-job training and support, and directly contribute to the costs of training.
- *Society and the economy* as a whole benefit from Apprenticeships, so it is right that the government continues to contribute towards their cost.

Any funding system must recognise this joint investment. It must be simple, accessible and actively encourage the expansion of high-quality Apprenticeships. It must be affordable within the government's spending plans and deliver value for money. It should support training which leads to the development of transferable skills, helps the Apprentice achieve a recognised industry standard and meet employers' needs. In this way, government funding will generate additional employer investment in Apprenticeships, rather than replacing training which businesses would have funded themselves.

## Features of a reformed funding system

While the costs of Apprenticeship training are shared, it is employers who are best-placed to judge the quality and relevance of training, and to demand the highest possible standards from training providers. We therefore endorse the key principles put forward by Doug Richard to underpin our future approach to funding, which are that:

- *The employer is the customer:* Positioning the employer as the customer increases providers' incentives to respond to businesses' needs. Central to this is giving employers control of government funding for Apprenticeships – by placing the purchasing power in their hands.
- *The employer co-invests:* Employers already make a significant contribution to Apprenticeships – they provide management and support to Apprentices and pay their wages, including while the Apprentice is training outside of the workplace. But by making a direct financial contribution towards training purchased from providers, employers have stronger incentives to demand relevant, high-quality training of good value.
- *Government does not set the price of training:* Freeing the price of training from public control and having it determined between employers and providers will help prioritise learning that delivers most value. Government should fund a proportion of this price – up to a maximum per Apprentice, which is likely to vary by sector – to provide incentives for employers to 'shop around' for training which represents strong value for money.
- *Payment on results:* Government funding is linked to the achievement of the Apprenticeship, which will be assessed by an approved body. This provides strong incentives for employers to ensure that individuals succeed.



Therefore, under the reformed system, the employer and provider would negotiate the content and price of eligible Apprenticeship training. The government would fund a proportion of this, up to a maximum amount per learner. Depending on the characteristics of the employer and the Apprentice, the government may also provide additional payments, where it would be appropriate to make a higher contribution. Some government funding would be withheld until the learner completes their Apprenticeship and achieves the industry standard.

These changes mark a significant departure from the current system, where the public contribution towards the cost of training is set by the Skills Funding Agency by a funding formula. The government makes a higher contribution for Apprentices aged 16-18, compared to those aged 19 and over. For Apprentices aged 19 and over, there is an expectation that the employer makes a financial contribution to the training provider towards the cost of training, but this rarely happens. This limits the incentives for employers to demand relevant, high-quality training from providers, and to hold them to account for delivery.

The remainder of this document outlines three models for delivering government funding for Apprenticeships, and seeks respondents' views on the relative merits of each. For all of these questions, we would welcome views on whether the answer is likely to be different depending on factors such as the size of the business.

**Question 1: Would businesses be prepared to pay more for Apprenticeship training in return for greater influence over its content and delivery?**

**Question 2: What would be the impact of greater co-investment on businesses' decisions to recruit and train Apprentices? And on how businesses deliver Apprenticeship training and deal with training providers?**

**Question 3: What are the advantages and disadvantages of placing government funding in the hands of employers, rather than paying it directly to training providers?**

**Question 4: Would businesses be willing to negotiate the price of training with providers, and what would help them to do this?**

**Question 5: Would the funding principles outlined here raise the quality of training, and its relevance and responsiveness to businesses' needs? Why? Why not?**

**Question 6: What would be the impact of these funding principles on the experience for Apprentices themselves?**

## Section 3: Three options to deliver a reformed funding system

This section considers three possible models to deliver the proposed reforms to the way Apprenticeships are funded. These are outlined in broad terms; we will continue to develop the details of the chosen model prior to implementation, drawing on the responses to this consultation. The three models being considered are:

- **Model 1: Direct Payment Model** – Businesses register Apprentices and report claims for government funding through a new online system. Government funding is then paid directly into their bank account.
- **Model 2: PAYE Payment Model** – Businesses register Apprentices through a new online system and then recover government funding through their PAYE return.
- **Model 3: Provider Payment Model** – Registered training providers will make claims for government funding, when they have received the employer's financial contribution.

This section firstly outlines the key features underpinning all of these models, before considering the factors which distinguish the three approaches.

## The Core Model

All of the proposed models to deliver Apprenticeship funding reform can be broken down into three main stages – registration, training and assessment.

### Registration

New Apprentices will be registered to determine whether they are eligible for government funding, and for how much. This would require basic information to be reported about the Apprentice (e.g. age) and the employer (e.g. industry sector, size of business). Whilst important, the extent to which government funding varies by these factors (if at all) is not the focus of this consultation and will be determined closer to implementation.

Having provided this information, the employer or training provider may be informed:

*This Apprentice is eligible for government funding.*

*The government will fund 70% of the price of eligible Apprenticeship training, purchased from registered providers, up to a maximum of £3,000 for this Apprentice. The government will also make a one-off payment of £1,000 for this Apprentice.*

*20% of the total government funding will be withheld until the Apprentice has completed their Apprenticeship and achieves the standard.*

All numbers are for illustrative purposes only.

### Training

The employer – together with training providers and the Apprentice – will decide the training the Apprentice needs to achieve the industry standard. They will then seek appropriate registered providers to deliver this training, depending on what they consider to be the best value, and agree the content and price with them.

We recognise that good, accessible information on the nature and quality of training and outcomes from different providers is needed to help employers make these important choices, alongside Ofsted inspection records.

As Apprenticeship training takes place, the business will make payments to providers in a normal supplier relationship. When these payments have been made, then government funding can be claimed.

### Assessment

All Apprenticeships should involve sustained and substantial training. But we recognise that different Apprentices will require varying amounts of training before they reach the standard, depending on aptitude and experience, as well as the content of the standard. After a minimum duration, the employer – together with the learner and training providers – will decide when the Apprentice is ready for any final assessment to demonstrate full mastery of the occupation.

When that happens, the Apprentice will be assessed to determine whether they have reached the standard. Currently, this takes the form of continuous assessment, but we propose to move towards a more synoptic model of end-point assessment in Apprenticeships. It is vital that assessment is trusted by employers, so all assessment bodies should be independent from those delivering the training and from those employing the Apprentice. But in some cases, particularly where this would minimise burdens for smaller businesses, a provider might offer to make arrangements for assessment with an approved body on the employer's behalf.

The business will agree a price for assessment with their chosen body, in the same way as they did for training. If the Apprentice is assessed to have reached the industry standard, then any outstanding government funding – which has been withheld until successful completion – will be paid by government.

If the Apprentice does not successfully achieve the standard, then the employer – together with the Apprentice and training providers – will decide if they want to continue with the Apprenticeship and if so, what further training the Apprentice needs. The employer will then purchase any additional training in the same way as before. Together with the provider, they will decide when the Apprentice is ready to be assessed again.

## Compliance

We recognise the importance of designing a system which is simple and accessible for employers, and is sensitive to the needs of small businesses. Strong measures to protect against fraud are also critical to ensure that government funds are used properly.

Under all models, government funding would only be available for eligible Apprenticeship training delivered by registered providers and assessment undertaken by approved bodies.

All providers, including employers who are also training providers, would be subject to audit procedures similar to those under the current system. These will assess the contributions they have received from employers for Apprenticeship training.

The remainder of this section considers how the details of this core process vary under the different models.

## Model 1: Direct Payment Model

### Registration

Employers will register their Apprentice through a new secure online system for Apprenticeships. They will also need to provide their bank account details so that government funding can be paid to them.

### Training

Employers will then make payments to registered providers for training, as per their agreed payment schedule. As they do this, they will report the amount they spend on each Apprentice's training through the online system. For example, the employer may report:

*Apprentice's Name: Mr. John Smith*

*Training payments: £1,000*

**Yellow** indicates information inputted by the employer

The online system will then process the business's claim and make a payment into their bank account:

*Based on the training expenditure you have reported, a payment of £560 will be paid into your bank account shortly.*

*A further £140 will be paid if this Apprentice completes their Apprenticeship and achieves the industry standard.*

All numbers are for illustrative purposes only.

### Assessment

The employer will pay their chosen assessment body, and claim back government funding through the online system in the same way as for other Apprenticeship training expenditure.

When the Apprentice is assessed to have reached the industry standard, the business will report this through the online system. They will also provide the registration number of the assessment body.

The assessment body would then confirm – through the online system – that the Apprentice has indeed reached the industry standard. When this has happened, any outstanding government funding – which has been withheld until successful completion – will be paid into the business's bank account.

## Compliance

In addition to the audit procedures for training providers, compliance processes will be developed for employers, who will be audited on a risk-based approach. Together, these will ensure that employers are claiming the right amount of government funding for eligible Apprenticeship training delivered by registered providers. To support these compliance activities, employers may be required to report providers' details through the online system.

**Question 7: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

**Question 8: How should this system be designed to ensure it is easy to engage with – for employers and training providers?**

## Model 2: PAYE Payment Model

### Registration

As with model 1, employers will register their Apprentice through a new secure online system for Apprenticeships. They will also need to provide their PAYE reference number. This will be passed to HM Revenue and Customs (HMRC) who will then allow the business to recover Apprenticeship funding through the PAYE system.

### Training

Employers will then make payments to registered providers for training, as per their agreed payment schedule. Before they submit their PAYE return, they will calculate the amount they are entitled to claim back from government for each Apprentice, based on the payments they have made to providers in that period. They could use a calculator within the online system to do this, which would automatically generate the amount to be deducted from the employer's PAYE return, or any other means which is convenient for them.

If using the online calculator, they may report costs like this:

*Apprentices' Name: Mr. John Smith*

*Training payments: £1,000 for the month of March*

- *You can recover £560 through your next PAYE payment.*
- *You can recover a further £140 if this Apprentice completes their Apprenticeship and achieves the industry standard.*

**Yellow** indicates information inputted by the employer.

All numbers are for illustrative purposes only.

The online calculator would also work out the total amount to be deducted from the PAYE return, where the business employs more than one Apprentice. The business would then recover the appropriate government funding from their PAYE return.

For some businesses, their total PAYE liability may not be sufficient to enable all of their Apprenticeship funding to be recovered. One possible way of overcoming this would be for employers to make an online application to HMRC for the additional funding, which would then be paid into their bank account. It is also possible to develop alternative ways of providing Apprenticeship funding to these businesses, outside the PAYE process.

This model would therefore use the PAYE system to provide government funding for Apprenticeships and would not affect businesses' tax or PAYE liabilities.

### Assessment

The employer will pay their chosen assessment body, and recover government funding through their PAYE return in the same way as for other Apprenticeship training expenditure.

When the Apprentice is assessed to have reached the industry standard, the business will report this through the online system. They will also provide the registration number of the assessment body.

The assessment body would then confirm – through the online system – that the Apprentice has indeed reached the industry standard. When this has happened, the employer can recover any outstanding government funding for that Apprentice – which has been withheld until successful completion – through their next PAYE return.

## Compliance

In addition to the audit procedures for training providers, compliance processes will be developed for employers, who will be audited on a risk-based approach. Together, these will ensure that employers recover the right amount of government money for eligible Apprenticeship training delivered by registered providers. To support these compliance activities, employers may be required to report providers' details through the online Apprenticeship system.

**Question 9: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

**Question 10: How should this system be designed to ensure it is easy to engage with – for employers and training providers?**



## Model 3: Provider Payment Model

### Registration

Unlike for the other two models, employers would need to select a single registered provider to deliver the training for an Apprentice. However, the employer and provider may agree to subcontract some parts of the training to other providers if they can deliver better value.

Once the employer has chosen the provider, this provider will register the Apprentice in a similar way as under the current system.

### Training

As Apprenticeship training takes place, the employer will make payments to the provider, as per their agreed payment schedule. When this has happened, the provider will be able to draw down the government's contribution. For example:

*The provider has received £300 from an employer towards eligible Apprenticeship training. The provider is therefore eligible to claim £700 for that Apprentice.*

*They can claim £560 when the employer contribution has been received, and the remaining £140 if this Apprentice completes their Apprenticeship and achieves the industry standard.*

All numbers are for illustrative purposes only.

### Assessment

The employer will pay their chosen assessment body, who will then be able to draw down government funding in the same way as training providers.

When the Apprentice is assessed to have reached the industry standard, the provider will report this. When verified by the assessment body, the provider can claim any outstanding government funding, which has been withheld until successful completion.

### Compliance

Providers will be subject to audit procedures, which will assess whether they have collected employer contributions towards eligible Apprenticeship training, before drawing down the correct amount of government funding.

**Question 11: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

**Question 12: How should this model be designed to ensure it is easy to engage with – for employers and training providers?**

To recap, all three models will follow the same core process:

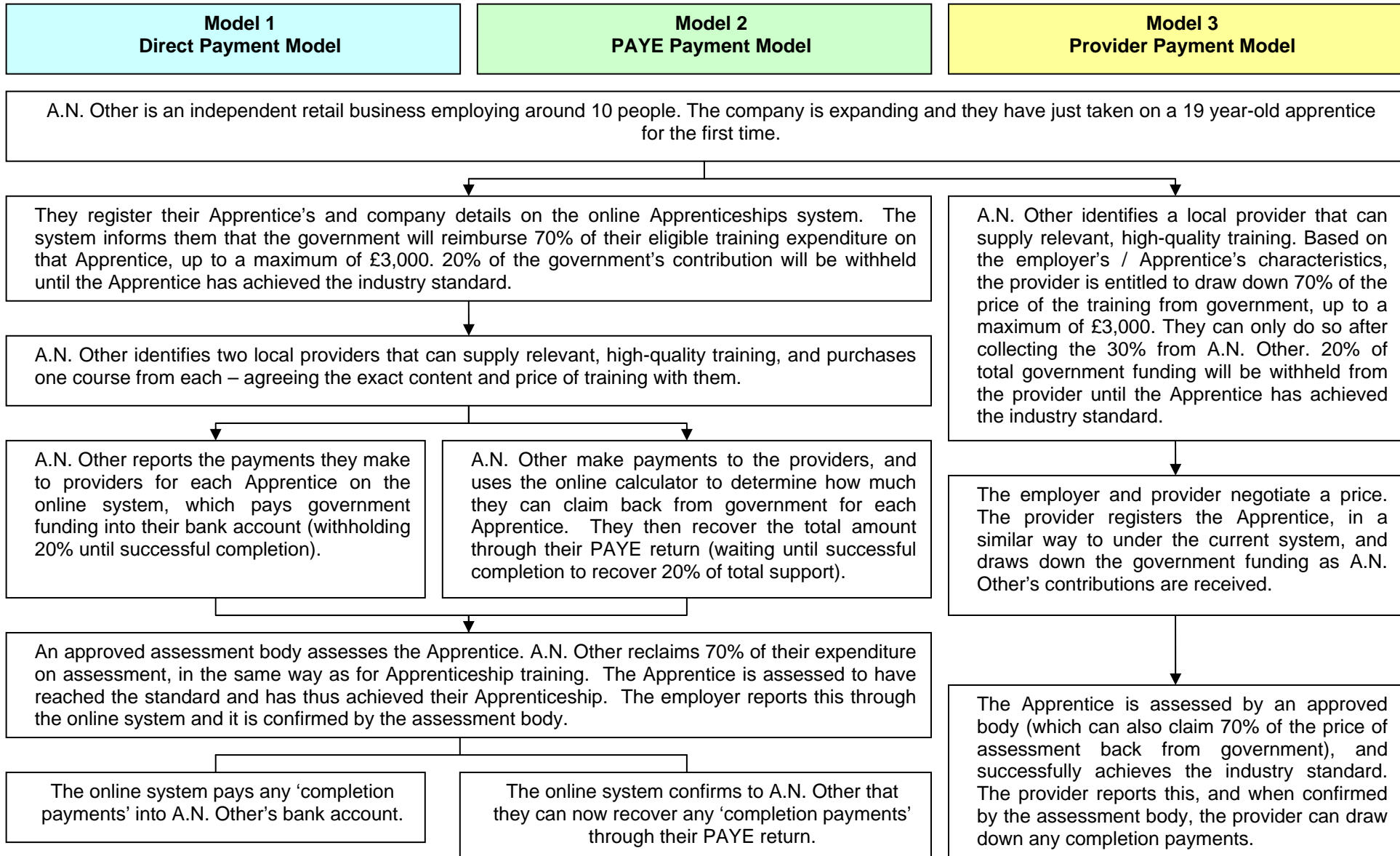
- **Registration:** This will determine whether the Apprentice is eligible for government funding, and for how much.
- **Training:** Employers – together with training providers and the Apprentice – will then decide the training their Apprentice needs to reach the industry standard. The employer will agree the content and price of training with appropriate providers, and make payments in a normal supplier relationship.
- **Assessment:** An approved assessment body will assess whether the Apprentice has achieved the standard before any outstanding government funding (i.e. which has been withheld until successful achievement) is paid.

The key differences between the models are shown below.

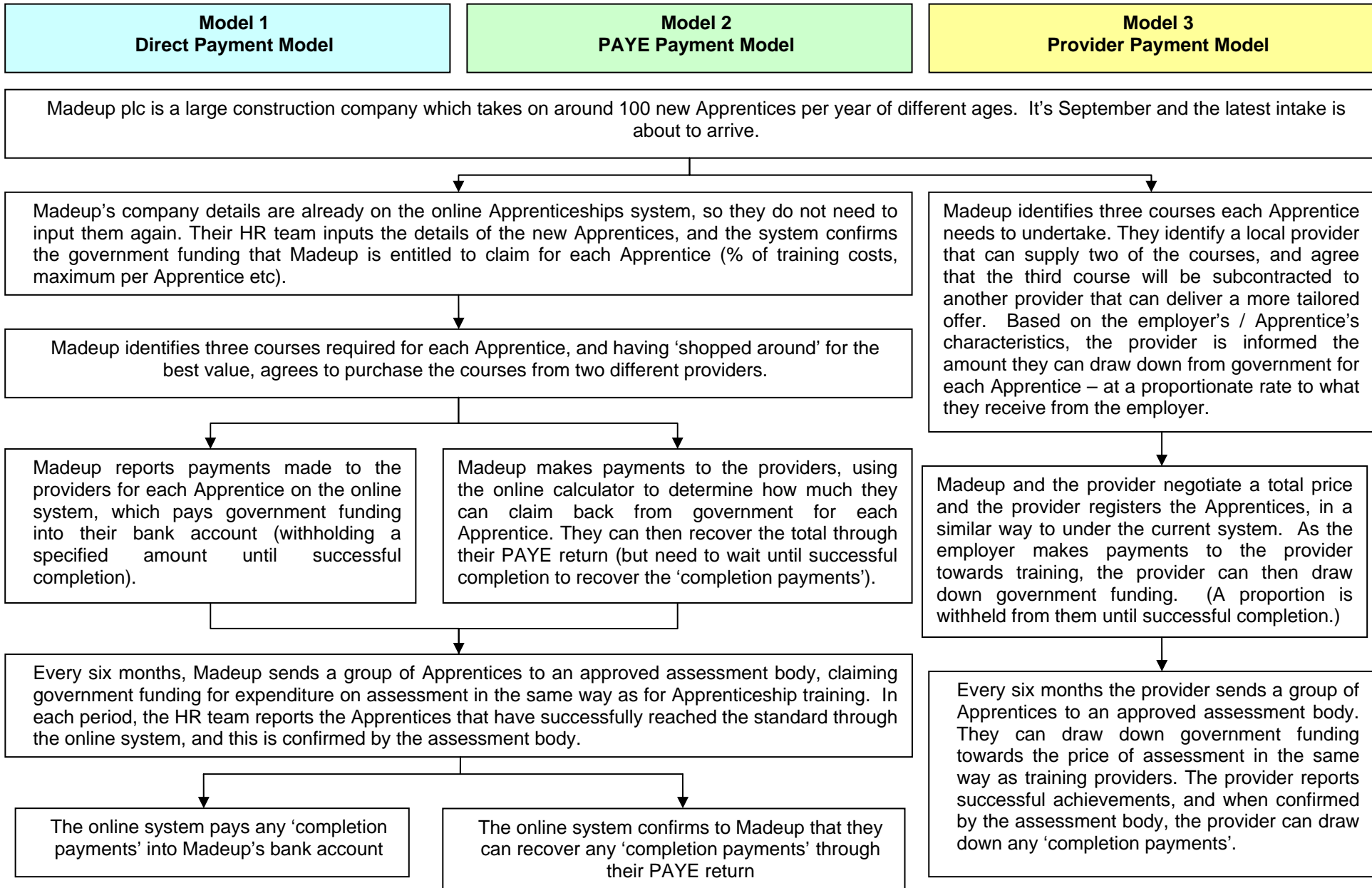
	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
	<b>Direct Payment Model</b>	<b>PAYE Payment Model</b>	<b>Provider Payment Model</b>
<b>Registration</b>	Employers register Apprentices through a new online system	Employers register Apprentices through a new online system	Providers register Apprentices
<b>Training</b>	Employers make payments to providers and report their expenditure through the online system, with government funding paid into their bank account	Employers make payments to providers and then recover the government funding through their PAYE return (or an alternative process if PAYE payments are insufficient – see p15)	Employers make payments to providers covering their contribution to the price of training. Providers then draw down the remainder from government
<b>Assessment</b>	Employers report achievement through the online system and receive any 'completion payments' into their bank account	Employers report achievement through the online system and recover any 'completion payments' through their PAYE return	Providers report achievement and draw down any 'completion payments'

Next, we provide two illustrative case studies, to demonstrate how the different models might work for different businesses.

### Example 1: A Small Retail Business



## Example 2: A Large Construction Company



## Section 4: Which model works best for employers, learners, providers and Government?

To recap, the previous section set out three options for delivering a reformed Apprenticeship funding system:

- **Model 1: Direct Payment Model**, where businesses register Apprentices and report claims for government funding through a new online system. Government funding is then paid directly into their bank account.
- **Model 2: PAYE Payment Model**, where businesses register Apprentices through a new online system and then recover government funding through their PAYE return.
- **Model 3: Provider Payment Model**, where government funding continues to be paid to training providers, but they can only draw it down when they have received the employer's financial contribution towards training.

Each of these models is seeking to achieve the same objective – to position employers as the customers of Apprenticeship training, empowering them to decide what training their Apprentice needs and what represents the best value for money.

Each option gives employers the flexibility to choose and purchase training to support their Apprentices in reaching the industry standard – in line with our broader Apprenticeship reforms. This flexibility is underpinned by making government funding proportionate to the investment put forward by the employer – giving employers an incentive to shop around for a good deal, and to hold training providers to account for delivery.

The three options are each capable of delivering the funding reforms, but through different channels. The option chosen will *not* determine the level of public spending available; the level of government funding and the amount employers would be expected to contribute would be the same under all of the options. The key differences are in terms of the route through which government funding is provided.

The direct and PAYE payment models are similar in that employers claim back a proportion of the money they spend on eligible Apprenticeship training from government. Under the provider payment model, training providers draw down government funding, at a proportionate rate to the contributions they have received from employers. This section now assesses the key questions which will determine the choice between the respective models.

### Employer-routed funding (model 1 and 2) or provider-routed funding (model 3)?

Under models 1 and 2, government funding is paid to employers. This increases the transparency of government funding to the employer and ensures the training provider's single line of accountability is to the business. Employers will make an upfront payment to training providers, and then claim a proportion of this back from government. Under the direct payment

model, government payments could be made within several working days of employers reporting claims; under the PAYE payment model, they would receive this as a reduction in their next PAYE payment (unless PAYE payments are less than the required funding). Under both models, some of the total support will be withheld from the employer until the Apprentice achieves the standard.

Under the provider payment model (model 3), government funding is paid to training providers. But they can only claim this when they have received the employer's contribution. As with the other two models, providers will have strong incentives to respond to employers' needs in order to secure their investment, but the government's contribution will be less visible to the employer. Employers would pay only their specified proportion upfront, before the provider then claims the remainder from government. Again, some government funding would be withheld from the provider until the Apprentice achieves the standard.

## **A new online system (model 1) or the PAYE system (model 2)?**

Under both models, Apprentices would need to be registered through a new online system for Apprenticeships. The difference is that for model 1, employers would then need to make claims for each Apprentice through this online system, with the government making a direct payment into their bank account. Under model 2, businesses would need to calculate the total they were able to claim for each Apprentice and recover the appropriate amount through their PAYE return. If their total PAYE payment was not sufficient to cover their claim for Apprenticeship funding, then an alternative process would be needed.

## **Next Steps**

This document outlines, at a high level, three options to deliver a reformed system of Apprenticeship funding. But we recognise that the 'devil is in the detail' and so welcome the input of businesses and training providers, through this consultation, to develop the models further.

The timetable for implementation will depend upon the model which is selected to deliver the reforms. Constructing a new online system will take time and it is currently anticipated that the direct payment model and the PAYE payment model could be operational by 2016 at the earliest. However, this will be determined following this consultation. We recognise the importance of managing the transition from the current system to the new one, and this will be at the heart of our plans in the lead-up to implementation.

**Question 13: All things considered, which is your preferred model and why?**

**Question 14: What should the government take into account when making the transition from the current system to your preferred model – or any other models?**

**Question 15: What impact would adopting your preferred model – and the other models – have on businesses' engagement with and approach to Apprenticeship training?**

# Section 5: Questions

## The case for funding reform

Question 1: Would businesses be prepared to pay more for Apprenticeship training in return for greater influence over its content and delivery?

Question 2: What would be the impact of greater co-investment on businesses' decisions to recruit and train Apprentices? And on how businesses deliver Apprenticeship training and deal with training providers?

Question 3: What are the advantages and disadvantages of placing government funding in the hands of employers, rather than paying it directly to training providers?

Question 4: Would businesses be willing to negotiate the price of training with providers, and what would help them to do this?

Question 5: Would the funding principles outlined here raise the quality of training, and its relevance and responsiveness to businesses' needs? Why? Why not?

Question 6: What would be the impact of these funding principles on the experience and future prospects of Apprentices?

## Model 1: Direct Payment Model

Question 7: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?

Question 8: How should this system be designed to ensure it is easy to engage with – for employers and training providers?

## Model 2: PAYE Payment Model

Question 9: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?

Question 10: How should this system be designed to ensure it is easy to engage with – for employers and training providers?

## Model 3: Provider Payment Model

Question 11: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?

Question 12: How should this model be designed to ensure it is easy to engage with – for employers and training providers?

## **Which model works best for employers, learners, providers and Government?**

Question 13: All things considered, which is your preferred model and why?

Question 14: What should the government take into account when making the transition from the current system to your preferred model – or any other models?

Question 15: What impact would adopting your preferred model – and the other models – have on businesses' engagement with and approach to Apprenticeship training?



# How to respond

When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group from the consultation form.

The consultation response form is available at Annex A and electronically on the consultation page: <https://www.gov.uk/government/consultations/apprenticeship-funding-reform-in-england> (until the consultation closes). The form can be submitted by email or by letter to:

Apprenticeship Funding Consultation  
BIS/DfE Joint Apprenticeships Unit  
Department for Business Innovation and Skills  
Orchard 1, 2<sup>nd</sup> Floor  
1 Victoria Street  
London  
SW1H 0ET  
Email: [apprenticeships.consultation@bis.gsi.gov.uk](mailto:apprenticeships.consultation@bis.gsi.gov.uk)

**The closing date for responses is Tuesday 1<sup>st</sup> October 2013.**

# Help with queries

Questions about the policy issues raised in the document can be addressed to:

Apprenticeship Funding Consultation  
BIS/DfE Joint Apprenticeships Unit  
Department for Business Innovation and Skills  
Orchard 1, 2<sup>nd</sup> Floor  
1 Victoria Street  
London  
SW1H 0ET  
Email: [apprenticeships.consultation@bis.gsi.gov.uk](mailto:apprenticeships.consultation@bis.gsi.gov.uk)

The consultation principles are in Annex A.

# Annex A: Consultation principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

## Comments or complaints on the conduct of this consultation

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

John Conway,  
BIS Consultation Co-ordinator,  
1 Victoria Street,  
London  
SW1H 0ET

Telephone John on 020 7215 6402  
or e-mail to: [john.conway@bis.gsi.gov.uk](mailto:john.conway@bis.gsi.gov.uk)

**However if you wish to comment on the specific policy proposals you should contact the policy lead.**

# Annex B: Consultation on Funding Reform for Apprenticeships in England - Response Form

You can email or post this completed response form to:

Postal Address:

Apprenticeship Funding Consultation  
BIS/DfE Joint Apprenticeships Unit  
Department for Business Innovation and Skills  
Orchard 1, 2<sup>nd</sup> Floor  
1 Victoria Street  
London  
SW1H 0ET  
Email: [apprenticeships.consultation@bis.gsi.gov.uk](mailto:apprenticeships.consultation@bis.gsi.gov.uk)

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is: **1<sup>st</sup> October 2013**

## Confidentiality & Data Protection

Please read this question carefully before you start responding to this consultation. The information you provide in response to this consultation, including personal information, may be subject to publication or release to other parties. If you do not want your response published or released then make sure you tick the appropriate box.

Yes, I would like you to publish or release my response

No, I don't want you to publish or release my response

### Your details

Name:

Organisation (if applicable):

Address:

Telephone:

Email:

Please tick the boxes below that best describe you as a respondent to this consultation

Business representative organisation

Independent Training Provider

College

Awarding Organisation

School

Charity or social enterprise

Individual

Legal representative

Local government

Large business (over 250 staff)

Medium business (50 to 250 staff)

- Small business (10 to 49 staff)
- Micro business (up to 9 staff)
- Professional body
- Trade union or staff association
- Other (please describe)

### **The case for funding reform**

**Question 1: Would businesses be prepared to pay more for Apprenticeship training in return for greater influence over its content and delivery?**

Yes

No

Don't know

**Please explain your response:**

**Question 2: What would be the impact of greater co-investment on businesses' decisions to recruit and train Apprentices? And on how businesses deliver Apprenticeship training and deal with training providers?**

**Question 3: What are the advantages and disadvantages of placing government funding in the hands of employers, rather than paying it directly to training providers?**

**Question 4: Would businesses be willing to negotiate the price of training with providers, and what would help them to do this?**

Yes

No

Don't know

**Please explain your response:**

**Question 5: Would the funding principles outlined here raise the quality of training, and its relevance and responsiveness to businesses' needs? Why? Why not?**

**Question 6: What would be the impact of these funding principles on the experience and future prospects of Apprentices?**

#### **Model 1: Direct Payment Model**

**Question 7: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

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#### **Model 2: PAYE Payment Model**

**Question 9: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

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#### **Model 3: Provider Payment Model**

**Question 11: What are the advantages and disadvantages of providing government support for Apprenticeships in this way?**

**Question 12: How should this model be designed to ensure it is easy to engage with – for employers and training providers?**

**Which model works best for employers, learners, providers and government?**

**Question 13: All things considered, which is your preferred model and why?**

**Model 1: Direct Payment Model**

**Model 2: PAYE Payment Model**

**Model 3: Provider Payment Model**

**Please explain your choice:**

**Question 14: What should the government take into account when making the transition from the current system to your preferred model – or any other models?**

**Question 15: What impact would adopting your preferred model – and the other models – have on businesses' engagement with and approach to Apprenticeship training?**

**Thank you for taking the time to let us have your views on this consultation. We do not acknowledge receipt of individual responses unless you tick the box below.**

**Please acknowledge this reply**



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This publication is also available on our website at [www.gov.uk/bis](http://www.gov.uk/bis)

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills  
1 Victoria Street  
London SW1H 0ET  
Tel: 020 7215 5000

If you require this publication in an alternative format, email [enquiries@bis.gsi.gov.uk](mailto:enquiries@bis.gsi.gov.uk), or call 020 7215 5000.

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