

Pearson response to the BIS consultation on an Apprenticeships Levy – Employer owned apprenticeships training

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Organisation details

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I am responding on behalf of an organisation**What is the name of your organisation?**

Pearson

- Employer (over 250 staff)
- Awarding organisation
- Private training provider

Where are you based?

UK-wide

If you are responding as an employer, which sector of the economy are you in?

Public admin, education & health

A brief introduction to Pearson

Pearson welcomes the opportunity to contribute to this consultation on the introduction of an apprenticeship levy. As a major international and UK employer, Pearson invests significantly in the professional development of its people. This supports our wider mission of helping people make progress in their lives through learning as well as making sound business sense. In the UK, we are a national apprenticeship employer as well as a provider of qualifications and assessments for apprenticeships. We also provide work based training and training for the unemployed.

Our approach to the consultation

This submission considers the broad purpose of the apprenticeship programme and explores how the proposed levy might address these, namely to:

- Deliver what employers need from the skills system, and ensure they are able to invest in skills to boost productivity and growth.
- Support individuals to gain the skills, knowledge and experience they need to start work in, or progress in, a range of industry sectors.
- Offer value for money to the public purse, and increase productivity and growth in the economy as a whole.

Executive summary

We have responded to this consultation with the caveat that it is difficult to make detailed comments on the proposed levy given the lack of detail about the rate at which the levy will be set, the size of employer the levy will apply to, and what the levy will pay for.

In principle, Pearson welcomes the introduction of a levy. Evidence¹ tells us that the best apprenticeships work well for individuals, employers and for the economy, and a well-designed levy system will allow spending decisions to be controlled by employers and help ensure all larger employers are involved with the apprenticeship system. A levy also means investment in apprenticeships is given a stable footing and does not fluctuate according to government budgets. This level of stability should help employers take a longer term view of their business and plan for their future skills needs. The introduction of the levy also recognises the importance of the apprenticeship system which in turn supports the apprenticeship brand and could confer higher value and wider recognition of the apprentices' achievements.

This submission makes 12 recommendations in line with the three broad purposes of the apprenticeship programme as outlined above. These are expanded upon in the full response.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/435166/bis_15_323_Measuring_the_Net_Present_Value_of_Further_Education_in_England.pdf

Summary of recommendations

1. *Incentive payments should be made for the 16-18 age-group to recognise the additional costs of employing younger apprentices due to increased staff supervisory time and mentoring support.*
2. *Larger employers should cover the cost of occupational training within apprenticeships, but should not be expected to pay for the English and maths components.*
3. *Larger companies should be able to spend their levy funds on the apprenticeship training they need.*
4. *Government should give employers the option to work directly with multiple providers or take the lead role in delivering apprenticeships. However, in either case, a lead provider, or the employer, should be subject to approval and inspection measures.*
5. *Smaller companies should not be able to access levy funds. However, larger employers should be able to use their levy funds to fund apprentices in supply chain organisations. This would need to be controlled given the limited funding 'pot'.*
6. *Government should clarify how the levy will work for organisations that operate across the entirety of the UK, and employers and employees need to be clear about how funding can be accessed for apprenticeships in Northern Ireland, Scotland, and Wales.*
7. *The Apprenticeship Delivery Board, or other central organisation, should be responsible for ensuring apprenticeship targets do not lead to a decrease in the quality of apprenticeship provision, or to employees taking inappropriate programmes.*
8. *Training providers, or employers, receiving levy funding should be subject to the same approval and inspection measures currently imposed on lead providers.*
9. *The mechanism for the levy should be clarified. It should be simple and not increase bureaucracy.*
10. *A stable and sustainable approach to the development and maintenance of high quality apprenticeship standards needs to be formulated.*
11. *BIS should explore the feasibility of setting up structures to support a collective approach to foster employer engagement, provide direction and strategic direction, and support research and innovation.*
12. *Any central organisation set up to provide direction and strategic objectives, and support research and innovation, should have in its remit skills provision as a whole, which encompasses apprenticeship provision, rather than focus solely on apprenticeship provision.*

Section 1: Delivering what employers need

It is proposed that the levy be introduced in 2017² on all large UK employers to pay for apprenticeships of all ages in England. In principle we welcome the introduction of a levy as it offers a stable and sustainable solution for investment in apprenticeships and overcomes a current issue whereby employers often feel that, if they train, others will free ride.

16-18 year-olds

The consultation highlights that the current system recognises that employing the youngest apprentices can have additional costs for employers such as more staff supervisory time and more mentoring support, and that this is reflected in additional incentive payments for employers recruiting and training 16-18 year olds. Incentive payments for this age-group are particularly important given the relatively low take-up of apprenticeships by the 16-18 age-group³. Apprenticeships can offer 16-18 year-olds a high quality route into learning and work, and a real alternative to traditional A level and university study. We need to be very careful to ensure 16-18 year olds and their employers are not disadvantaged under the levy system and continue to recognise these additional costs.

English and maths within apprenticeship learning

Employers have a role and a responsibility to up-skill their employees and we welcome the recognition of this in the introduction of the levy. However, Apprenticeships are a tripartite investment between employers, employees and the government and the government has a role to play in the funding of all apprenticeships. In many successful dual systems around the world, i.e. those that combine training in a company and vocational education at a vocational school, governments provide public funds to cover the cost of off-the-job training that provides general education and underpinning knowledge. This is highlighted in Hilary Steedman's 2011 report for IPPR Rethinking Apprenticeships⁴:

'The dual system in its purest form shares the costs of apprenticeship training between government (which funds general education) apprentices (who accept reduced earnings) and employers (who bear the costs of occupational training).'

It is debatable whether larger employers should be responsible for covering all the costs of apprenticeships, particularly the English and maths components. In her 2011 report Professor Alison Wolf recommended subsidies are made available to employers when they are involved in general education rather than specific skill training⁵ and a key feature of the national apprenticeship fund proposed in her 2015 report⁶ is that it would mean:

'Anyone who employed an apprentice would benefit by receiving far more than they contributed. Their apprentice's training would be subsidised by the fund at levels well in excess of their own individual contribution.'

² <https://www.gov.uk/government/news/pm-unveils-plans-to-boost-apprenticeships-and-transform-training>

³ <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships>

⁴ http://www.ippr.org/files/images/media/files/publication/2011/11/apprenticeships_Nov2011_8028.pdf?noredirect=1

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/180504/DFE-00031-2011.pdf

⁶ <http://www.smf.co.uk/wp-content/uploads/2015/07/Social-Market-Foundation-Publication-Alison-Wolf-Fixing-A-Broken-Training-System-The-Case-For-An-Apprenticeship-Levy.pdf>

Employer choice over delivery and spending

Employer choice is important; it gives employers very real control. Larger companies should be able to spend their levy funds on the apprenticeship training they need. They should be able, for example, to deliver far fewer more expensive high level apprenticeships, should the business need it.

Government should give employers the option to work directly with multiple providers or take the lead role in delivering apprenticeships if they choose to do so. Some employers will be happy to manage their apprenticeships directly whilst others would prefer this to be managed by a lead provider or multiple providers. However, checks need to be built into the system to ensure the levy is being used to deliver high quality apprenticeship training and if employers work with multiple providers then a lead provider, or the employer, should be subject to approval and inspection measures.

Small and medium employers

Small and medium businesses (SMEs) are a key feature of the economy in the UK. In 2014 99% of all businesses were SMEs, 5.2 million SMEs accounted for 60% (15.2 million) of UK private sector employment, and their combined annual turnover was £1.6 trillion (47% of turnover in the private sector). However, the proportion of take up of apprenticeships in SMEs is, at best, just under 10%⁷ which is less than half that of larger companies. Changes have been made to the apprenticeship programmes for SMEs: they have been involved in the development of the trailblazer standards, and they will be subject to the same voucher system used by large employers subject to the levy. Both of these initiatives aim to give employers more ownership and responsibility for the apprenticeships programme.

The consultation suggests that a proportion of the apprenticeship funding raised from larger companies could be used to support apprenticeship training by smaller companies that have not paid the levy. We would have a number of concerns with this approach:

- It assumes money will be held back from larger companies, or that the 'pot' will be under-spent. The first option is impractical and the second is not a long term solution.
- If smaller companies access the levy it implies that training is free and there is a danger that this will lessen its value.

We do not support the proposal that smaller companies could access the levy funds to support apprenticeship training. However, should larger employers want to use their share of levy funds in supply chain organisations it would be reasonable to allow these employers to spend their apprenticeship funding on training for apprentices that are not their own employees. This needs to be controlled given the limited funding 'pot'.

Employers operating across the UK

Pearson works with UK wide organisations, and is a UK wide organisation. The levy proposals will be significantly difficult to implement for such organisations because many employees work in different UK countries throughout their employment. The MoD, for

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf

example, engages apprenticeships across the UK. Some apprenticeships start their apprenticeship in England; many are then posted to Scotland, Wales or Northern Ireland part way through their training. A system whereby employers in England receive vouchers to spend on apprenticeships in England also makes it difficult to maintain a policy of equality of opportunity across a large UK-wide company. Employers need to be clear about their employees' entitlements to apprenticeship funding both in England and across the UK.

Pearson recommends:

- 1. Incentive payments should be made for the 16-18 age-group to recognise the additional costs of employing younger apprentices due to increased staff supervisory time and mentoring support.*
- 2. Larger employers should cover the cost of occupational training within apprenticeships, but should not be expected to pay for the English and maths components.*
- 3. Larger companies should be able to spend their levy funds on the apprenticeship training they need.*
- 4. Government should give employers the option to work directly with multiple providers or take the lead role in delivering apprenticeships. However, in either case, a lead provider, or the employer, should be subject to approval and inspection measures.*
- 5. Smaller companies should not be able to access levy funds. However, larger employers should be able to use their levy funds to fund apprentices in supply chain organisations. This would need to be controlled given the limited funding 'pot'.*
- 6. Government should clarify how the levy will work for organisations that operate across the entirety of the UK, and employers and employees need to be clear about how funding can be accessed for apprenticeships in Northern Ireland, Scotland, and Wales.*

Section 2: Supporting individuals of all ages

As highlighted above, apprenticeships are a tripartite investment between employers, employees and the government. Apprentices invest their time and often work for a salary below the normal minimum wage in order to develop productive and valued skills. We need to ensure the introduction of the apprenticeship levy supports the needs of employers, and of the UK economy, but we also need to ensure it protects the interests of apprentices.

Protecting the quality of apprenticeships

We know that targets, and the allocation of funds to targets, can create perverse incentives to re-badge existing delivery in order to release funding. The danger is that employees are pushed into apprenticeships for financial rather than educational purposes. This could result in learners undertaking inappropriate programmes, for them, and for business. The CBI highlight this in their response to the Spending Review⁸:

'... levies typically distort skills systems by incentivising quantity over quality and by encouraging employers to invest solely in levy funded programmes at the expense of other – often more appropriate – forms of training.'

Apprentices need to be confident that the apprenticeship training they invest in is high quality and will allow them to develop productive and valuable skills. Employers also need to have confidence that the levy is being used to invest in high quality training across all sectors. We need to ensure that levy funds are being spent on the right training, and ensure that other valuable forms of training aren't abandoned as a result of the levy; apprenticeships are not suitable for everyone or always the preferred training route for employers.

In Section 1 we stressed that employer choice is important; the principle of choice gives employers very real control and government should give employers the option to work directly with multiple providers or take the lead role in delivering apprenticeships if they choose to do so. However, checks need to be built into the system to ensure the levy is being used to deliver high quality apprenticeship training. Training providers and/or employers receiving levy funding should therefore be subject to the same quality measures currently imposed on lead providers. This will ensure the quality of training is monitored, and that apprentices can themselves be confident of the quality of the provision they are investing in.

Pearson recommends:

7. *The Apprenticeship Delivery Board, or other central organisation, should be responsible for ensuring apprenticeship targets do not lead to a decrease in the quality of apprenticeship provision, or to employees taking inappropriate programmes.*
8. *Training providers, or employers, receiving levy funding should be subject to the same approval and inspection measures currently imposed on lead providers.*

⁸ <http://news.cbi.org.uk/news/cbi-identifies-16-3-billion-savings-ahead-of-comprehensive-spending-review/cbi-submission-ahead-of-the-comprehensive-spending-review/>

Section 3: Offering value for money to the public purse and increase productivity and growth

If government introduces a levy it needs to ensure that this employer investment offers value for money and achieves the overall aim of increasing growth in the economy. This is also crucial to ensuring the apprenticeship brand remains strong and credible.

Implementing a mechanism for collecting the levy

Collecting the levy through a simple IT system using the existing PAYE system is an attractive approach but the proposed collection method would be dependent on a technology interface between the HRMC, employers, and the Skills Funding Agency. This, potentially expensive, IT system would need to be functioning in a relatively short period of time and be flexible enough to cope with changes to who contributes to the levy (as companies grow in size and become eligible for the levy) and changes to levy charges (as companies grow and contract). It also needs to be simple and avoid the bureaucracy that is still a concern for many large employers. The CBI/Pearson Education and Skills Survey 2015⁹ found that recent reforms to apprenticeships in England are viewed as very or largely positive (by 81% of those offering an opinion), but there are still concerns over bureaucracy and red tape (29% of all respondents).

There is little detail available as yet about the system, and we have a number of questions on the proposed approach which include: Who will pay for the development of the system? Will an impact assessment of the investment in the system be carried out? Would BIS ensure a system is in place before training providers need to commit to delivering training? How will the levy be calculated? How will VAT be applied within the system?

Sustainability of developing new standards

It is not clear from the consultation what the levy will pay for. In section 25 it states that 'other activity associated with apprenticeships, for example the cost of the development of new apprenticeship standards, will not be able to be paid for with the levy funding' but question 11 asks 'How can we be sure that the levy supports the development of high-quality apprenticeship provision?' It is important that we consider what these funds can be spent on, and whether the levy should contribute to the long term sustainability of the apprenticeship system.

Trailblazers have brought together employers to work together to design the standards and assessment approaches for apprenticeships. The aim is to ensure the development of quality apprenticeship standards more relevant to industry. Employers have the opportunity to define the skills, knowledge and behaviour required in their future workforce and this will mean apprenticeships can more directly support businesses to grow. However, these groups may not be sustainable in the long term. The BIS Evaluation of the Apprenticeship Trailblazers: Interim report 2015¹⁰ found that:

⁹ <http://news.cbi.org.uk/business-issues/education-and-skills/gateway-to-growth-cbi-pearson-education-and-skills-survey-2015/>

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410370/bis-15-130-evaluation-of-the-apprenticeship-trailblazers-interim-report.pdf

'The more recent research suggests that Trailblazer developments have continued to demand significant time and resource from those involved and this may raise challenges for sustainability. It is far from clear how long this extent of support can be maintained. In the most recent round of research, despite goodwill on the part of individuals involved it was apparent that many companies were questioning the resource that Trailblazer development required.'

Employer engagement is a crucial element of the long-term sustainability of a successful apprenticeship system. To take some examples from successful apprenticeship systems around the world:

- In Alberta, Canada, provincial industry advisory committees are involved in monitoring standards and supporting employers in the development of training and certification standards for new and emerging occupations.
- In Austria each apprenticeship has a national training regulation designed by advisory councils comprising the social partners (government, employers and trade unions) setting out the competence-based curriculum to be followed in the company.
- In Denmark the governance structure of initial vocational education and training is through a combination of national laws and a social partnership between employers, trade unions and government.

There is no indication that any funding raised from the levy can be used for development of provision, and no indication as to who is responsible for the maintenance of the standards.

Direction, strategic objectives, and structures to support a collective approach

Direction and strategic objectives are crucial to ensure policy keeps up with rapid changes in the skills system and provide research and innovation. Hilary Steedman¹¹ notes that the Swiss have recognised the need for innovation and explains that the Swiss government have set the direction and strategic objectives for apprenticeship provision:

The aims are: transparency and flexibility of apprenticeship programmes, apprenticeships better differentiated to meet the diverse needs of school-leavers, a unified system of apprenticeships and other vocational preparation with progression to tertiary level. To achieve these aims ... [there is] ... increased financial support for apprenticeships in the form of increased government funding for off-the-job apprentice learning (vocational schools), each sector to organise a firm levy to reduce 'free riding' and support apprenticeships, increased public funding for research and innovation.

By contrast, Steedman notes that in the Austrian apprenticeship system:

'Lack of leadership and strategic vision at government level mean there has been no significant innovation in apprenticeships. Little attempt has been made to expand apprenticeships in new strategic sectors of the economy and to provide bridges from apprenticeships to further study and thus attract brighter students.'

¹¹ http://www.ippr.org/files/images/media/files/publication/2011/11/apprenticeships_Nov2011_8028.pdf?noredirect=1

Professor Alison Wolf has also commented on England's lack of a strategic approach towards apprenticeships. She has criticised the targets which do not concentrate on high-value apprenticeships in manufacturing and engineering which historically Britain has been bad at fostering.

A central board should be set up to oversee the direction and strategic objectives for apprenticeship provision.

Our research¹² into the role, purpose and value of vocational education and training in a range of countries regarded as having high performing systems also shows these countries tend to have a strong culture of social partnerships between employers, employees, training providers and government, at a national and local level, to ensure the maintenance of a responsive system. A strong governance system is also in place to ensure high levels of participation with small and medium enterprises.

A unified skills solution

If a central organisation is put in place to provide direction and strategic objectives, and support research and innovation, this should have a broad remit that covers skills provision as a whole, which includes apprenticeship provision, rather than focuses solely on apprenticeship provision. This would ensure apprenticeships are not dealt with in isolation and that we develop a unified skills strategy that examines all valuable forms of training; apprenticeships are not suitable for everyone or always the preferred training route for employers.

Pearson recommends:

9. *The mechanism for the levy should be clarified. It should be simple and not increase bureaucracy.*
10. *A stable and sustainable approach to the development and maintenance of high quality apprenticeship standards needs to be formulated.*
11. *BIS should explore how to provide direction and strategic objectives, and support research and innovation, and how to set up structures support a collective approach to foster employer engagement.*
12. *Any central organisation set up to provide direction and strategic objectives, and support research and innovation, should have in its remit skills provision as a whole, which encompasses apprenticeship provision, rather than focus solely on apprenticeship provision.*

¹² Vocational Education and Qualifications: An International Comparative Review by Professor Lorna Unwin, Chair in Vocational Education, Institute of Education, University of London, unpublished but available on request.