

North East Derbyshire District Council

Cabinet

14 December 2016

Apprenticeship Reforms

Report of Councillor N Barker, Portfolio Holder with Responsibility for Human Resources, Training and Member Development

This report is public

Purpose of the Report

- To provide information on the new apprenticeship levy and apprenticeship start targets due to be introduced in April 2017, and how they impact on the Council and establish if the Council wishes to collaborate with its strategic alliance partner on its response to the government's Apprenticeship Reforms.
- To consider the various options for optimising apprenticeship funding, achieving the Public Sector Target and contributing towards the Council's corporate aims.

1 Report Details

Apprenticeship Levy

- 1.1 The government announced a new apprenticeship levy in the Summer Budget 2015. The purpose of the levy is to fund an increase in the number and quality of apprenticeships and to meet the government's target for 3 million apprenticeship starts by 2020.
- 1.2 The apprenticeship levy will be introduced in April 2017 and will apply to all employers with an annual payroll of more than £3 million. The levy will be charged at a rate of 0.5% and payments will be collected monthly by HM Revenue and Customs (HMRC) through Pay as You Earn (PAYE). There will be a £15,000 fixed annual allowance for employers to offset against their levy payment, and the government will apply a 10% top-up to monthly funds entering levy paying employers digital accounts.
- 1.3 The total annual funding will then be made available back to the Council via a new Digital Apprenticeship Service (DAS) account, which will be used to pay for apprentices training, assessment and certification costs. The levy cannot be used to cover apprentices' wages and other associated costs e.g. overheads and supervision costs. Funding caps will be in place to limit the amount of levy funds that can be spent on training for an individual apprentice, and this will vary according to the level and type of apprenticeship.

- 1.4 Levy funds must be used to train apprentices against an approved standard or framework, delivered by an approved provider. This includes either existing staff or new recruits as long as the training meets an approved standard or framework and the individual meets the apprentice eligibility criteria.
- 1.5 All existing and new apprenticeship frameworks and standards will be placed within one of 15 funding bands, starting at £1,500 for band 1 and up to £27,000 limit for band 15. The appropriate band will depend on the level and type of apprenticeship. The Council will be able to negotiate the best price for the training they require but the cost cannot be any less than the limit indicated for the particular band.
- 1.6 A new independent body, led by employers, called the Institute for Apprenticeships will be established to regulate the quality of apprenticeships. The institute's role will be to advise on setting funding caps, and approving apprenticeship standards and assessment plans. It will be established in 2016 and will be fully operational by April 2017.

Apprenticeship Targets

- 1.7 In January this year, the government consulted on its intention to introduce a target for public sector employers in order to meet its target for 3 million apprenticeship starts by 2020. The target will be a minimum of 2.3% 'starts' each year based on the headcount of employees for all public sector employers employing more than 250 employees (This could include existing employees commencing apprenticeship training as well new apprentices). The outcome of the consultation may see this target being revised to apply to the number of full time equivalents (FTEs) instead of employee headcount.

What this means for each Council

- 1.8 Based on the Council's current pay bill, the following apprenticeship levy has been forecast by the Council's finance department:

North East Derbyshire District Council

Year	Levy	10% top-up (govt funded)	Total
2017-18	£36,961	£3,696	£40,657
2018-19	£37,307	£3,730	£41,037

- 1.9 A 2.3% apprenticeship 'starts' target, based on employee headcount and FTEs (the government are still to confirm which it will be based on):

North East Derbyshire District Council		Annual Target
Headcount	479	11
FTEs	361	8

1.10 Benefits of employing apprentices include:

- **Building the talent pipeline:** apprenticeships can be used either for new recruitment or to develop internal talent to fill skills gaps
- **Developing existing staff:** relevant for anyone wanting to develop new skills and advance within the organisation
- **Social mobility:** provides opportunities for people from diverse and disadvantaged backgrounds to gain skills and progress

1.11 Research demonstrates a high level of return on investment delivered by apprenticeships, indicating that adult apprenticeships at levels 2 and 3 deliver £26 and £28 of economic benefits respectively for each pound of government investment¹. The lifetime benefits for those who complete apprenticeships are also significant, at between £48,000 and £74,000 for level 2, and between £77,000 and £117,000 for level 3². Higher apprentices could earn £150,000 more on average over their lifetime compared to those with level 3 vocational qualifications³.

1.12 Assuming the Council will want to maximise the funds available for apprenticeship training, the apprenticeship levy and target for apprenticeship starts will come into play in April 2017. The Council will therefore need to start preparing to ensure:

- Plans are in place to meet or exceed the apprenticeship start targets
- The apprenticeship levy can be fully utilised
- The financial impact on the Council is minimised
- New skills are developed in line with the Council's corporate aims, either within existing staff or by recruiting new apprentices.

1.13 To achieve the above, consideration should be given to developing and implementing an apprenticeship strategy that involves recruiting new apprentices combined with apprenticeship opportunities for existing members of staff.

New Apprentices

1.14 For new apprentices, there are a number of options and a combination of some/or all may be preferable:

- a) All entry level positions could be first considered for their suitability as an apprenticeship; like an 'apprenticeship presumption' default position when recruiting new members of staff.
- b) When the above applies to an existing post that has become vacant, savings can be demonstrated by converting the position into an apprenticeship (it may be necessary to ensure the original post remains on the establishment so to provide a progression route for the apprentice if appropriate or alternatively the Apprentice could be placed on a fixed term contract and once they have completed or during their apprenticeship they will be able to apply for vacancies to progress)* **see note under 1.4 f**. This will ensure a bigger turnover of apprentices.

¹ www.gov.uk/government/publications/further-education-measuring-the-net-present-value-in-england

² London Economics (2011) – BIS Research Paper Number 53, Returns to Intermediate and Low Level Vocational Qualifications, September 2011

³ AAT and CEBR – Is a university degree the best route into employment?

- c) The 'request to fill a vacancy' form is amended to require the relevant member of SAMT to justify the post not being an apprenticeship opportunity.
- d) Use higher level apprenticeships as an alternative to graduate recruitment.
- e) An apprenticeship career progression route may be appropriate for some positions, for example, starting at a level 2 and progressing to a level 3 and then level 4. The apprenticeship target relates to apprenticeships undertaken, not people, so someone following this route would potentially count as 3 apprenticeships.
- f) It is anticipated that even with the above options realised it may prove challenging to achieve the target set, particularly as the target is based on apprenticeship starts and not the number of apprentices and consequently once an apprentice starts a 3 year programme for instance, this will only be counted once and not for subsequent years on the programme. Therefore the Council may wish with its strategic alliance partner to set up a separate annual Apprenticeship programme for young people with the main aim to provide them with a foundation of experience and qualification to enable them to gain permanent employment either with the Council or with another employer. **NB. This option may not be practicable as the Skills Funding Agency has recently issued new draft funding rules which include the following requirement: "There must be a genuine job available after the apprenticeship is completed"** Clarification is being sought on this as there has been the suggestion that this only applies to Apprenticeship Training Agencies (ATAs).

See the table below for the estimated annual costs for such a programme (based on each programme running with 6 apprentices each year). The programme could be set up for a 3 year period to establish over this period how effective the Council has been in utilising its levy and achieving its target.

1.15 For existing members of staff:

- g) Departments to identify potential skills gaps within departments, for example, those with an ageing workforce, and developing skills within existing employees to fill those gaps.
- h) For organisational reviews, the relevant member of SAMT to demonstrate that apprenticeship options have been fully explored and considered. The policy to be amended to reflect this requirement.
- i) Develop existing staff through apprenticeships; this could be relevant for anyone wanting to develop new skills.
- j) Future training requirements are considered on the basis as to whether an apprenticeship is available and also look at converting future planned training into apprenticeships where appropriate. For example, in 2013, 8 employees were supported at level 3 and 6 employees were supported at level 5.

Estimated Total Annual Costs (with on-costs) of an Apprenticeship Programme (These figures would be halved if the programme is jointly funded across the strategic alliance)

Under 18s (£4 per hour)	Aged 18 – 20 (£5.55 per hour)	21 and Over (£6.95 per hour)	National Living Wage rate (£7.20 per hour)
£60,029 (£10,004 per apprentice) (see 1.17 below)	£84,570 (£14,095 per apprentice)	£104,298 (£17,383 per apprentice)	£108,051 (£18,008 per apprentice)
<i>Plus the cost of a part time Co-ordinator post (£15500 – including on costs) (see 1.18 below) This could potentially be jointly funded by the Strategic Alliance.</i>			

***There is a commitment in place across the strategic alliance to not pay less than the Living Wage. Members may wish to consider an exception in the case of apprentices.**

Other considerations

- 1.16 The government has recently consulted about the funding rules and have indicated that if a levy paying employer wants to invest more in apprenticeship training than they hold in their digital account, the government will meet 90% of this additional cost with the employer contributing 10%. This provides a significant incentive to employers who wish to receive additional funding.
- 1.17 The government will pay £1000 to each employer to help meet the additional costs associated with employing young (16 to 18 year old) apprentices. This will initially be paid to employers via the training provider.
- 1.18 Subject to whether an annual programme(s) is established, it is envisaged that an Apprenticeship Co-ordinator post would need to be established to ensure Apprentices/line management received support to ensure performance and that training/assessment was managed and monitored effectively. They would also work closely with the Training Provider(s) to ensure the quality of training and learner support was delivered as required.
- 1.19 New standards and assessment plans are being designed by groups of employers. Initially the government had intended all new apprenticeship starts to be on the new standards by 2017/18 but this aim has been delayed, in part due to the complexity created by the introduction of the levy. Attached at Appendix 1 is the current list of Apprenticeship Standards for members' information.
- 1.20 Members will note that there are, however, some key vocational areas within the council that are not yet associated with apprenticeships that could benefit from being so, for example, Planning and Environmental Health.

2 Conclusions and Reasons for Recommendation

- 2.1 The government's apprenticeship reforms will start to impact on the Council from April 2017 through the requirement to pay an apprenticeship levy of 0.5% and meet a minimum of 2.3% apprenticeship starts annually. A number of options have been outlined in the body of this report which aim to ensure that the Council makes

optimum use of the levy. It is hoped that with a combined collaborative approach, resources can be shared and efficiencies can be found and the Council will ensure better purchasing powers.

3 Consultation and Equality Impact

- 3.1 The government has undertaken consultation across employers on the arrangements for the apprenticeship levy, the move to new Apprenticeship standards and public sector apprenticeship starts. Feedback from the apprenticeship starts target consultation may result in the target being based on FTEs instead of employee headcount; an outcome is expected June 2016.
- 3.2 Subject to Cabinet's agreement an Equality Impact Assessment will be undertaken to ensure there is no differential impact. Furthermore the policy will run alongside the existing recruitment and selection and learning and development policies, which will assist in preventing discrimination to disadvantaged and vulnerable groups.

4 Alternative Options and Reasons for Rejection

- 4.1 A number of options have been discussed within the body of the report (1.14 – 1.20). An alternative would be to either do nothing or agree to implement some of the options open to the Council but not all. The option to do nothing has been rejected on the basis that:
- The levy will be collected by HMRC regardless so it is in the Council's best interest to maximise use of the funding
 - It is considered that this is an opportunity to embed apprenticeships across the strategic alliance as a way of developing new talent and up skilling existing staff
 - Although there is no penalty for not achieving apprenticeship start targets, public sector employers will be expected to publicise data under the transparency agenda.
- 4.2 To agree to do some of the options included at 1.14 and 1.15 but not all, could potentially jeopardise the Council's ability to achieve the 2.3% target and possibly not maximise its levy investment and benefit from the additional incentives provided by the government once the levy account is exhausted.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 The Apprenticeship levy for the Council has been forecast by the Finance department and is detailed in Section 1.8. In addition to the levy, there are potentially other costs that need to be considered, including the wage and overhead costs of employing new and additional apprentices aimed at increasing social mobility as well as the inclusion of a Co-ordinator post to manage the programme.
- 5.1.2 Potentially there could be savings made through the conversion of vacant positions into apprenticeships as detailed in 1.14.

The additional costs of establishing an annual apprenticeship programme would be in region of £75,000 to £125,000 subject to rates of pay offered to apprentices. Given that the Apprentices will be provided with a high quality training and work experience programme it is anticipated that they will make a significant contribution to service provision and as such they should enable savings to be secured that offset the projected increase in costs. As the operation of the scheme is clarified by central government and local implementation plans are developed Officers will be able to provide a more detailed assessment of both the local scheme and projected costs for consideration by Members.

- 5.1.3 The government also released a further draft of funding rules last month which included the following provision in relation to any apprenticeship whose training is funded via the levy: “***There must be a genuine job available after the apprenticeship is completed.***” Clarification is being sought from the Skills Funding Agency as to whether this just applies to Apprenticeship Training Agencies (ATAs). Any such provision is likely to result in an impact of low turnover of apprenticeship opportunities.
- 5.1.4 The government has not introduced a penalty for the failure to achieve the Council’s apprenticeship target but the consequences of not performing well against the target may result in adverse publicity locally, as the Council’s performance against the target set has to be published.

5.2 Legal Implications including Data Protection

- 5.2.1 None identified

5.3 Human Resources Implications

- 5.3.1 There will be HR implications during the scoping stages for the HR & Payroll service. There will also be implications for managers in their roles as supervisors for apprentices.

6 Recommendations

- 6.1 That Cabinet agree to endorse the Strategic Alliance Management Team to implement an Apprenticeship Strategy to include the options included in 1.14 and 1.15 with a view to maximising the new Apprenticeship Levy and provide the opportunity for the Council to achieve its Apprenticeship target.
- 6.2 The Council agree to pay the national pay rates for Apprentices.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	<p>Transforming our Organisation – by developing the skills of existing and potential new employees</p> <p>Unlocking our Growth Potential – by taking a lead as the public sector and supporting people to improve their employability skills and raise aspirations.</p>

8 Document Information

Appendix No	Title
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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