

# Developing the right systems and process to support SMEs and micro-businesses with apprenticeships

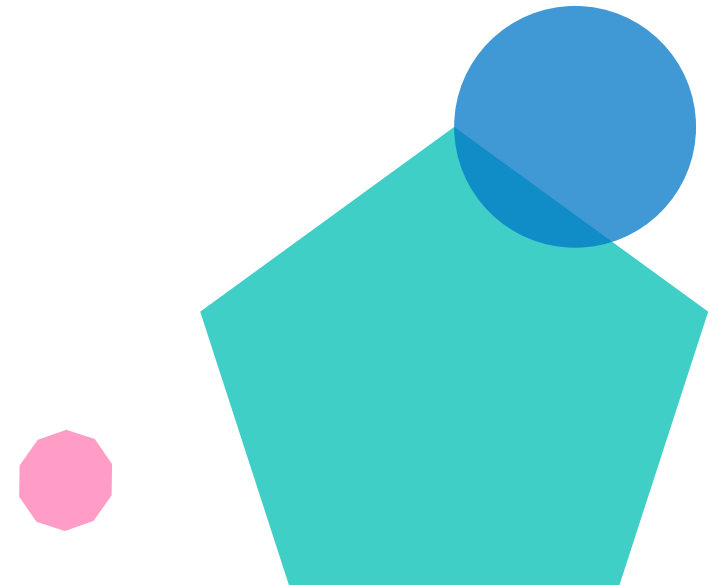
**Monday 3 July, 2017**

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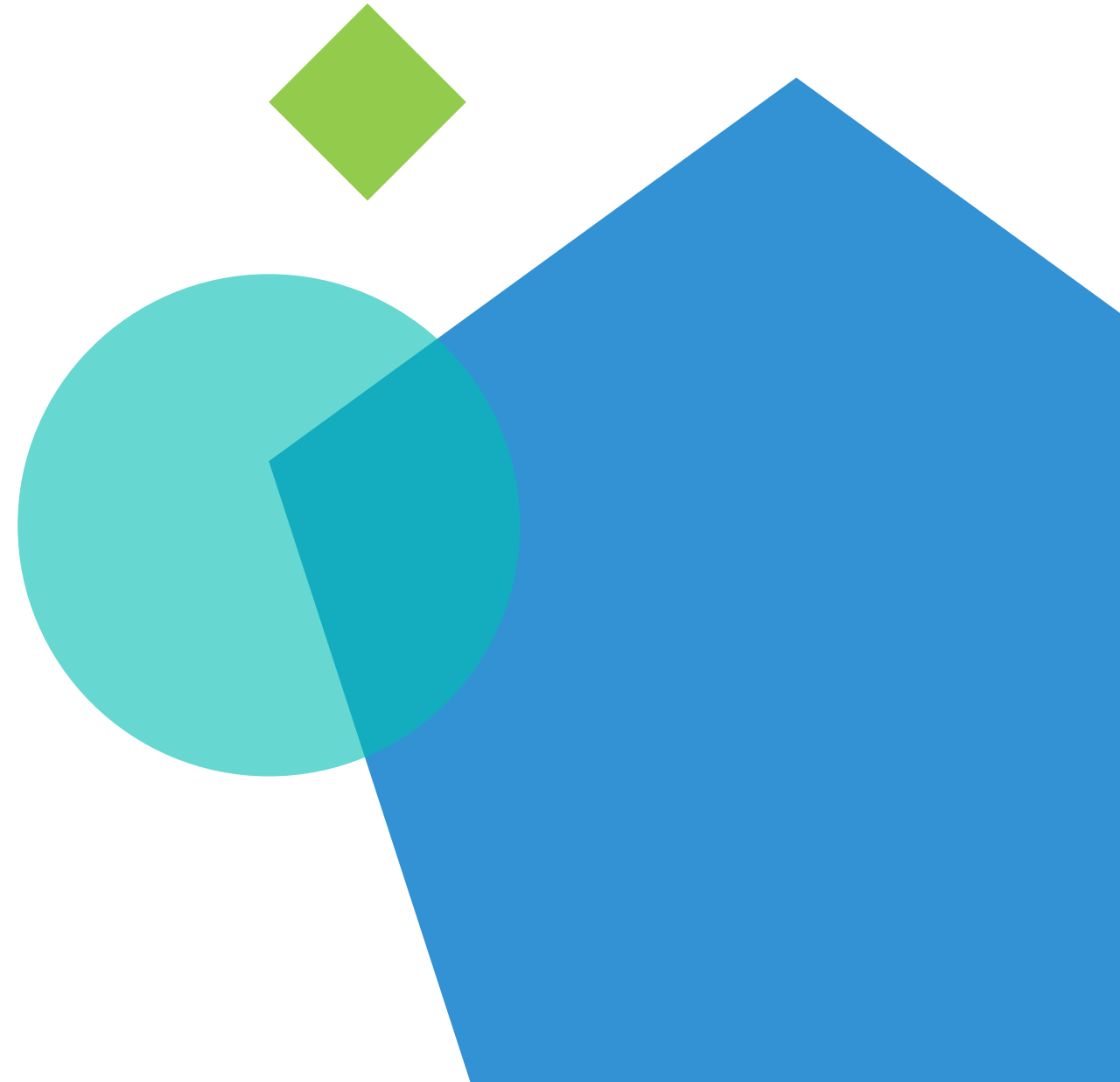


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- Introductions
- A summary of funding changes for non-levy payers and changes to sub-contracting arrangements for non-levy delivery
- Defining your SME offer
- Successful engagement with SME/micro businesses
- Practical ideas on contract negotiation, finalising contracts and setting up payment processes
- Q & A – Insights from the audience



# Summary of funding and sub-contracting changes



# Levy funding and sub-contracting policy update

- The Government is committed to significantly increase the quantity and quality of apprenticeships in England to reach 3 million starts by 2020.
- To enable this, Government has introduced an employer apprenticeship levy, payable from April 2017.
- Employers with a payroll under £3 million will not pay the levy. A co-investment arrangement with the Government has been implemented.
- The levy and apprenticeships are part of the plan to contribute to improving workforce skills and the economy into the 2020's
- Use of the levy and how providers and employers spend it will be carefully monitored by the ESFA and IfA, with potential sanctions imposed on providers who do not adhere to the rules.
- There has been a recent addendum to the ESFA funding rules relating to sub-contracting for delivery to **non-levy paying employers. Dual interim arrangements!**



# Dual system – levy and non-levy paying employers from May 2017

**Employers with a pay-bill  
under £3million  
(non-levy paying)**



Will co-invest on 1:9 ratio with government for the delivery of apprenticeship standards and frameworks.

There are a variety of incentives for employers and providers and uplifts for 16-18 apprenticeships

**Employers with a pay-bill  
over £3million  
(levy paying)**

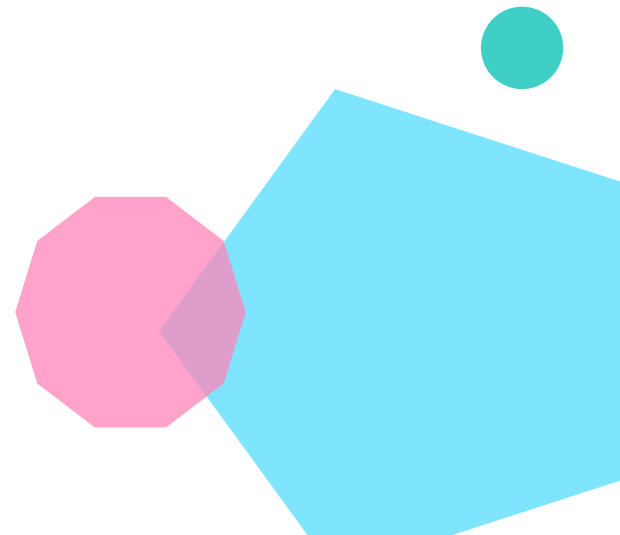


Pay an apprenticeships levy via PAYE and HMRC – funds go into an Apprenticeship Service account.

With 10% additional top-up from government. The levy can only be spent on training and assessment of apprenticeships.

# Non-levy paying and SME support

- Non-levy paying employers will contribute 10% of the cost of an apprenticeship and the Government will contribute 90% of the cost, in the co-investment arrangement.
- Employers with fewer than 50 (49 or less), employees will pay no contribution if they take on a 16-18 year old apprentice, or 19-24 year olds who were formerly in care or who have an education and health care plan:
  - These apprenticeships are fully funded by the government.
- Government will contribute £2,000 towards the cost of all 16-18 apprenticeships. £1,000 for the employer, £1,000 for the provider. This funding is claimed as follows:
  - 50% after 90 days
  - 50% after 365 days
- Providers will receive the additional payments due to the employer and must pass these on in full within 30 working days of receiving this funding from the ESFA.

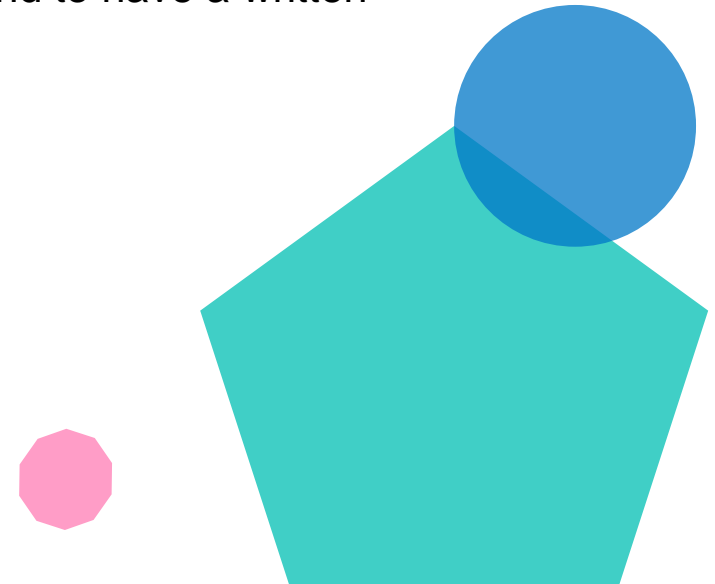


# New sub-contracting addendum – delivery to non-levy/SME employers

The amendments set out in the addendum cover all sub-contracting of non-levy funded apprenticeship started from the 1 May 2017 to 31 December 2017 and are:

Removal of the requirement for:

1. Main providers to deliver some of the employer's apprenticeship programme.
2. Main providers to agree a plan for the delivery of each apprenticeship at the outset and to have a written agreement with the employer.
3. Main provider to maintain the relationship with each employer at all times.
4. Not allowing a delivery subcontractor to lead the relationship with the employer.



# New sub-contracting addendum – delivery to non-levy/SME employers

In addition to the addendum of these requirements from the common funding rules:

1. Permission must be sought from the ESFA to subcontract for the first time.
2. Second-level subcontracting is allowed on an exceptional basis – permission must be first sought from the ESFA.
3. Publishing of provider's sub-contracting fees and charges policy and the publication of actual fees and charges at a time the ESFA advise.
4. What support you offer to sub-contractors for the fees you charge.
5. The funding paid to and retained for each sub-contract you hold.
6. The above only applies to full provision sub-contracting.
7. New rules specifically to the addendum:
  - Collection of non-levy paying employers' co-investment contribution - the recording and evidence collection responsibility remains with the main provider, but collection and evidence can be passed to the sub-contractor. Financial transactions must be visible.





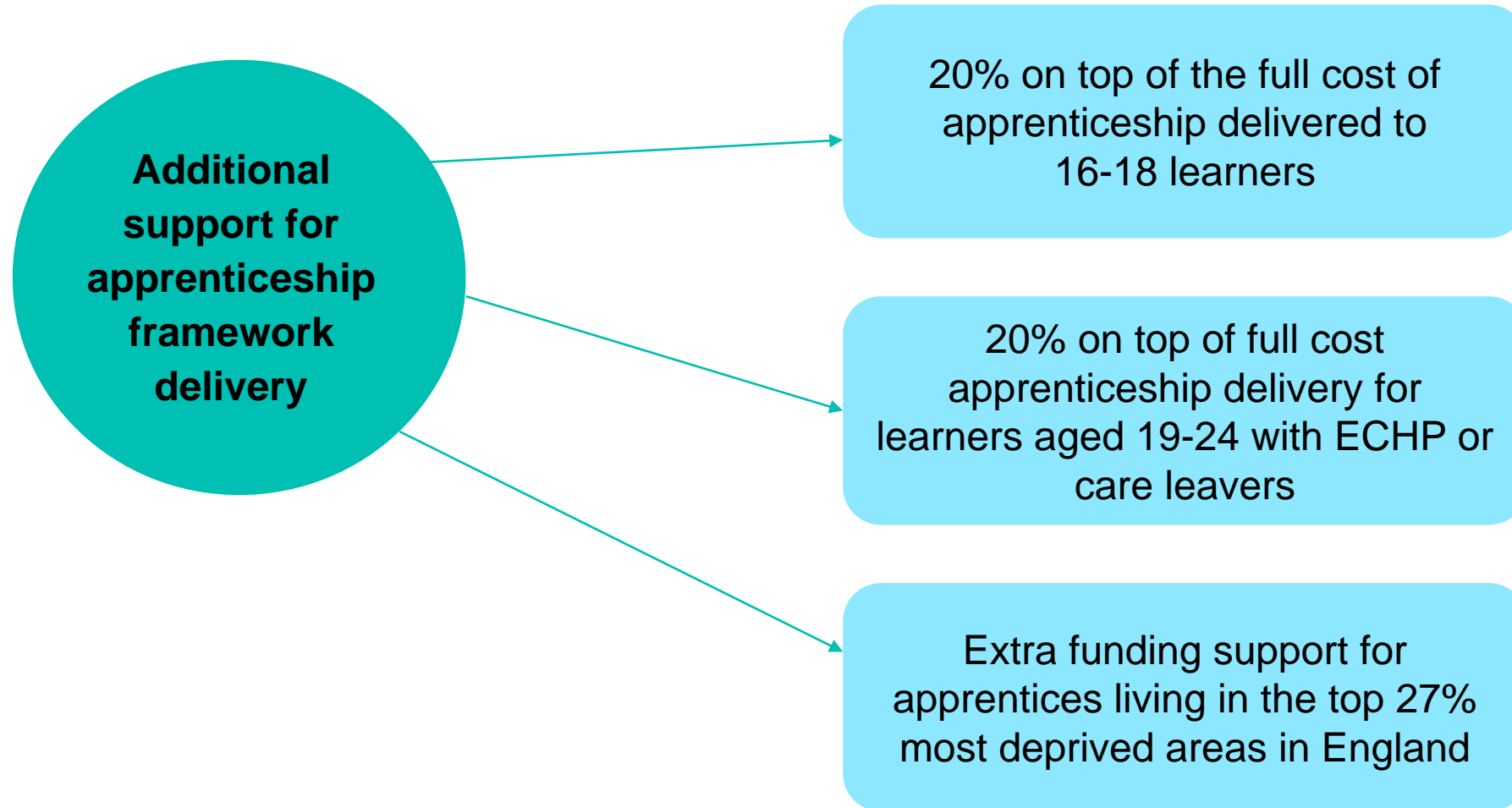
## Co-investment funding (non-levy payers)

Co-investment funding for new standards from May 2017:

Standard name	Funding band	Government contribution	Employer contribution	16-18 employer incentive	16-18 Provider incentive
Network Engineer (4) / Software Developer (4)	Band 12: £18,000	£16,200	£1,800	£1,000	£1,000
Infrastructure Technician (3)	Band 11: £15,000	£13,500	£1,500	£1,000	£1,000
Customer Service Practitioner (2)	Band 2: £4,000	£3,600	£400	£1,000	£1,000
Dental Nurse (3)	Band 9: £9,000	£8,100	£900	£1,000	£1,000

**Note:** Providers must evidence employer contribution and keep the audit trail. If this is not available to the ESFA when asked for, they will remove funding.

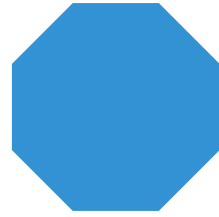
## Additional funding support for frameworks



# Definition of SME – evidence requirements

- The ESFA defines the number of employees as the number of people with a contract of employment. This must be calculated using the average number of employees with a contract of employment in the 365 days before the apprentice is recruited.
- If the average number of employees is 49 and the recruitment of apprentices takes this number to 50, the employer will still be eligible to receive this extra support.
- Before any apprenticeship starts, providers must have evidence from the employer that the apprentice and employer are eligible for the waiving of the employer contribution.
- Providers must keep this evidence for audit in the apprenticeship evidence pack.
- ILR data return flags the SME evidence and ensures full funding.
- If the price agreed for the apprenticeship is above the maximum of the funding band, the employer must pay the extra, even if they have 49 employees or fewer:
  - eg for a non-mandatory qualification examination, certification and registration fees.





# Defining your SME offer

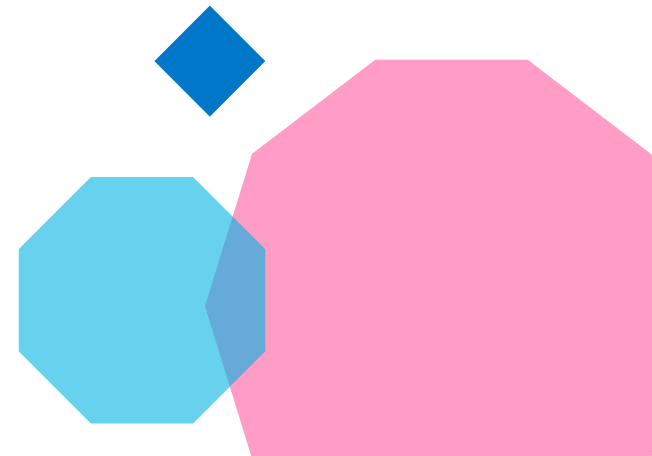
# Defining your offer

## Consider the following options:

- **Qualification-based:** A delivery model that includes the learning and practical training to prepare for the mandatory assessments specified by the trailblazer group.
- **Bespoke programme:** A provider or employer may develop their own bespoke programme of learning and training that prepares the apprentice for end assessment.
- **A bespoke programme with accreditation:** A provider can choose to accredit their programme with an awarding organisation.

## Add value to your offer for employers

- Awareness days
- Employer support and training
- Employer engagement
- Support in initial assessment
- Support in recruitment
- Publicity



# Pricing and affordability

## When reviewing pricing and affordability, ensure that you consider:

- Overheads
- Programme content
- End assessments
- Economy of scale
- What is your apprenticeship offer?
- Which apprenticeships you can deliver and what's the minimum amount you can deliver them for?

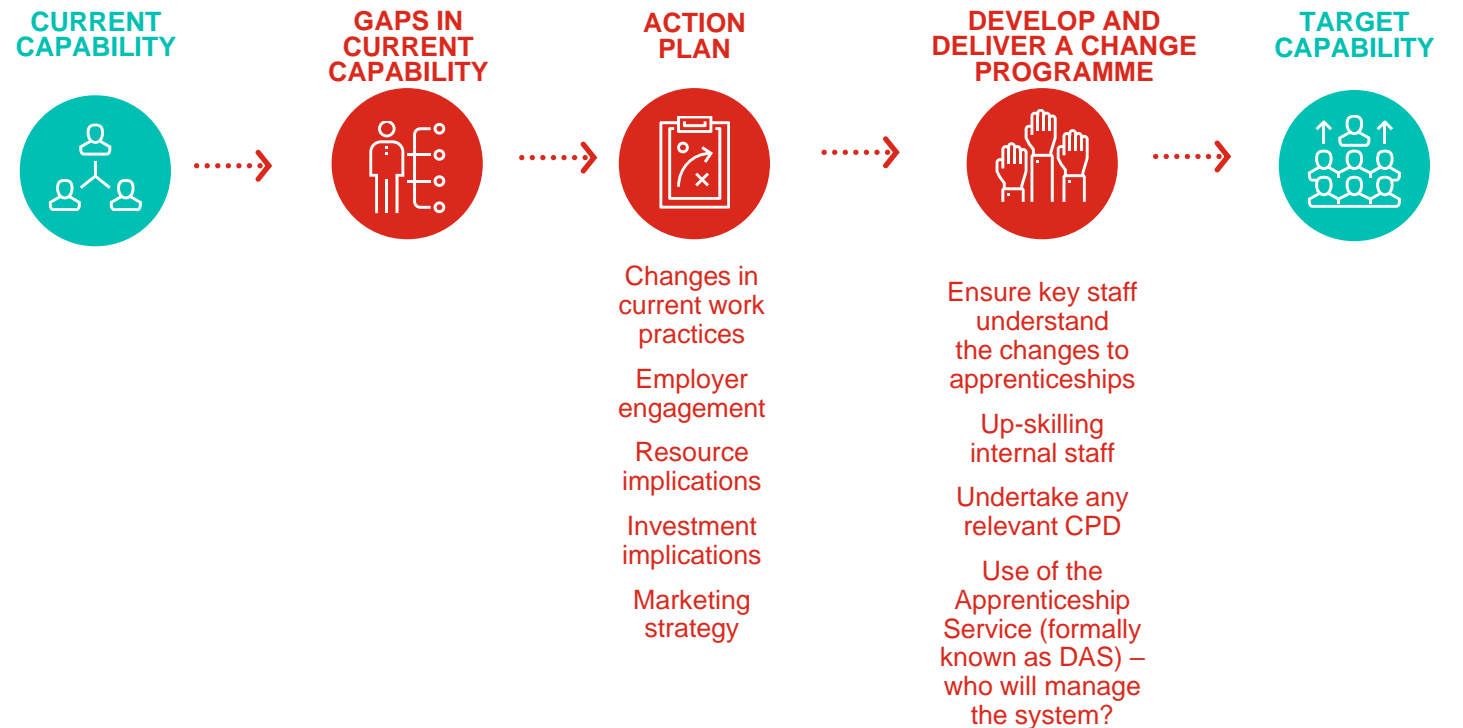
## Cost for end-point assessment:

- This must fall within the maximum funding available, unless employers wish to contribute more towards training.
- Your pricing structure must give you the flexibility to negotiate with employers and contractors and offer value for money.
- If an employer wants you to deliver 10-20 apprenticeships, how much discount can providers afford to offer?
- When do you walk away?

# Capability and capacity

Examine your current capacity and capability versus your target capacity and capability. This may be only way you can differentiate your offer!

- Experience
- Technology
- Internal capabilities
- Business development training
- Resources
- Schedule
- New contractual agreements with employers
- Evaluation



Sharing some very early current trends and behaviours.

Some practical advice for providers.

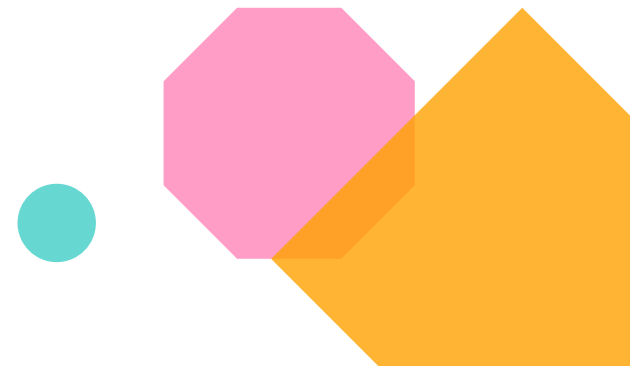
Future gazing – what might the future hold?





# Current view of the marketplace – trends and behaviours

1. Significant slowdown in new SME starts on both frameworks and standards – no plans for the ESFA to publish any data on this outside of the SFR.
2. Drop in employer vacancies for May 2017 when compared to not just April 2017, but also May 2016.
3. Many levy-payers have started the race, but see this is a marathon not a sprint. Still many employers still undecided or in no rush to spend their funds based on the 24 month ring-fencing period they have to operate in.
4. Concerns around access to non-levy funding – ITPs, subcontractors and HEIs. ITT retendering.
5. Heard feedback from the ESFA of a growing trend of employers (big and small) being used as ‘delivery subcontractors,’ not to actual deliver any training or on-programme assessment, but as a mechanism to provide a financial repayment. ESFA also concerned about some of the training they might be offering...
  - ... Are we surprised by these trends and behaviours?
  - ... Are we concerned by these trends and behaviours?



# Reflection: Micro employers (>50) Pre-May vs post-May 2017

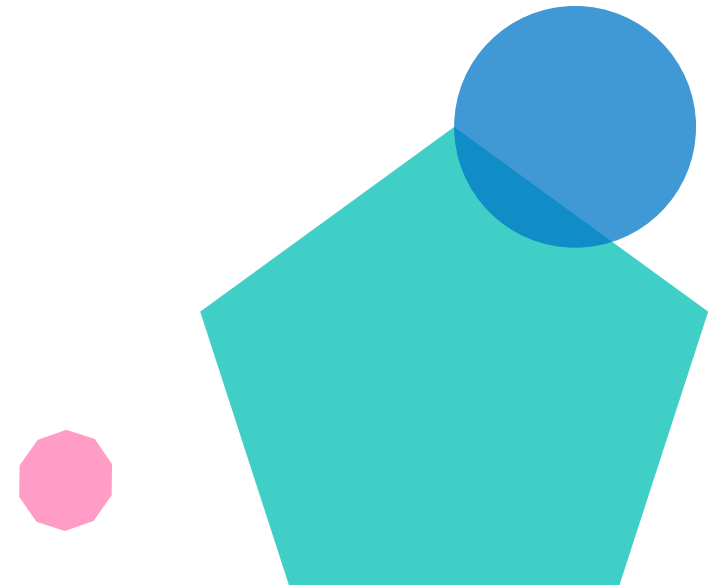
## Pre-May 2017

- 16-18 fully funded frameworks and 19+ co-funded, but in most cases no CASH contribution (in kind).
- 66% co-funded standards for all age apprentices.
- Capped and complex £1,500 AGE system for incentives.

## Post-May 2017

- Fully funded frameworks and standards for 16-18.
- £1,000 uncapped incentive for all 16-18.
- 10% co-investment on 19+ frameworks and standards.

In summary and reality ... evolution not revolution?



# Reflection: SMEs employers (50+ and less than £3m) Pre-May vs Post-May 2017

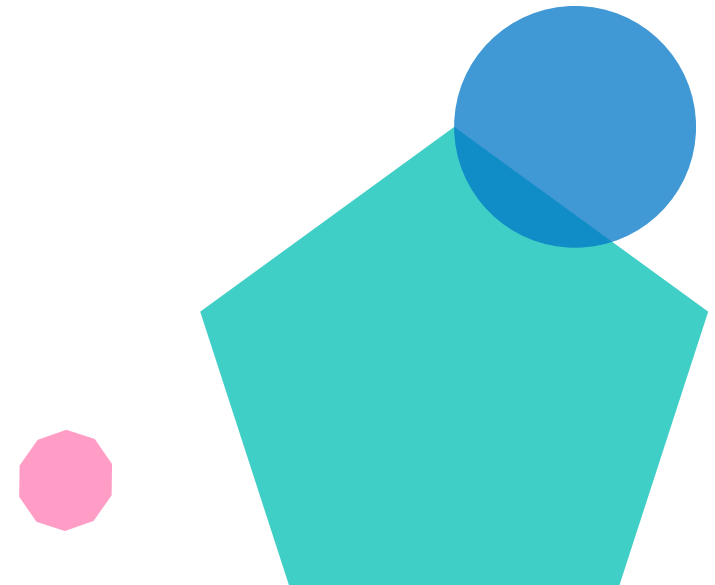
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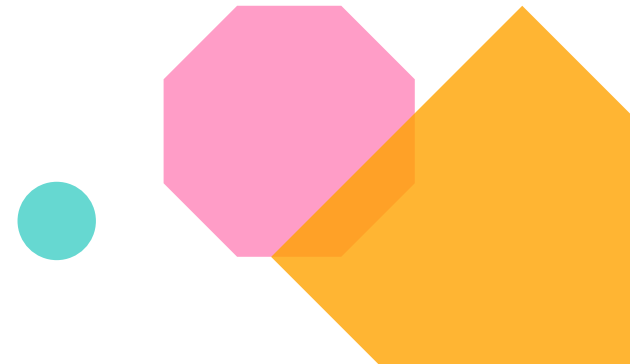
In summary ... a real step change.



# Cracking the SME nut. Three approaches to consider:

## 1. Become a service provider not a qualification provider

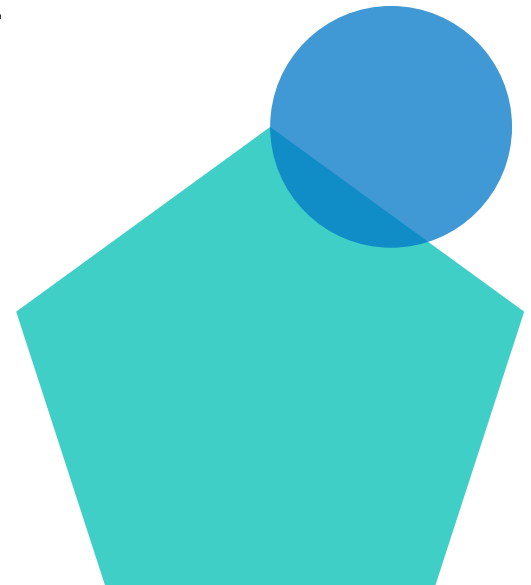
- The need for a different approach to employer engagement.
- The sector has traditionally operated in a very transactional way.
- Take the time to listen and understand what the employer needs and wants, rather than what you can offer.
- Important to consider: your product mix, engagement tools, existing workforce skills and competencies. A clear transitional plan.
- Opportunity to offer employers other commercial services as part of services offer.



# Cracking the SME nut

## 2. Differentiating your offer and creating a value proposition

- Many providers are still simply positioning current apprenticeships products to existing employers and asking for a cash contribution.
- New standards offer the flexibility for providers to build a bespoke and value added programme to meet the needs of the employer. In most cases the core content will be the same, but the packaging and deployment can be used to make it look substantially different.
- The importance and value of programme differentiation and positioning.
- For 16-18 apprentices, with the £1,000 cash incentive - many employers will get back more than they contribute.
- Link you offer to tangible return on investment (ROI) for the employer.



# Cracking the SME nut

## 3. Understand the sectors and markets you operate in

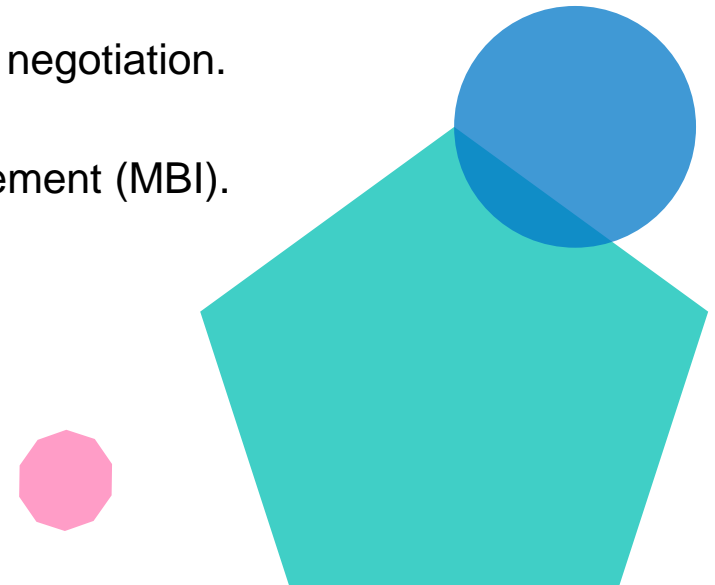
- Consider alternative routes for funding and a possible shift in emphasis from the employer to the employee: e.g. Health & Social Care – Employers to fund Level 2, but for Level 3 responsibility moving to the employee through the Advanced Learning Loans route?
- Review your offer:
  - Is it time bound what is the shelf life?
  - Will employers pay for it?
  - Do you need to make bold decisions to even discontinue some existing programmes and invest in new programmes.
- The importance and value of research and understanding your employer base.



# Consider the skills, tools and systems required

## Sales:

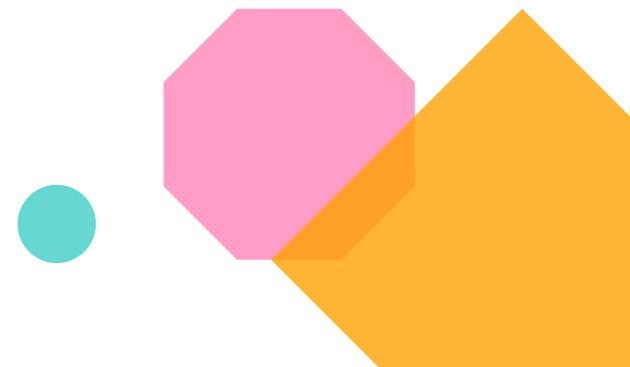
- Sales / Business Development Team upskilled so that they can develop a commercial proposition and not just offer “fully funded training”.
- Professional sales collateral.
- Agreed and work to clear pricing model (funding bands).
- Organisational/ training needs analysis tools.
- Developing a pricing calculator, agreeing levels of authority for discounting and contract negotiation. Without a degree of delegation the sales funnel will grind to a halt.
- Evidencing and measuring Return on Investment (ROI) – Measurable Business Improvement (MBI).



# Consider the skills, tools and systems required

## **Curriculum and delivery:**

- The ability to ensure project management/ implementation capacity and onboarding of new employers.
- Curriculum development skills and capacity to develop – resources, content and materials. Remember this is now a employer-led world.
- Delivery staff capacity and capability. Standards are generally more technical.
- Supply chain management - approaches to third party provision – if appropriate.





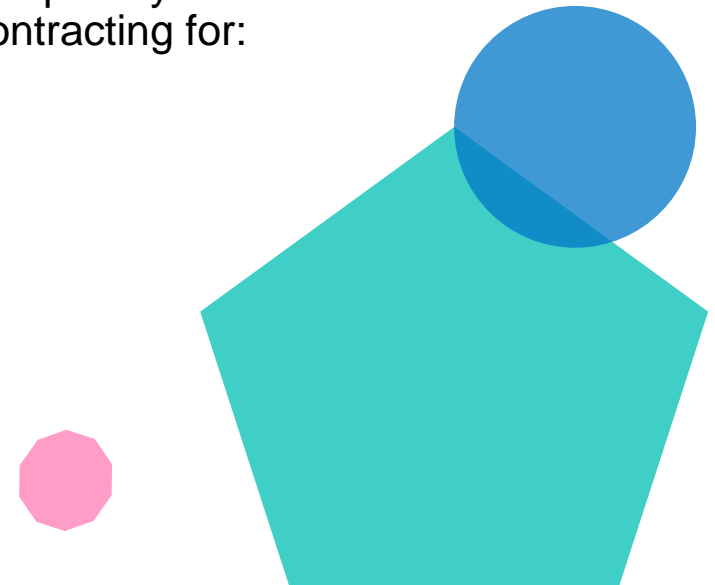
# Co-investment schedule and collection – apprenticeship funding and performance-management rules for training providers

The detail and what this means in practice:

- The provider will need to invoice employers separately for any employer co-investment, including any VAT.
- The provider may agree a schedule of co-investment payment with the employer which does not match monthly payments made by the ESFA, provided the employer has paid a matching 10% at our three monthly data-points.
- At least every three months the provider must:
  - Have collected the matching co-investment from employers.
  - Report the cash value on the ILR of total employer contributions received from the beginning of the apprenticeship to the end of the quarter on the ILR in June, September, December and March.
  - The employer co-investment must be a transfer of funding visible in the providers' financial systems. This will typically be in the form of a provider invoice and corresponding employer payment.

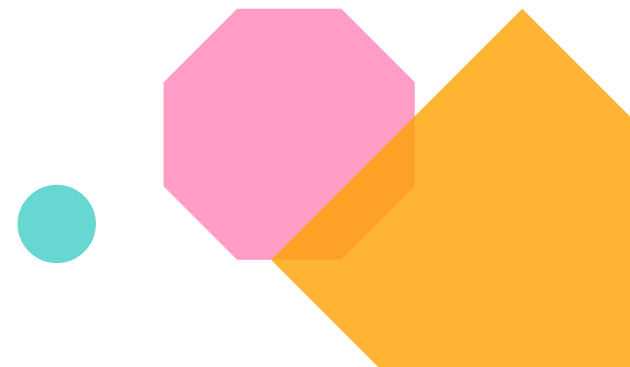
# The importance of robust contracting arrangements

- The importance of robust contracting has never been so important!
- No longer a case of the ESFA contracting with the provider and the provider working with an employer. Critical new process ESFA contract with provider - provider contracts with employer.
- AELP Model contract resource – Free resource available to all full AELP members, developed by law firm Bircham Dyson Bell (BDB) with free supporting advice line included. Available for contracting for:
  - Levy
  - Non-levy
  - Subcontracting
  - End-point assessment (EPA)



# The future marketplace – one eye on the future

- Plan for all employers move to the Apprenticeship Service.
- At that point no further allocations systems for providers and truly a system of employer choice.
- Planned for April 2019, but likely transitioning process?
- Awareness of the different levers and mechanisms to manage future funding flows. Important to know and recognise:
  - ✓ £3m levy threshold
  - ✓ 0.5% apprenticeship levy
  - ✓ Standards and frameworks funding band allocations
  - ✓ Co-investment methodology (90:10)
  - ✓ 24 months levy period
  - ✓ % of funding levy paying employers get to spend.



# Apprenticeship provider full day workshops

Everything you need to know about becoming an apprenticeship training provider, including:

- Levy – how it works and how to manage it
- Funding rules and regulations
- ESFA Audit Processes and Requirements
- Ofsted Inspection requirements
- Applications to RoATP
- 6 step guide to successful implementation

Next workshop – London, 6<sup>th</sup> July

<https://www.eventbrite.co.uk/e/city-guilds-apprenticeships-becoming-an-employer-provider-london-tickets-34544529618>



Thank you! Any questions?

