

# Debate on the Apprenticeship Levy and the case for the effective delivery of workplace opportunities for young people

House of Lords

04 July 2019



## KEY MESSAGES

- People need to be given the tools and skills to help them build their career. This can be a challenge as our employment and skills system is highly fragmented. In 2016/17, more than £10 billion of employment and skills funding was commissioned across 20 different national schemes, with varying criteria and eligibility.<sup>i</sup>
- Despite significant levels of investment, our skills system has failed to have a decisive impact on the varying socio-economic challenges and opportunities in local areas, or make a major impact on outcomes.
- To help councils and combined authorities close their skills gaps the Government should enable them to coordinate a localised approach to skills. This includes loosening Apprenticeship Levy restrictions. We welcome announcements made on this in the 2018 Budget, but the Government must now go further and faster.
- The LGA estimates the Apprenticeship Levy costs local government £207 million a year. National policy requires the Levy is spent against standards within two years. Many standards were not ready to use when the Levy was introduced and some key standards are still not yet fully accessible.
- Alongside this, national policy does not allow levy contributions to be fully pooled locally, and funds unspent within 24 months must be returned to the Treasury rather than being retained locally. Funds expire on a month-by-month basis, with the oldest unused funds expiring first. This hampers efforts to have a more 'joined-up' and strategic approach to apprenticeship spending locally.
- The Government must use the upcoming Apprenticeship Levy review to enable local areas to pool levy contributions, loosen levy restrictions including around its use, and ensure all levy underspend goes back to local areas. Most importantly, the apprenticeships system should be fully devolved to combined authorities.
- In addition to our recommended Apprenticeship Levy reforms, the LGA has developed *Work Local*. This is a place-based proposal for change to skills policy. It sets out that local areas should have the powers and funding to plan, commission and oversee a joined-up skills and employment service.
- This is critically important to ensuring that combined authorities, councils and local partners can plan how their areas will respond to the challenges and opportunities of Brexit and the Government's Industrial Strategy.

# Briefing

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## **Background Information**

### ***The current skills and employment system***

Councils and combined authorities want to build strong, resilient economies where residents contribute to, and benefit from, inclusive growth around a shared vision for their local area. Fundamental to achieving this is a steady supply of skills and jobs, fostering local business growth and effective support to help people get on in life.

Our employment and skills system is designed and commissioned by a range of Whitehall departments and agencies in a way that disincentivises collaboration. For instance, none of them have a plan on how to coordinate activity. They also do not have a duty to discuss with councils or combined authorities how provision will land in local areas around service users and reflect local economic and social priorities.

Research for the LGA showed that in 2016/2017, the Government spent £10.5 billion across 20 different national skills and employment policies and schemes, each with different criteria and eligibility. Local areas have little or no influence over these, which is a missed opportunity to target support and make the best use of available resources.

Despite best intentions, a centralised system simply cannot identify and address the unique economic and social challenges and opportunities within and between places, and the people that live within them. While unemployment has fallen across England:

- 4.6 million people want a job or more hours, 14 per cent of the workforce in England;
- One in nine workers are in insecure work;
- Nine million people lack basic skills;
- More than half of all unemployed people do not claim benefits or receive national employment.

There are further challenges ahead. Research for the LGA suggests that by 2024, a growing skills gap will result in 4 million too few high skilled people to fill demand and 8 million too many intermediate and low skilled than there are jobs (*Work Local July 2017*).<sup>ii</sup> Failure to increase our skills levels is bad for individuals, employers and the local and national economy.

The continued uncertainty in relation to Brexit, and the ongoing productivity gap, are presenting growing skills challenges both nationally and locally. New national reforms and initiatives including apprenticeships, technical levels, skills advisory panels, the national retraining scheme, local industrial strategies and a future UK Shared Prosperity Fund will seek to address these challenges. While they are all positive and important in their own right, without sufficient join up or focus around 'place', they risk being stand-alone and less effective. There needs to be a better way of coordinating policy and provision, both nationally and locally.

### ***The Apprenticeship Levy***

The announcement related to flexibilities in the Apprenticeship Levy made in the 2018 Budget was good news for smaller employers, and builds on earlier flexibilities to increase the amount employers can transfer. These are all positive signs that the Government is beginning to listen to concerns around the need for flexibility. However they do not go far enough for local authorities, both as employers in their own right, as well as helping them to carry out their economic development functions.

As direct employers, the LGA estimates that the Apprenticeship Levy costs local government as a whole £207 million a year. However, no additional funding was made

available to local government to manage the administration of apprenticeship programmes and levy funds cannot be used for this purpose. The LGA estimates it would cost approximately £400 million per year in administration, salary and procurement costs for local government to recoup their full Levy contributions. This includes the contributions of voluntary and community schools, for which local authorities are considered the employer. Schools typically require a greater level of support from local authorities to use the apprenticeship levy in a positive way as they are unfamiliar with the new apprenticeship system and have significant resource pressures.

National policy requires that the levy is spent against 'standards' within two years. Many standards were not ready to use when the Levy was introduced and some key standards are still not yet fully accessible.

Alongside this, national policy does not allow levy contributions to be fully pooled locally, and funds unspent within 24 months must be returned to the Treasury rather than being retained locally. Funds expire on a month-by-month basis, with the oldest unused funds expiring first. This hampers efforts to have a more 'joined-up' and strategic approach to apprenticeship spending locally.

We can help increase apprenticeships and social mobility locally if the Government used the upcoming Levy review to:

- Give powers to local areas for more strategic local planning, paving the way for local partnerships to address supply and demand side issues, widen participation to disadvantaged groups and specific cohorts.
- Empower employers to collaborate more easily on transferring funds and pooling.
- Extend the two year limit to spend the Levy against standards which have only just been approved or are still in development, and put in place an appeals process.
- Commit ESFA to co-design unspent Levy and non-Levy funding with local areas now with a view to progressive devolution.
- Permit more flexible use of the Levy, including to meet the full costs of apprenticeship programmes and administration including on pre-apprenticeship training.

Analysis for the Open University one year after the introduction of the Apprenticeship Levy revealed that more than £1.28 billion of funds collected through the Levy sat unused in National Apprenticeship Service accounts. This was on the basis that organisations paid in more than £1.39 billion but only withdrew £108 million). Employers are struggling to fully utilise the funding.

### ***A place-based solution / Work Local***

A more place based, integrated approach to policy and funding is needed to coordinate the myriad of initiatives. What works for major cities will be different to what is needed in suburbs, towns, rural areas and more mixed communities.

*Work Local* is the LGA's positive proposal for change. Led by combined authorities and groups of councils, in partnership with local and national stakeholders, local areas should have the powers and funding to plan, commission and oversee a joined-up skills and employment service.

This requires the various parts of Whitehall to coordinate activity, and would be achieved through the establishment of Local Labour Market Agreements (LLMAs) which would be negotiated between local areas and national Government. Across a medium sized combined authority, *Work Local* could each year result in 8,500 people off out of work benefits, a fiscal boost of £280 million, and contribute £420 million to the economy.

Our *Work Local* approach is now critical as combined authorities, councils and local

partners plan how their areas will respond to the challenges and opportunities. We are now seeking the backing of Government and stakeholders to pilot Work Local through a series of pathfinders to test how devolving an integrating existing national funding streams can bring benefits to people and places as well as the national and local economy.

While our Work Local vision is big, there are many things we can do now to help close local skills gaps, increase apprenticeships and social mobility and create good local employment opportunities. We can close the skills gaps if the Government agreed to a localised approach by:

- Immediately launching the agreed Department of Education / LGA / LEP partnership to ensure new or existing post 16 skills policies work for non-devolution areas, to complement existing devolution work.
- Taking forward skills advisory panels, resulting in national and local partners coming together across the country.
- Fulfilling Local Industrial Strategy ambitions with devolved powers and funding.
- Following the devolution of Adult Education Budget to mayoral combined authorities and London, ESFA should co-design AEB with all other areas. This should be the first of a succession of skills funding streams to be localised.
- Devolving powers and sufficient funding so councils can fulfil their statutory duties to support all young people. Including those at risk of, or who are NEET, care leavers, disadvantaged groups and those with special educational needs.
- Starting planning now for a post-16 local offer so young people have a coherent picture of locally available options (A levels, T levels, Apprenticeships) and ensuring T level reforms are a success.
- Building local community leadership, targeted engagement and a relevant flexible offer into the National Retraining Scheme for adults.
- Co-designing the development of a locally relevant careers advice offer and progressive devolution of the Careers and Enterprise Company and National Careers Service funding.
- Beginning to co-design a localised UK Shared Prosperity Fund.

We can create good employment opportunities if the Government:

- Locally commission future job support along combined authority and LEP areas.
- Commit Jobcentre Plus (JCP) to co-design activity with local partners.
- Co-design support to help those with the greatest health needs stay in work.
- Ensure JCP Work Coaches and the Universal Credit are effectively integrated.
- Pilot locally-led career progression interventions.

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<sup>i</sup> Local Government Association – Work Local: Making our vision a reality  
<https://www.local.gov.uk/work-local-making-our-vision-reality>

<sup>ii</sup> Local Government Association – Work Local: Our vision for an integrated and devolved employment and skills services (2017) <https://www.local.gov.uk/work-local-our-vision-integrated-and-devolved-employment-and-skills-services-full-report>