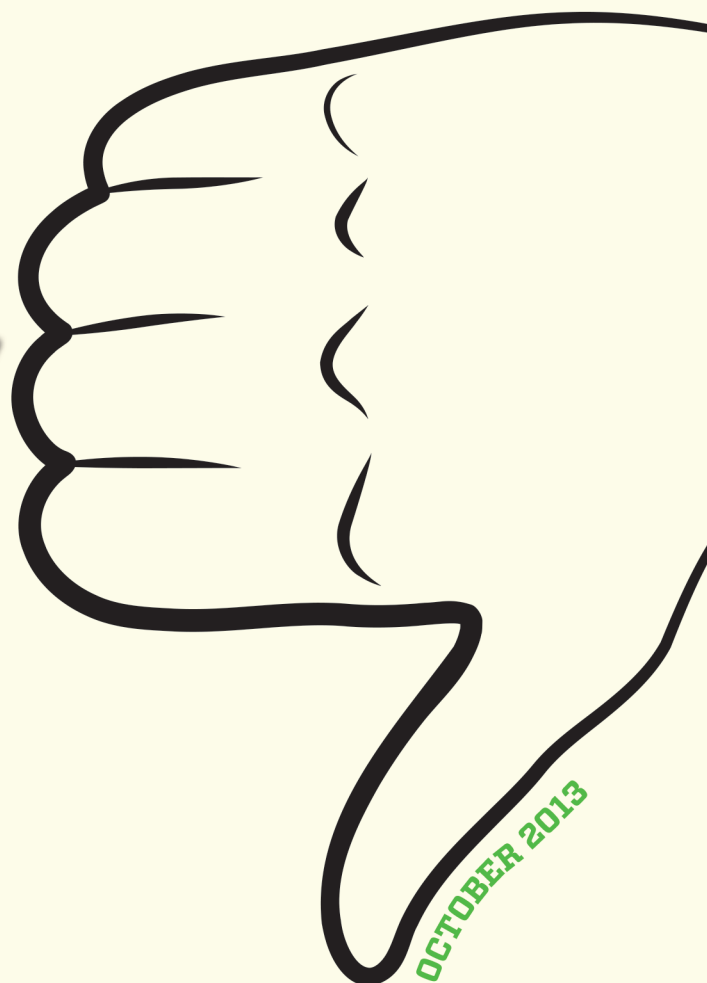


APPRENTICESHIPS TAX CREDITS



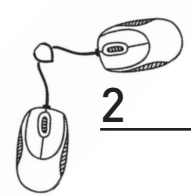
PRODUCED
BY



IN PARTNERSHIP WITH

PEARSON

OCTOBER 2013



The PAYE system – where’s the incentive?



Paul Offord
@PaulOfford

Time has been called on a consultation into the most radical reform proposals for apprenticeship funding in generations.

The government have confirmed around 350 responses from across the FE skills sector have entered the ring, contributing their views on three possible models for future funding arrangements, which the government hopes will attract more employers to the apprenticeships programme.

The first was a model of direct payment to the employer; the second would allow employers to claim back spending on apprentices through tax credits, and the third would leave funding in the hands of training providers.

Allowing firms to claim back costs through the Pay As You Earn (PAYE) system was always going to be the most

divisive option.

It was clear from the moment this was proposed through former Dragon’s Den investor Doug Richard’s review, in December last year, that we might have a split decision.

That is why we decided to focus this week’s 16 page hard-hitting supplement on the fight of the 21st century — at least in the FE world — over tax credits proposals.

It’s the option FE Week understands has the support of Skills Minister Matthew Hancock, although he was unable to comment while the results of the consultation, which closed on Tuesday, October 1,

were still being compiled.

But acting as referee, FE Week has drawn together here some ‘fors’ and ‘against’s’ in

debate over use of the PAYE system.

So, seconds out, round one — and in the “red” anti-PAYE corner we have training providers worried about losing control of finances, and organisations

representing small businesses, who fear it will put small and medium-sized enterprises off taking on trainees, because of possible added paperwork.

However, there are also several big hitters in the “green” pro-tax credits corner, including the Confederation of British Industry, which insists the simplicity and familiarity

of PAYE would attract more businesses to apprenticeships.

The funding model the government eventually settles on will be a key factor influencing the fate of cross-party efforts to drive apprenticeships to new heights.



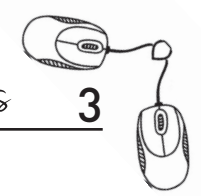
Win a mug

We would love our loyal subscribers to read through our punchy coverage and let us know what you think.

You can remove the green “yes” or red “no” cards (pictured left) from the front page and tweet us a picture of yourself holding the one indicating your view (adding our @FEWeek Twitter handle to your message).

The tweet featuring a reader in the funniest pose or most dramatic location will win a fabulous FE Week mug full of sweets (which for our more senior readers carries a similar level of prestige to a Blankety Blank chequebook and pen).

We hope you enjoy our coverage off this key issue and hope to hear from you soon.



First published July 24

Funding consultation launched

Chris Henwood
@Chris_Henwood

A “radical” overhaul of apprenticeship funding has been outlined by the government in response to a review by former Dragons’ Den investor Doug Richard.

Three funding ‘models’ (pictured) have been proposed by the Department for Business, Innovation and Skills in A Consultation on Funding Reform for Apprenticeship in England, around nine months after the Richard Review of Apprenticeships came out.

Mr Richard was tasked with looking at how apprenticeships in England could meet the needs of the economy. He said the National Insurance or tax credit system should be used to give employers breaks as payment for training and said such changes should be “at the heart” of apprenticeship reform.

The first of the proposals is for a direct payment model where businesses register apprentices claim government funding online.

The second is for a PAYE payment model in which businesses register apprentices online and then recover government funding through their PAYE return.

The third option, although all could be amended as part of the consultation, is a provider payment model where government funding continues to be paid to training providers, but it can only be drawn down when the employer’s financial contribution towards training has been received.

Business Secretary Vince Cable said: “Employers are the best people to judge what training is worth

investing in. These radical reforms will mean just that.

“It gives them the power to train their staff to make sure their skills are relevant to the company, instead of having to rely on what courses are available in the local area.”

The government also revealed it was looking at funding 16 to 18s “more generously”.

	Model 1	Model 2	Model 3
	Direct Payment Model	PAYE Payment Model	Provider Payment Model
Registration	Employers register Apprentices through a new online system	Employers register Apprentices through a new online system	Providers register Apprentices
Training	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)	Employers make payments to providers covering their contribution to the price of training. Providers then draw down the remainder from government
Assessment	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'

“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,” it says in the consultation document.

The first two models would both need the “time-consuming” construction of a new online system, but could be in place by 2016 “at the earliest”.

However, common to each of the models is for “the employer and provider negotiating the content and price of eligible apprenticeship training”.

It would replace a system of government-set national funding rates.

Skills Minister Matthew Hancock said: “By radically reforming the funding system we will allow employers to agree with training providers the content and price of training ensuring greater competition both on quality and on price.”

The proposal to use the tax system follows calls for reform from the UK Commission for Employment and Skills.

Its chief executive, Michael Davis, welcomed the consultation.

“The commission’s perspective is that we must return apprenticeships to their founding principle — a contract between the apprentice and the employer, valued and funded as such,” he said.

It sits alongside a review launched by Deputy Prime Minister Nick Clegg into the employment, education and training of 16 to 24-year-olds announced at a Confederation of British Industry dinner on Monday, July 15. The review is due out in the autumn.

However, the Association of Employment and Learning Providers’ chief executive, Stewart Segal, warned against the apprenticeship funding consultation’s PAYE model.

“We have considerable doubts over whether the PAYE proposal would actually bring more employers into the apprenticeship programme,” he said.

“In fact, it might put smaller businesses off.

“The co-funding option [model 3] might have merit if it properly recognises the contributions which employers make towards an apprentice’s framework achievement.”

26 comments on www.feweek.co.uk including:

In my view there are five key points:
1 Employers have enough problems updating Insurance details.
2 To many people will end up being lost from the industry good trainers will end up going to work for Tesco.
3 The end result is that Providers will not get paid in a timely fashion.
4 Crazy people will be starting loads of people then three months down the road the payments and job will stop and people will lose out who will then get them a fresh job to continue training.
5 Would we then have employers asking for cash back.

I could give another 10 reasons but the main thing is going back do we remember the old Individual funds about 13 years ago
Steve Lawrence

Will be interesting to see what employers think of this, especially SMEs. At first glance options 1 and 2 look bureaucratic. What’s in it for the employer?

One of the key functions of the provider currently is to manage the process to draw down funding, ensure compliance with eligibility and funding rules, qualifications, assessments and achievement claiming – i.e. make it as simple as possible for an employer to take on an apprentice. Not sure that employers will want the headache of all this.
David Moir

All 3 suggestions would seem to relay on the businesses making cash contributions? (apologies if I have read this wrong) I do not think this would work or encourage small businesses to take on apprentices, I thought the idea was to make taking on an apprentice more attractive to small businesses and to do away with red tape which would encourage sme to engage in the apprenticeship programme.
Lindsay Mccurdy

Funny that no-one has mentioned the BIS research paper, “Evaluation of Apprenticeships: Employers”. This was based on a large phone survey of employers who had had apprentices in the previous 18 months.

Here’s the key conclusion: the number of apprentices aged 19 plus would fall by 85% if employers faced full fees and 73% lower if they paid half fees. The survey didn’t ask about the impact of paying 30% fees, but I guess that 19+ apprenticeship numbers would fall by around 50%.

The Government knows this – after all, they commissioned the survey – so it is fair to assume that they want to see a massive reduction in 19+ apprenticeships.

Incidentally, I’m astonished that the consultation paper doesn’t mention the fraud and abuse experienced when the previous government introduced Individual Learning Accounts.
David Harbourne

FE Week is a newspaper dedicated to reporting on news, analysis, jobs and fun in the further education sector.

Editor: Nick Linford
Deputy editor: Chris Henwood
Sub editor: Paul Offord
Reporter: Eleanor Radford
Reporter: Rebecca Cooney
Designer: Nicky Phillips
Sales executive: Hannah Smith
Administration: Victoria Boyle
Operations: Shane Mann
Financials: Helen Neilly

Contributors:

David Phillips
John Allan
Jane Scott Paul

If you are interested in placing a product or job advert contact

E: hannah.smith@feweek.co.uk
T: 020 8123 4778

SUBSCRIBE TO FE WEEK TODAY

FOR JUST £75

Subscribe online now at feweek.co.uk

Annual subscribers will receive:

- ~ FE Week newspaper sent each week to a UK address (36 editions in term-time)
- ~ Online access to the current and archive newspapers (in hi res PDF format)
- ~ Special editions of FE Week at the end of each term
- ~ Regular sector relevant supplements
- ~ Email updates with the latest news, analysis, events, jobs and fun



Dragon's review fired passionate debate on tax credit consultation



AELP Countdown Issue 597

December 5, 2012

Graham Hoyle, at the time chief executive of the Association of Employment and Learning Providers

The Richard review of apprenticeships has now hit the streets and unlike most reviews asserts that it has to be accepted on an all or nothing basis.

That condition alone makes it impossible for AELP and its members to accept this composite set of proposals.

Our rejection, however, is not based solely on this ultimatum. It starts with the cover, of both the main and summary documents, which displays in a sort of pictorial way, a stereotypical view of traditional basic craft occupations as the depiction of apprenticeships.

This is a hugely damaging picture which both ignores the current reality regarding apprenticeships and dangerously misinforms everyone about the future breadth and use of apprenticeships across the whole of the service sector and indeed new high-tech sectors, including the emerging media, performing arts and 'green' environmental sectors.

Understandably the greatest anger immediately articulated by apprenticeship providers was focused on the insulting and unfounded assertion that the work of their highly qualified, experienced and skilled independent assessors, who have a very good knowledge of the industry, needed additionally to be independently assessed! An assertion which, with apprenticeship success rates nationally at 75% and above cannot be substantiated.

One of Doug Richard's core proposals was, as expected, that future apprenticeship funding should be directed solely to employers for them to find a provider of choice.

A route also proposed by large employers via UKCES; a route that will decimate SME involvement. AELP have always accepted that this option should be available to employers, but as an option not a sole, no choice diktat.

It is an option that has been available for many years through the Learning and Skills Council's National Employer Service, which was however taken up by only a very few large companies, with most still preferring the contract to deliver the high quality, complex, training service which is not their own core business to be held by proven training providers.

But it is not the large companies that everyone seems to be concerned about. It's the SMEs! By all means give them the option.

AELP's apprenticeship providers, who currently deliver half a million apprenticeships and work with 350,000 employers, mostly SMEs, are persuaded that they will not take it up.

Monday, December 10, 2012

Richard Review angers AELP

Eleanor Radford

@eleanorradford

A review of apprenticeships that called for workplace tax breaks has been angrily rejected by the Association of Employment and Learning Providers (AELP).

It said that Doug Richard's review of apprenticeships "created a hugely damaging picture" from its front cover illustrated with various tools to its "lack of understanding". It also said that "some of the big things are wrong" and that Richard's assertion that the report be accepted on an "all-or-nothing" basis was like a "diktat".

Richard, a former Dragons' Den investor, bit back on Twitter, dismissing the group's reaction as "self-interest".

Graham Hoyle, AELP's chief executive, said one of Richard's key recommendations — that "testing and validation process of apprenticeships should be independent and genuinely respected by industry" — particularly upset members.

"They feel disappointed, and think the review is naïve and suggests nothing radical or new."

At the heart of the Richard review was the direction for employers to pay providers directly for apprenticeship training. Tax credits, or other forms of government incentives, should then be dished out to employers.

Mr Hoyle said AELP members were especially

concerned this would put off small and medium enterprises (SMEs).

"We were amazed Doug Richard suggested getting money from the taxman after the training was completed. That would be a direct cash hit on businesses and would reduce SME uptakes of apprenticeships," he said.

When the review was published, Mr Richard told *FE Week* his proposals were not "a laundry list" from which the government could pick the elements that it wanted.

But Mr Hoyle said: "We have always said that options should be available to employers, but not a sole, no-choice diktat.

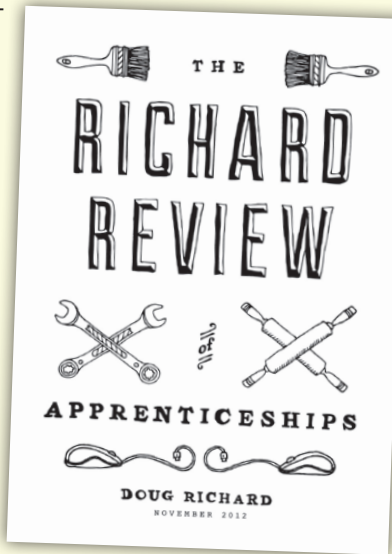
"Our rejection, however, is not based solely on this ultimatum," he said.

"It starts with the cover, which displays a stereotypical view of traditional basic craft occupations as the depiction of apprenticeships. This is a hugely damaging picture that both ignores the current reality regarding apprenticeships and dangerously misinforms

everyone about the future breadth and use of apprenticeships."

He said the review's other proposals built upon existing AELP policy such as the group's belief that apprenticeships must be available for "all-age" employees and that they should not be restricted to level 3 and above.

Doug Richard tweeted in response: "Angry at me are you. A number of @aelp assertions sound suspiciously like self-interest not rational discourse to me."



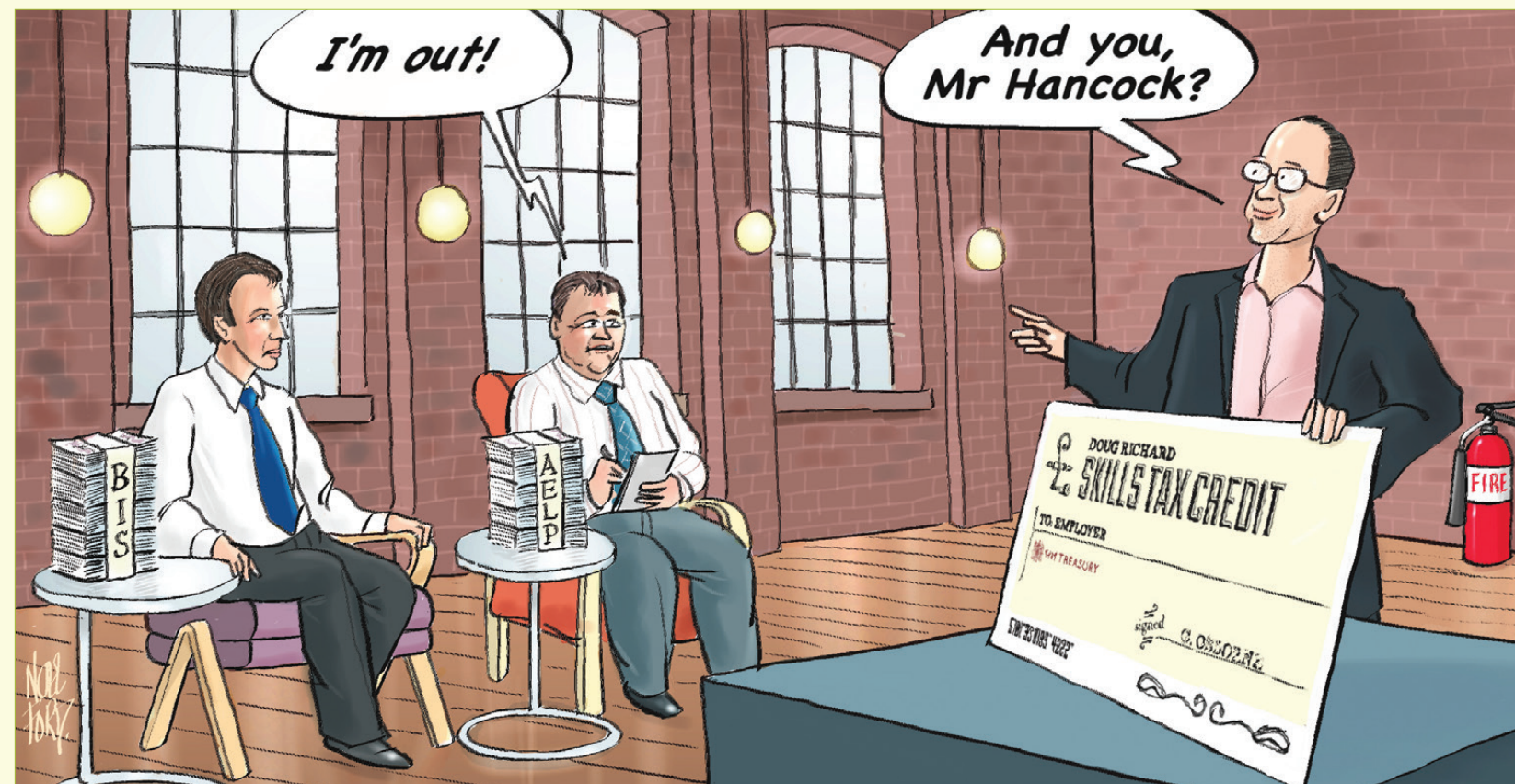
@DougRichard

5 December, 2012

A number of AELP assertions sound suspiciously like self interest not rational discourse to me

Monday, March 11, 2013

www.feweek.co.uk



Richard waits for minister's verdict

Eleanor Radford

@EleanorRadford

Entrepreneur Doug Richard has reignited his argument with the Association of Employment and Learning Providers that workforce tax breaks were "integral" to the success of apprenticeships.

The former Dragons' Den investor spoke out in the lead-up to the sixth National Apprenticeship Week when FE Minister Matthew Hancock is due to respond to his government-commissioned report into apprenticeships.

The association rejected Mr Richard's claims that tax breaks would encourage employers to take on apprentices, although he remained "convinced" that they were the way forward.

"We need to focus on securing workforce tax breaks," he told *FE Week*.

"The Association of Employment and Learning Providers quickly rejected my recommendations; however, I am still convinced that tax credits are integral to the

success of apprenticeships."

He said apprenticeships were valuable initiatives that must be made as "attractive as possible to employers."

"Offering workforce tax breaks is an excellent way to make that happen," he said. But Graham Hoyle, the association's chief executive, said the group still "seriously questioned" Mr Richard's proposal.

He said credits might have the "advantage of simplicity" but could cause cash flow problems – the "biggest threat" to otherwise effective and profitable SMEs.

He said to ask "invariably cash-strapped" SMEs to purchase apprenticeship training up front and wait for a retrospective tax deduction was "bizarre and unworkable".

"We have no objection to making the option available but doubt whether it would be a successful vehicle to switch SMEs on to the apprenticeship route," he said.

When Mr Richard's report was published in November last year, the association rejected his key recommendations for a closer relationship between employers and providers, with employers paying providers

directly for apprenticeship training with tax credits, or other forms of government incentives, dished out later.

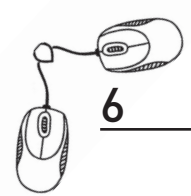
It said the review "created a hugely damaging picture" from its front cover illustrated with various tools to its "lack of understanding". It also said that "some of the big things are wrong" and that Mr Richard's assertion that the report be accepted on an "all-or-nothing" basis was like a "diktat".

Mr Hoyle said one of Mr Richard's key recommendations — that "testing and validation process of apprenticeships should be independent and genuinely respected by industry" — particularly upset members.

Mr Richard, a Californian who made his money through technology transfer, bit back on Twitter, dismissing the group's reaction as "self-interest". He told *FE Week* at the time that his proposals were not "a laundry list" from which the government could pick the elements that it wanted.

His findings have since been considered by the government and Mr Hancock is due to make an announcement on the its response later this week.

Comment



Apprenticeships aren't broken but system might need fixing

David Phillips explains why reform is needed to ensure trainees learn a broader set of skills to suit businesses' needs.

Presented with the top line figures, most people would assume the apprenticeship programme is in fair shape and they would be right.

In the last academic year, there were around 520,000 apprenticeship starts, more than double the number two years ago.

The programme is also achieving a healthy gender balance among those signing up and the government has now committed to increase its budget from £715m to £764m over the next year.

But on closer inspection, while it is difficult to conclude the programme is broken, it still might need some fixing if it is to deliver the expectations heaped on it.

If the programme is divided into its constituent parts of learners, employers, training providers and government, it is clear it is not yet delivering for business in some major areas.

In the recent Pearson/CBI skills survey, businesses told us they felt marginalised and wanted a greater ownership over the programme. Indeed, 39 per cent of employers thought having the apprenticeship grant paid directly to them would increase participation in the programme.

This was the second most popular response — after ensuring the qualifications design was more relevant to business need.

So there is certainly merit in pursuing this idea, but we need to make sure any new funding mechanism, announced

as a result of the current consultation on apprenticeship funding, is easy to administer and appealing to every size of business.

A pilot could help test how well new mechanisms deliver these desired outcomes.

The Pearson/CBI survey also found the programme was not delivering what is wanted by all sizes of employers.

Only 23 per cent of small and medium-sized enterprises (SMEs) that responded are currently taking on apprentices.

This compares to nine in 10 companies with 5,000 or more employees. On a more positive note, the survey found training providers are becoming more responsive to business needs and on almost every point researched, employers are becoming more satisfied with the training delivered

A pilot could help test how well new mechanisms deliver desired outcomes

by external providers.

We need to make sure any change embraces and builds on the relationship between provider and employer.

In relation to the government, the programme is not doing as much as it could be in addressing the stubbornly high levels of youth unemployment. Some people could be alarmed to learn that despite the overall rise in participation in

the programme, the number of under-19 starters fell in the last academic year, while those starting who were aged 25 or over went up by around 50,000.

This has resulted in only 25 per cent of all starters being 19 years old or under.

In addition, the government has publicly set itself the goal of wanting to play a more strategic role in supporting the growth industries of the economy and ensuring it has the right skilled labour force to drive growth.

More than half (52 per cent) of all apprenticeships that started in the last academic year were in the business administration or retail sector.

While these sectors are crucial to the economy, more could be done to encourage a greater number of starts in other areas key to future growth, including life sciences and information technology, as highlighted in the government's Industrial Strategy.

At present, information technology has only a fifth of the starters of the retail sector, with numbers actually declining last year.

Lastly, we need to ensure the programme is delivering for learners.

This means the skills and experiences they accrue during their apprenticeship must lead to rewarding and valuable careers.

To do this we need to create better mechanisms that capture an apprentice's experiences and the value gained from doing an apprenticeship.

This data could help determine the effectiveness of different programmes, which would in turn encourage others to consider an apprenticeship.

Whatever system is put in place, as



a result of the current consultation on apprenticeship funding, it must incentivise some behaviours and discourage others.

It must address the imbalances which currently exist, without devaluing the brand which has been painstakingly built up so far.

It must not slow the momentum of a programme which is delivering valuable skills to over half a million new starters each year.

It also needs to protect the providers and courses so many businesses value.

In short, it should not try to remake a programme which in many respects is not broken, but at the same time put in place the mechanisms to fix it. While this will not be an easy task, the importance of getting it right could not be greater.

David Phillips, managing director of Pearson Work Based Learning and Colleges



appears to be seeking to achieve, but PAYE would seem to be an expensive and scenic route to these goals, when there could be other more cost-effective ways of achieving the same end.

"All in all, it is hard to see that the risk posed to the continued growth in high quality apprenticeships is justified by the uncertain and unproven benefits, especially at a time of high youth unemployment and tentative economic recovery."

Apprenticeship rush 'needs to be avoided'

Government proposals on apprenticeships include one in which funding goes through employers. It's a principle John Allan agrees with, but he thinks the options on the table still aren't right.

The Federation of Small Businesses (FSB) believes the best approach for apprenticeships would be a more demand-led system that ensures training is tailored to suit the needs of businesses.

The FSB has long said that the best way to make the system more effective is for government funding to be routed through employers rather than being paid directly to training providers.

The current apprenticeships system has been subjected to constant change which has undermined its brand and led to confusion.

While the current system is not ideal, it is vital not to rush into an imperfect solution. Indeed, detailed thought must be given to ways in which apprenticeship candidates, employers and training providers will be affected by any changes.

The reality is many small businesses cannot afford to pay the full cost of the training upfront

The FSB has said government must take its time with any reforms. It must think through the implementation in order to get it right first time and create a system that will last for decades to come.

Unfortunately, proposals laid out by government in the current consultation take a simplified view of apprenticeships.

Furthermore, in their current form they appear to breach some of the key points we consider imperative to make this system work for small and micro businesses.

Current proposals seem to suggest government aims for the employer to pay the full costs in advance of government payback.

The reality is many small businesses cannot afford to pay the full cost of the training upfront, even though some of it will be recovered. This would damage cash-flow and put small firms off engaging in the system.

We are also concerned that current proposals may potentially lead to a sudden and significant increase in costs which small and micro businesses cannot absorb.



Moreover, we are concerned about the proposals for payment on results. Small businesses are already left out of pocket if an apprenticeship ends prematurely, and payment on results could compound the financial pain felt by businesses in these circumstances.

Routing funding through employers should offer many long term benefits. It would make employers more involved in vocational education, and lead to providers being more businesslike and cost conscious.

We believe government must continue to be as generous as it currently is in its contribution towards apprenticeships, while also fully-funding the training element of apprenticeships for 16 to 19-year-olds.

This group in particular can be seen as far riskier to take on for a small firm as they lack experience and skills of older apprentices.

Establishing government funding through the business puts the employer in charge and we believe that over time this will make them more engaged. The FSB believes they will have much more success at getting the training they want, rather than what a training provider can deliver cheaply.

To sum up, the FSB is a keen supporter of the principle of routing apprenticeship funding via employers. However, combining this change with a requirement to prefund providers and potentially increasing costs will reduce employer's engagement in the apprenticeship programme.

We urge government to take its time with this proposal and ensure the best possible outcome, not just for the apprentice but for the small business too.

John Allan, national chairman of the Federation of Small Businesses

Scheme must cater for all businesses

The Forum of Private Business rejected apprenticeship tax credits in its formal submission to the consultation.

The business support organisation focuses on the growth and profitability of small businesses, which it feared would be failed by PAYE.

Fionnuala Horrocks-Burns (pictured), education and skills policy adviser for the Forum of Private Business, explained the organisation's views:

She said: "The PAYE model received some support among our members, but for the very smallest businesses, many of whom the



Forum represents, this system would be unworkable because their PAYE liability would be insufficient to cover apprenticeship costs.

"Small businesses are time short and often do not have formal HR departments.

"Any model of employer routed funding must work for both the small employers, as well as the large corporate bodies."

New scheme could cut out a lot of funding bureaucracy

The chairman of the Business, Innovation and Skills House of Commons Select Committee supports the plans.

Adrian Bailey (pictured), Labour MP for West Bromwich West, thinks bringing funding under the tax return system could cut red tape currently discouraging smaller firms from hiring apprentices.

He said: "I think PAYE could be a good idea because one of the main barriers to small businesses taking on apprentices is the bureaucracy involved.

"If they found a way to do this through the PAYE system, then it could remove a lot of those concerns.



"You have to balance the need for accountability of spending with the need for greater flexibility.

"They will have to make sure that this does not actually create more red tape, as that would put small businesses off.

"Small business — the sector that has the most potential for growth in future employment — is the sector that currently struggles most to take on apprenticeships. This is certainly an idea that I think is worth looking into. It could definitely lead to more small companies taking on apprentices."

Familiarity will encourage more businesses to hire apprentices

The Confederation of British Industry (CBI) has thrown its weight behind the PAYE system.

The body, which is the one of highest profile UK business lobbying organisations, thinks firms will appreciate using the familiar tax return process.

Neil Carberry (pictured), director of employment and skills, explains why the CBI is backing the PAYE model in thier formal consultation response.

He said: "The model we favour for routing apprenticeship funding through the employer is via the PAYE system.

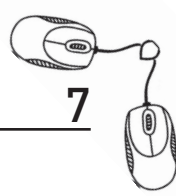
"A tax mechanism addresses the policy concern that cost is a barrier for busi-



nesses and would enable businesses to hire and train apprentices throughout the year, claiming back parts of the cost through tax relief on a regular basis.

"Using existing processes familiar to every business, regardless of size, this model has the strongest potential for simplicity.

"The CBI notes Jason Holt, chief executive of Holts Group of companies and leader of an independent government review into boosting small business uptake of apprenticeships as a public supporter of the move to the PAYE model, citing its potential to raise access and awareness among smaller firms."



Employability: your key to success

BTEC Apprenticeships

Pearson offers you the greatest range of sectors of any Awarding Organisation, with over 35 sectors and over 200 individual frameworks. BTEC Apprenticeships build on the recognised and trusted BTEC qualification, which is based on the core values of quality, flexibility, employability and progression.

Learners can progress from a Pearson Traineeship or Study Programme to a BTEC Apprenticeship and on to a BTEC Higher Apprenticeship or Higher Education.

Why choose the BTEC Apprenticeship?

- Employer-led qualifications that meet the needs of industry
- Holistic delivery with a choice of assessment methods
- Delivery guides containing a wealth of practical information, written by sector specialists, including the induction process, skill scans and holistic assessment
- Assessment workbooks that help to streamline assessment, by using holistic activities to generate evidence across the whole Apprenticeship, observations and professional discussions
- Web based support for learners and assessors with digital versions of the workbook assessment documentation
- A robust quality assurance model supported by dedicated Apprenticeship Standard Verifiers

GET IN: to Apprenticeships,
work and learning

Contact us

To receive a free copy of our employability pack, with an overview of Pearson products and services:

Call us on: 02476 518976
Email: wbl@pearson.com



Seconds out...two big hitters square up over PAYE

The UK Commission for Employment and Skills (UKCES) publication Funding Apprenticeships through Pay As You Earn (PAYE) put forward the argument that employers should be paid through the tax system.

It claims the arrangement would bring simplicity, familiarity and flexibility, as employers would be able to start training apprentices throughout the year, according to the UKCES.

It argued that a change in the tax system would be a long term benefit and bring stability to the apprenticeship scheme, adding that changes to tax reach all businesses and making it easier to take on apprentices.

Funding apprenticeships through Pay As You Earn

Embedding good jobs for young people

UKCES
UK COMMISSION FOR
EMPLOYMENT AND SKILLS

August 2013

How it could work

“The employer, or a provider on their behalf, would register the apprentice via an online system with BIS. This would provide BIS with information about the apprentice including their age, framework, level of study etc and key information about the employer, in particular its PAYE reference number. This in turn allows BIS to notify HMRC that the employer can start to reduce its PAYE / NI contributions and determines what the government contribution should be (i.e. which band or which co-funding rate).

“By October 2013 all businesses will be required to provide information to HMRC on a monthly or weekly basis (this will depend on the employer’s payroll arrangements). This change is known as the shift to Real Time Information (RTI) and it should allow the shift to employer routed funding to be much more flexible. Under this system employers with apprentices would simply enter the monthly amount they are entitled to deduct in a box on the RTI / PAYE system.

“This would most likely form part of the “Employer Payment Summary” (EPS) return which is used if an employer wants to recover statutory payments (statutory maternity pay (SMP) or statutory sick pay (SSP) for example), Construction Industry Scheme (CIS) deductions or the National Insurance Contributions (NICs) holiday for start-ups. These monthly amounts would most likely be greater than the monthly employer NI payments for an individual apprentice and so reimbursements would be offset against an employer’s total PAYE and NIC liabilities. Where PAYE liability is insufficient to cover apprenticeship costs (this could occur for the smallest employers) a direct payment from HMRC, again similar to that operated for SMP, would need to come into effect. Once the apprenticeship is completed and the apprentice has passed the final assessment the employer and the provider would notify this and a final outcome payment (deduction from NI) of, for example, 20% of the total cost would be released. The purpose of this is to provide an incentive for all parties to complete the apprenticeship.

“This process would also enable BIS to notify HMRC that normal PAYE / NI payments should resume.”

Michael Davis chief executive of the UKCES



What is the

UKCES
UK COMMISSION FOR
EMPLOYMENT AND SKILLS

?

With its head office in London, the UK Commission for Employment and Skills is an executive non-departmental public body with a regulatory function.

The Cabinet Office guide to public bodies says the UKCES: "provide strategic leadership on skills and employment issues.

“Led by commissioners from large and small employers, trade unions and the voluntary sector, it aims to raise skill levels to help drive enterprise, create more and better jobs and economic growth.”

In 2012 the UKCES received £65.5m from the Department for Business, Innovation and Skills and employed 101 full-time equivalent staff.

What is the

Edge
Foundation

?

With its head office in London, the Edge Foundation is a company limited by guarantee, and a registered charity. The Edge website says: “In May 2003 the examinations organisation Edexcel was sold to Pearson.

“The money went to a holding charity, the Edexcel Foundation. The trustees decided it should promote practical and vocational learning and in May 2004 it was officially renamed the Edge Foundation. As such we are entirely independent.”

Edge’s principal source of funding is its long term investment fund. At the end of 2012 this was valued at £31.8m and in that year it employed on average nine full-time equivalent staff.

‘A dangerously blunt instrument to cut funding’

Up till now, successive governments have not seriously doubted the value of subsidising apprenticeships.

However, it seems certain that apprenticeship numbers will fall drastically if the government goes ahead with its current proposals.

The government knows this: after all, they commissioned the research.

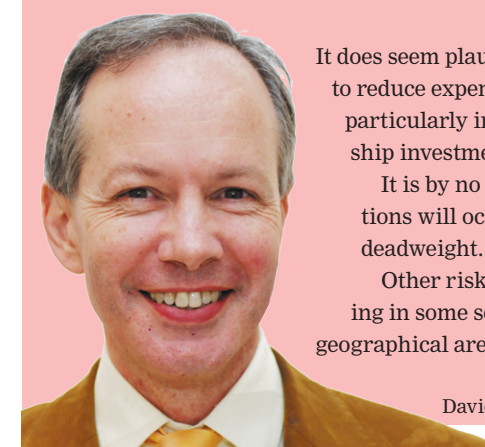
So why have they proposed such risky reforms?

Here are some possibilities:

* Perhaps it is a thinly disguised way of cutting expenditure on apprenticeships at a time when public finances are under severe pressure.

* Perhaps it is a way of making the apprenticeship system more efficient by calling employers’ bluff: if employers truly value training, they will pay; if they don’t, they won’t.

* Perhaps the government wants to reduce expenditure on adult apprenticeships in order to increase subsidies for apprentices aged 16-24 and/or the Apprenticeship Grant for Employers.



It does seem plausible that the government wants to reduce expenditure on adult apprenticeships, particularly in sectors where returns on apprenticeship investment are weak.

It is by no means certain that the largest reductions will occur solely in sectors showing signs of deadweight.

Other risks include the loss of specialist training in some sectors and geographical areas, fraud and abuse.

David Harbourne director at the Edge Foundation

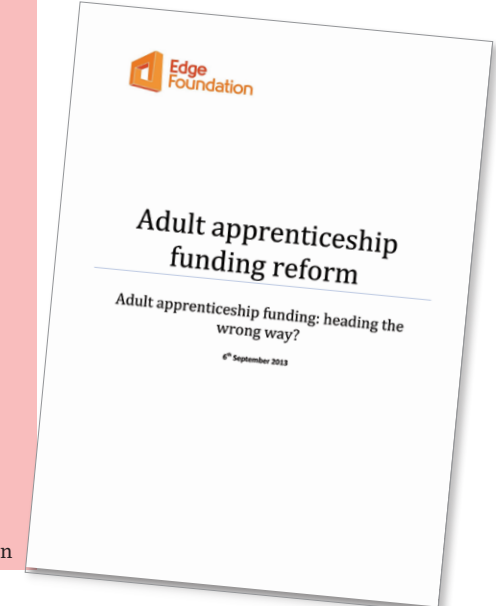
The Edge Foundation, a charity which promotes vocational education, published Apprenticeship Funding: Heading the Wrong Way? in June.

The charity argued that employers should not make any financial contribution towards apprenticeship training, instead it should be fully subsidised by the government.

At present, only 22 per cent of employers make contributions, according to Edge.

It used research commissioned by the Department for Business, Innovation and Skills, which suggests that if the state subsidy was reduced to zero, apprentice numbers would fall by 85 per cent.

The alternative, argued Edge, is directing public subsidies to where they would achieve results.



UKCES submission to government

‘The tax system will offer more stability to employers than grant systems as well as raise the profile of apprenticeships’

The UKCES has listed the advantages as:

Hardwiring — A move to tax/National Insurance would “hardwire” apprenticeships into business behaviour, in the same way that maternity pay is hardwired into current business practice. Tax changes have been shown to be an extremely powerful mechanism to influence employers (the example of research and development tax credits is the clearest example).

Familiarity — The tax system, PAYE specifically, is something that all employers use and are familiar with. Every employer pays payroll tax and is used to claiming reliefs via the payroll, most obviously statutory maternity pay and statutory sick pay.

Awareness — Apprenticeships enjoy good awareness among employers with 15 per cent currently involved and a further 25% saying that they had good or very good knowledge of apprenticeships.

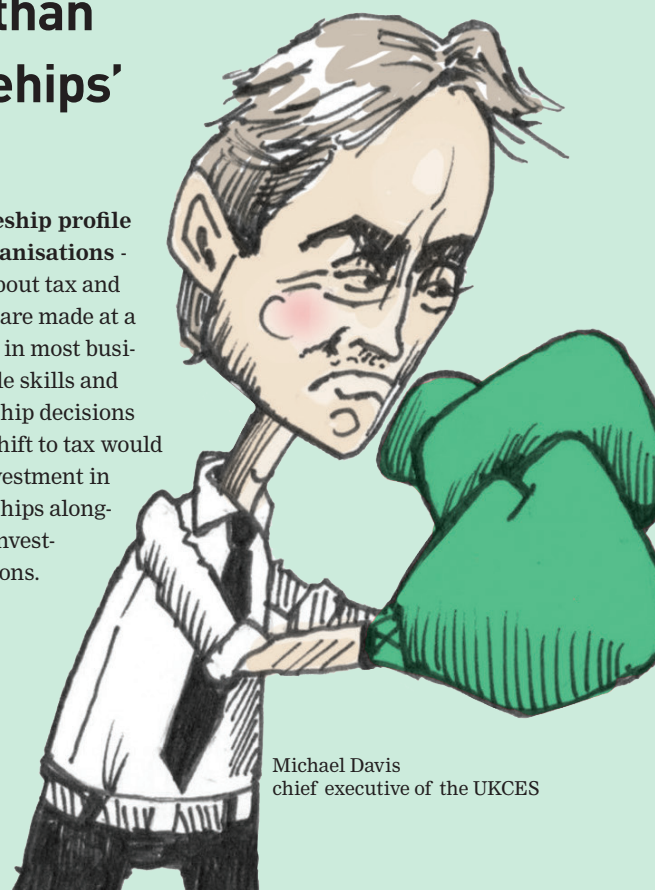
But there is still room for improvement. Any changes to tax policies for employers are extremely high profile, and so this is likely to raise awareness of apprenticeships further. A PAYE based system would be presented to all employers all of the time and this could act as a powerful awareness raising mechanism.

Stability over the long term — A common critique of skills policy from employers is that it changes constantly. A change that puts buying power in the hands of employers through the tax system would represent a commitment to long-term stability, as the tax system is not and cannot be subject to constant change in the same way that a standard government budget can be.

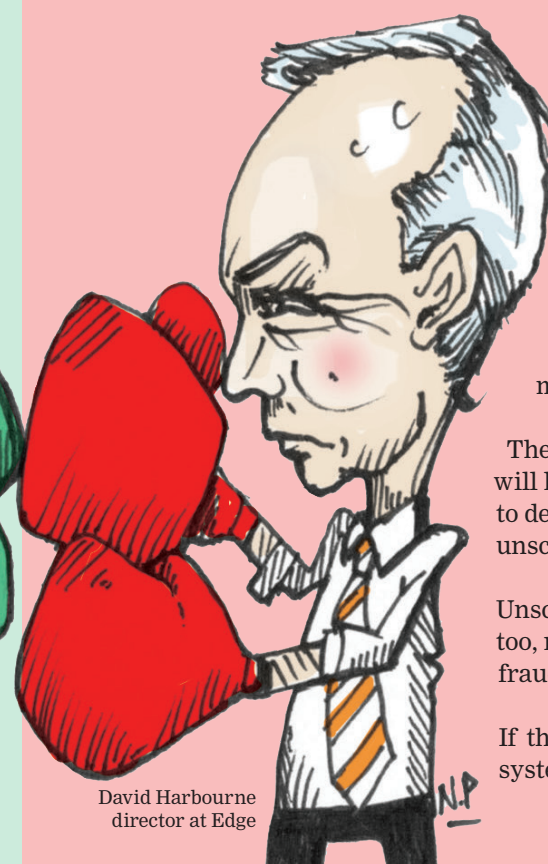
It would allow employers to be more certain of the system over the long term and allow them to plan and invest on this basis. Stability and predictability are key issues for small and medium sized enter-

prises.

Apprenticeship profile within organisations - decisions about tax and investment are made at a senior level in most businesses, while skills and apprenticeship decisions are not. A shift to tax would position investment in apprenticeships alongside other investment decisions.



Michael Davis
chief executive of the UKCES



David Harbourne
director at Edge

Edge Foundation submission to government

‘It is going to be very difficult to prevent or detect small-scale fraud and the system may also be open to abuse’

The government’s proposals for reforming apprenticeship funding will create turmoil in the market for apprenticeship training and assessment.

The Skills Funding Agency will have its work cut out to deter and detect fraud by unscrupulous providers.

Unscrupulous employers, too, may be tempted to make fraudulent claims.

If the government opts for a system in which employers

submit claims via a bespoke IT system or the PAYE system, as many as 200,000 employers may end up making regular claims. With the best will in the world, it is going to be very difficult to prevent or detect small-scale fraud, and to distinguish it from genuine mistakes.

The system may also be open to abuse. For example, the government’s consultation paper makes it plain that funds will only be released after employers have made payments to their chosen providers.

What is to prevent employers and providers signing side agreements to get round this requirement?

For example, training providers might promise to reimburse the employer contribution after the government’s share has been paid.

How would the government prevent or detect this?

While many employers will refuse to contribute towards training and assessment costs which were previously 100 per cent funded by the state, others might be open to the idea.

Even then, they may struggle. Under two of the government’s proposed options, employers would pay 100 per cent of all external training and assessment costs and recover a percentage later.

Cash flow is often a major concern, especially for small firms — this would make matters worse for them. So would a decision to withhold refunds when apprentices leave their employers before completing their apprenticeships.

Tax credits a hot topic with FE Week in the Mother of Parliaments

Proposals for apprenticeship tax credits were the subject of a passionate FE Week debate hosted by Shadow Skills Minister Gordon Marsden in the House of Parliament (pictured below). The event was attended by more than 120 people from across the FE and skills sector. Attendees voted (see results far right) and here's what some of our high profile speakers said about apprenticeship funding and the wider issues surrounding the government consultation that closed on October 1, 2013.



Ann Komzolik, executive director of business development, North West Kent College:

On her concern for the welfare of apprentices: "I've got no experience of PAYE, but I'm a little bit concerned with how this is all going to come out in the future. My main fears I guess are for the apprentices.

"In my experience, a lot of them don't actually stay with the same employer — they move them around.

"If you've got an employer managing the funding, who's going to actually manage the welfare of the apprentices?

"If the apprentice decided it wasn't quite right for them to work in that particular organisation and they wanted to move onto another, what would happen then? Who picks up the tab in terms of the employer contribution? Does the money move with the apprentice? I've got some concerns about that.

"Also, what's going to happen in the short-term when we're trying to make a decision on where to access the

funding, without actually knowing if the frameworks are going to change significantly or not?"

On the loss of control for colleges over funding: "My main concern about the way funding arrangements are going, from a college perspective, is that obviously as a training provider I'm no longer going to be in control over what I can and can't do with an employer.

"If, for example, from a college point of view, I had 750 apprentices last year, in 12 different sector areas, with 650 different employers.

"At the moment, I could for example see this working really well — in funding terms — with a large employer, who has a load of more control over apprenticeship numbers and what they could deliver in groups.

"After the proposed changes, I can see me having to tear around everywhere trying to sort out an agreement of some sort with all my individual employers, to deliver a programme of training that actually meets their specific needs.

"I must admit, I'm quite worried about that."

On co-operation between employers and training providers: "In response to a lot of things said about making sure employers have control over apprenticeships, I think good training providers should be talking to your employers in that way anyway.

"I know I go in and see my employers and we talk about a whole range of skills that are required."



Gordon Marsden, shadow skills minister

On the timing of the consultation: "I think it was unfortunate that this consultation was mostly held over the summer recess.

"It didn't give any of us in parliament much opportunity to put questions to the minister, which would've been helpful, even if not to the cost of the lord chamber, although he did have fierce questions to fire the day before the recess. More importantly, I don't think it was necessarily the best time for other people in the FE sector."

On why the government is reviewing funding arrangements: "The truth of the matter is the government felt compelled to commission the Richard Review because of the major concerns that had been expressed over apprenticeships and that coincided with this government's expansion of the programme.

"There was also the Jason Holt Review, which looked at how to assist small businesses access the apprenticeship scheme, because many of them felt unable

or unwilling to sign-up in its present form. "Those figures for take-up among small and medium-sized enterprises remain quite stark.

"The key issue now is 'what is blocking peoples from taking on apprenticeships?' and how can a system to be reached to improve the situation."

On the need for long-term continuity: "I am always being told as a shadow minster, in this and other areas, people want certainty and continuity.

"They don't want every set of regulations being superseded by another one in a year's time. "So we really should, I think, be looking at a funding structure that will last maybe not a generation but certainly five, 10, or one would hope 15 years into the future. If you look at what our competitors are doing — where they have built their strengths and bases on apprenticeships — they have operated on that long term basis, so that also means we should be looking at the way the world of work is going to change over the next 10 to 15 years.

"All of these options today — even the PAYE model — are government-related, working very much to a traditional mechanism.

"I'm disappointed there is no reference in this consultation to the alternative possibility of apprenticeship funding being distributed perhaps by a regional or sectorial approach, even though that would represent how many employers organise themselves. That would also help draw in small businesses by utilising supply chain relationships."



Michael Davis, chief executive of the UK Commission of Employment and Skills

On comparing the proposal with other forms or tax credits: "For those of you who are sort of familiar with how PAYE works, I think it's worth looking at how simply something like sectioning maternity pay is to administer, within a payroll.

"Now, clearly, you couldn't just have one rate, which is affectively what you have with statutory maternity pay, but PAYE represents an opportunity to really simplify how we can do things.

"It's also worth thinking about the research and development tax credit introduced by the previous government in 1999.

"It started out as something that was only available to small businesses and over time has been expanded out.

"Now it's embedded into how businesses think about how they invest in research and development.

"It's just there in completion policy and innovation policy. That's something now that's just a constant, I think will continue

Electronic voting results

1. Which proposed apprenticeship payment model do you support?

At the start of the debate

Direct (model 1) definitely	10%	20%
Direct (model 1) maybe	9%	
PAYE (model 2) definitely	7%	23%
PAYE (model 2) maybe	16%	
Provider (model 3) definitely	13%	26%
Provider (model 3) maybe	13%	
None - leave unchanged	22%	
Something different	1%	
Don't know	8%	

At the end of the debate

Direct (model 1) definitely	2%	6%
Direct (model 1) maybe	3%	
PAYE (model 2) definitely	2%	27%
PAYE (model 2) maybe	24%	
Provider (model 3) definitely	9%	20%
Provider (model 3) maybe	10%	
None - leave unchanged	16%	
Something different	16%	
Don't know	7%	

2. Should employers have to make cash contributions for 19+ apprenticeships?

At the start of the debate

Yes (any amount)	21%
Yes (£300 or more)	7%
Yes (30% of full funding)	17%
Yes (50% of full funding)	8%
Yes, but only for low priority sectors	8%
No, there should be no requirement	31%
Don't know	3%

At the end of the debate

Yes (any amount)	35%
Yes (£300 or more)	7%
Yes (30% of full funding)	21%
Yes (50% of full funding)	10%
Yes, but only for low priority sectors	3%
No, there should be no requirement	19%
Don't know	1%

to be there for the long term.

"We could instil the same line of thinking about apprenticeships into our PAYE system — normalise it into all of our collective thinking and actions.

"PAYE is something all businesses are familiar with. The argument to be made in favour of PAYE will revolve around employer and employee relationships, thinking about the change in nature of the labour market for young people and really empowering employers."

On the history of the PAYE proposal:

"The case was first made for using PAYE as a mechanism for creating good jobs for young people back in 2011.

"What was driving thinking then — and I still think it still stands now —was the structural going on in the labour market for young people.

"What you see is a change in the labour market, the death of the Saturday job.

"You hear all the time about the decline of entry-level occupations for young people.

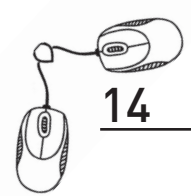
"Apprenticeships have to be seen as

the absolute gold standard pathway into work. Yet, while lots of small businesses do provide apprenticeships, in the overall mix we still have a long way to go to make them seem the norm.

"I think it's really important that we flip how we think about apprenticeships and see them as something that exists in our labour market rather than sort of seeing them as a training programme.

"If we were to do that, it's really important the employer is able to take real ownership over that apprenticeship."





PAYE incentive a hard-sell to small businesses

The Association of Employment and Learning Providers (AELP) fears the extra hassle of having to claim back funding through tax returns could put small firms off hiring apprentices

AELP represents the interests of a wide range of organisations delivering vocational learning and employment support.

The majority of its 650-plus members are independent providers from the private and third sectors, but it also represents colleges and Sector Skills Councils.

The influential body rejected PAYE in its formal submission to the government consultation and Stewart Segal (pictured right), chief executive of AELP, spoke at length on apprenticeship tax credits during a webinar at the Department for Education, hosted by *FE Week's* editor Nick Linford, on September 26.

These were Mr Segal's views:

On the effect the PAYE plans would have on small businesses' approach to apprenticeships: "We all know how difficult it is to sell a proposition like apprenticeships to a small business.

"If you've got to go in there and say to them 'you've got to have a contract with a government body and register. You also need a contract with a training provider; you've got to hand over money month-on-month and collect that money back from the tax system', then it's really not an easy sell.

"Whether we like it or not, there will be a barrier. They are not going to want to take on the bureaucracy of adopting the new system. It just won't happen.

"If you've got a large employer and they've got a team dealing with tax, this

system might work, but if you've got a small business, where the owner does the tax returns, it's doubtful.

"If there was proof and evidence the new system was going to be simple to use, then you've got half a chance. But there was very little detail about this in the consultation.

"It's not clear if the employer can reclaim the VAT. It may not yet be an issue, but it's just another thing you've got to explain to the small and medium sized enterprises. Then they will feel like they're paying more tax again."

On comparisons between the new proposals and the current system: "I think [PAYE-based] contributions towards the cost of apprenticeships, or any work-based training would be much more complex.

"The consultation has missed a lot of the subtleties around how an apprenticeship happens.

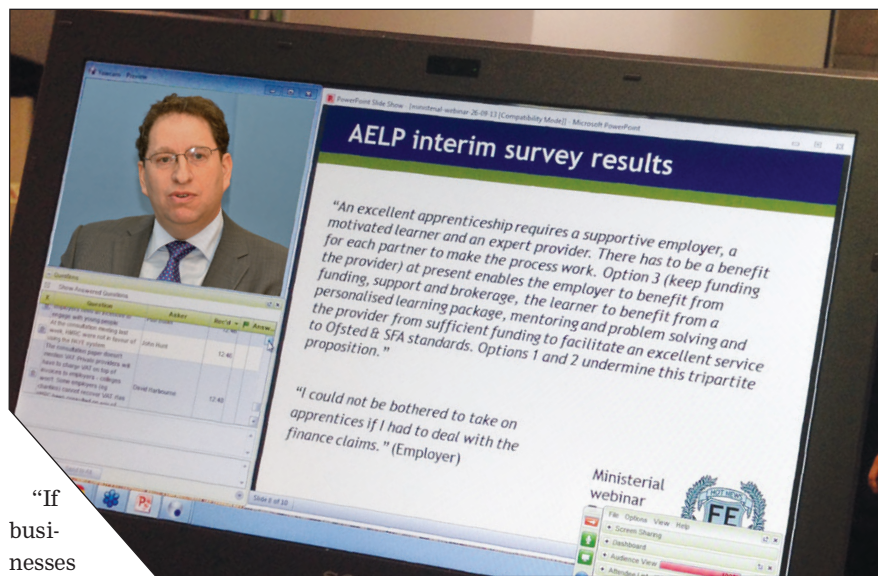
"Doug Richard accepted that anyone who takes on an apprenticeship is already making a huge contribution.

"They're paying the wages, they're going through the selection process and they're talking to the provider in terms of the training.

"We all accept that probably 80 per cent of all learning is done on the job and the costs add up.

"I think there does need to be a better contribution from employers, who need to be much more aware of how much they pay towards apprenticeships."

On concern over excessive bureaucracy: "What you don't want to do is create some bureaucracy around searching for the invoices and making them go through an invoicing process.



"If businesses want to contribute, they'll say 'fine, we'll provide a mentor; we'll provide ongoing assessment and a huge amount of equipment. But to be honest, if we have to invoice you for £200 a month, that's crazy'."

On AELP's attitude to change:

"We are not just pushing for the status quo. We have over the years pushed for all sorts of changes within the system.

"We think employer-involvement should be very much part of Ofsted and other inspections and we believe it should be tracked.

"There are lots of simplifications to the funding system for apprenticeships that could be made and we would really like to make employers feel at the centre of that system."

AELP consultation response

"We do not believe the three options and the three principles that they are based on will deliver the improvements to the system we would all support.

"Maintaining a strong and successful apprenticeship programme is critically important to the future of the economy and we urge the Government to re-think before moving ahead with these proposals.

"Until the full implications of the apprenticeship reforms are known (to be published in 'the Autumn') it is very difficult to fully understand all the implications of the funding changes — before any radical changes are introduced we must all be confident that the funding spent on apprenticeships does not decline from current levels."

Tax breaks for training is 'strange' English idea

Omar Luthi (pictured) is director of undergraduate programmes at the HSO Business School, in Switzerland.

He is an expert on how apprenticeships work across the continent and views tax credits for apprenticeships as an alien concept.

This is because Switzerland, Austria and Germany run highly successful vocational training systems, with between three and four times as many apprentices as in England.

However, their schemes are still tightly regulated and directly funded by the public sector.

These were his views on the proposals for England:

On tax credits for employers: "I find a PAYE tax dedicated to apprenticeship fundings rather strange.

"Apprenticeships reduce the rate of unemployment of young professionals and increase the quality of vocational work and with it the quality of services and

products within a country.

"The country benefits from such a system on a macro-economic level, just as much as a country benefits from national security.

"Would it not seem strange if someone came up with the idea to fund the armed forces or police force through a PAYE tax system dedicated to these specific causes?

"I think this must reflect certain cultural differences between our countries over our different approaches to vocational training."

On the funding system in Switzerland: "Our system is twofold. For on-the-job training, it is the company that funds the workplace, monthly apprenticeship compensation and social security.

"Several studies have proved there is a positive return on this investment for companies, even during the apprenticeship, before they become fully fledged employees.

"The vocational school training — which is the equivalent to college training, in England — is paid for by public funds at state level. This is financed through taxes.

"However, our country does not have a specific PAYE tax dedicated to vocational education.

"In Switzerland, we understand education — academic or vocational — as a macro-economic driver and it is seen as the duty of the states and federal government to provide necessary educational infrastructure and systems.

"The reason for the strong vocational training systems in Switzerland — as well as in Germany and Austria — is not only that they are federally regulated.

"Just as important is the fact that following an apprenticeship, young professionals have a wide range of options to continue in higher vocational education. Apprenticeships are really just the starting point for promising careers."



FE Week consults the tax experts

Significant cultural shift needed for tax credits to succeed

So what are the pros and cons of apprenticeships tax credits and how will the system work?

Jane Scott Paul (pictured right), chief executive for the Association of Accounting Technicians (AAT) provides an in-depth review of the advantages and disadvantages of the PAYE proposal.

In his review of the apprenticeship system, Doug Richard clearly stated the government should create the right incentives for apprenticeship training, by placing purchasing power in the hands of employers.

One of the core criticisms of apprenticeships up until now has been that training has not accurately reflected or been aligned with what employers need or want.

In order for apprenticeships to be truly effective, they must become central to the workforce planning of business and not an add-on.

The government's PAYE proposal, through the Consultation of Funding Reform for Apprenticeships in England, would place employers firmly in the driving seat.

This payment model would involve providing funding directly to businesses through the taxation system.

Employers would effectively pay training providers for the apprenticeship training, then recover the government funding through their yearly PAYE return.

The model is designed to give employers more choice in the process to ensure they receive training that more accurately reflects their needs.

A shake-up to apprenticeship funding through the use of PAYE would undoubtedly bring a lot of change along with the potential to deter many — particularly smaller businesses — from being involved altogether.

As a result, the question remains as to whether asking employers to meet full training costs up-front will drive investment in apprenticeships, or act as a disincentive?

The AAT has argued for years the only way to make a reality of a demand-led system is putting greater control of funding in the hands of employers.

As we've seen, the potential advantages of this do not come without risks.

It will require a significant cultural shift and it will be important to ensure the compliance and audit regime is fit for purpose.

ADVANTAGES

The proposed PAYE model meets the principle of employer-control. Employers will buy the training direct from the provider for a price that they are free to negotiate.

Although the PAYE model requires a new registration database, unlike the Direct Payment model, it will not require a potentially complex new system for processing payments to thousands of employers.

Payments will be through an established HMRC system which employers are already familiar with and has the facility for adjustments around allowances and benefits.

As an example, this is the route currently used by many employers for reclaiming statutory maternity pay.

Payments are also generally automatically calculated using specialist software packages, which reduces the burden for employers.

The model has the potential to improve cash flow for employers, as claims made are deducted from PAYE owed, rather than having to invoice and wait for a payment to be made.

The process would naturally become a part of everyday business embedded in the organisation — rather than sitting as a separate process.

DISADVANTAGES

The primary disadvantage in making employers contribute all payments up-front is the risk small employers will walk away.

For small and medium sized enterprises in particular, the notion of increased paperwork and processes in claiming tax back for training apprentices might be too much.

While large employers have the resources to deal with PAYE, smaller employers may not be as well versed in the system, or have experience of maternity pay and similar examples.

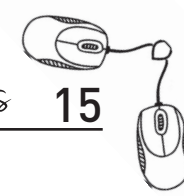
The potential advantage of the use of specialist software packages for calculating PAYE will also be offset by the complexity and cost of updating software to meet the new requirements.

It's also worth noting that a considerable number of small businesses outsource payroll because of a lack of resources or knowledge. A similar exercise in updating all their systems and processes would be required.

The advantage of reduced liability mentioned above also carries an associated risk. That is, what happens if an employer's PAYE liability isn't enough to cover repayments required?

Also, what happens if an employer misclaims the money it is entitled to? One assumes, an additional funding application would need to be resubmitted in these instances, adding another layer to an already seemingly complicated process.

Use of the PAYE system assumes the draw-down will be linked to relevant employees' National Insurance number. Not only does this place an absolute premium on ensuring databases across the funding agencies and HMRC are properly aligned, it also raises data protection issues around the sharing of information between departments. Suffice to say, the record of government in implementing IT database initiatives is at best patchy. There is a simple old proverb — "he who pays the piper calls the tune".





Employability: your key to success

Pearson Traineeships:
helping more learners to
progress into real work
and Apprenticeships

Design and deliver a tailored
traineeship for every learner.

Whether you need to deliver a work placement, work
preparation training, English and Maths or a high quality
range of qualifications, units and resources we will provide:

- A fully flexible range of high quality qualifications and units from Edexcel and BTEC including newly designed qualifications to support your learners to achieve a successful work placement
- High quality resources to support you with delivery
- Help for you to identify and address behavioural barriers to learning
- A comprehensive package including a work experience qualification, diagnostic tools and our highly successful work search application – all an integral part of our overall employability toolkit

GET ON: the right learning
programme



Contact us

To receive a free copy of our employability pack,
with an overview of Pearson products and services:

Call us on: 02476 518976
Email: wbl@pearson.com

Main Image courtesy of WorldSkillsUK