Apprenticeships and college finances

Association of Colleges Survey

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The Association of Colleges

1. The Association of Colleges (AoC) represents nearly 95% of the 288 colleges in England incorporated under the Further and Higher Education Act 1992.

2. Colleges are transformational – they help people to make the most of their talents and ambitions and drive social mobility; they help businesses improve productivity and drive economic growth; they are rooted in and committed to their communities and drive tolerance and well-being. They are an essential part of England's education system.

3. Colleges provide academic, technical and professional education for young people, adults and employers. Among other things, the 288 colleges in England provide education and training to:

   - 712,000 young people aged 16 to 18
   - 1.4 million adults including 150,000 taking higher education courses
   - 313,000 apprentices[1]

Apprenticeships and college finance

4. AoC conducted a short survey of the impact of college apprenticeship activity on their finances in January 2018. The survey had 12 questions and 59 responses from colleges active in training apprentices.

2017 survey headlines

5. The survey provided insights into the financial aspects of current college apprenticeships. The top headlines were:

   - Colleges anticipate a 9% fall in starts in 2017-18 compared to 2016-17. There was a big drop in activity in the first three months but some pick up after September 2017.

   - Carry-in apprentices (who started before the levy took effect) account for 50% of estimated college income this year, in 2017-18.

[1] AoC Key Facts about colleges 2017

- Colleges expect their total apprenticeship income to be slightly lower in 2018-19 than it was in 2016-17. Fewer starts this year means a lower carry-in allocation in the following years. The balance of government spending on apprenticeship training is likely to shift towards larger employers in 2018-19 because more will strive to use their levy funds before they run out. Colleges need to secure contracts from levy paying employers to grow their income.

- The restrictions on funding available for smaller employers who do not pay the levy puts colleges in a position where they are currently expecting to deliver an average of £285,000 worth of apprenticeship training at risk over the next 15 months in the hope of securing ESFA funding. The size of the funds at risk is pretty similar to the average predicted college surplus in 2017-18.

- Colleges reported problems maintaining margins on apprenticeship activity because costs have risen in 2017-18 while funding rates haven't to a sufficient extent. Rates for some well-used apprenticeships like Health and Social Care have fallen. Colleges report that the national rate card was weighted towards higher level apprenticeships and also towards engineering. Unfortunately new standards in engineering have not yet been available.

- Colleges have found that the terms of trade in apprenticeships have significantly deteriorated in the last year. The shift to employer control has given employers responsibilities for returning information and authorising payments that they are not properly fulfilling. Meanwhile the structure of payment profiles has resulted in a slowdown in payments compared to the system before the levy started. Central government's promise on prompt payments is to pay 80% of undisputed invoices within 5 days and the rest within 30 days[2]. The apprenticeship training contract is more complicated than a supplier invoice but it cannot be right that some colleges are waiting 3 months for their first payment.

- The introduction of employer control of the apprenticeship training budget has made spending more visible to levy paying employer and given them influence on how money has used but has also placed new obligations on them while embroiling training organisations – including colleges – in considerable administration to secure payment and to comply with funding rules.

[2] Central Government Prompt Payment Policy, reported on gov.uk

Sample size and nature

6. AoC issued the survey to college principals and finance directors in all 275 colleges. Responding to the survey was voluntary.

Type	Number of responses	Number of colleges in England	Percent within type
General Further Education College	51	184	27%
Sixth Form College	4	65	6%
Landbased College	4	14	28%
Total colleges in England	59		21%

Numbers of apprentices

7. Question 4 asked for information about the number of apprenticeship starts. The colleges who responded forecast a 9% fall in starts of all types for this academic year (2017-18) compared to last year (2016-17).

Number of starts	Total reported in survey	Average per college
2016-17 actual starts for academic year (August 2016 to July 2017)	35,351	599
2017-18 actual starts to date (August 2017 to December 2017	15,165	257
2017-18 forecast starts (full year)	32,064	543

Apprenticeship income

8. Question 5 asked about income over a three year period. The collective response from the 59 respondents who returned data suggests total income is static rather than rising.

Income	Total reported in survey	Average per college

2016-17 actual	153.1	2.6
2017-18 estimated	148.2	2.5
2018-19 estimated	149.1	2.5

Income from levy paying employers

10. Question 6 asked about income in 2017-18 from levy paying employers. The collective response from the 59 survey participants reported an estimated income of £35 million, an average of £590,000. Based on the figures supplied to question 7 (see below), estimated college income from smaller employers is expected to total between £32 million and £42 million in academic year 2017-18 with £32 million promised in the ESFA allocation and the rest delivered at risk in the hope of an adjusted allocation. This suggests that new starts in college are broadly equal between levy and non-levied employers. The balance of income in 2017-18 is covered by funding for continuing ("carry-in") apprentices which accounts for 50% of estimated income this year.

11. The government accounting for the levy involves collecting the income up front from employers with a promise that they can use it for up to 24 months while spending part of the sums collected on apprentices who have already started or on small employers. BAe Chief Technology Officer, Nigel Whitehead, explained the accounting to the House of Lords as follows:

"*Those of us who already have apprenticeship schemes expect to recover our levy, notwithstanding the time lag in the system. I paid £7.5 million this year, and a proportion of that last year pro rata for the number of months the scheme was running. It will be the end of 2019 before I get that back from the system, because it is time phased. I just have to accept that. We will recover that money and we will use it wisely, but it will not change what we are doing and how we are doing it.*

That will not necessarily be true for the 8,900 businesses in my supply chain, 2,500 of which are SMEs. They look at the accessibility of the schemes and try to work out whether they dare commit themselves to an apprenticeship not knowing whether they will be able to attract some of that levy funding to fund their activities."[3]

[3] Evidence to the House of Lords Economic Affairs Committee, 16 January 2018

Income from smaller employers

12. Question 7 asked for information about income relating to smaller employers who do not pay the levy. ESFA cancelled the first national procurement exercise for these employers in March 2017 and, instead, issued 8 month allocations. ESFA ran a second procurement in autumn 2017 which has been used to issue 15 month allocations. Around 20 colleges were given no allocations at all in the second exercise. Some who submitted bids assessed as high quality were disqualified because their bid was too low. Others were disqualified because their written application was assessed as not good enough even where they have high reputations for quality, strong track records in apprenticeships and employers keen to use them to train apprentices. For other colleges, the procurement has seen ESFA issuing allocations which are expected to be too low to cover activity. Our survey response suggests an average shortfall of £285,000 for the participating colleges because they expect to exceed their 15 month allocation by

Income	Total reported in survey	Average per college
8 month 2017 allocation	26.7	452k
8 month 2017 actual activity	23.7	401k
15 month 2018-19 bid	69.7	1,181k
15 month 2018-19 allocation	38.1	645k
15 month 2018-19 forecast activity	54.9	930k

Income and costs associated with apprentices

13. Question 8 in the survey asked college leaders for their observations on income and costs associated with apprentices. Two years ago, in the area review process, their sponsoring department encouraged colleges to focus on apprenticeships:

"From April 2017, a levy on large employers will put funding for apprenticeships on a sustainable footing, and employers will become the purchasers of apprenticeship training. The levy is likely to lead to

significant employer demand for the new, employer-designed apprenticeship standards, which will replace frameworks over time. Colleges and other providers need to be ready to respond to this demand and re-work their business model to operate competitively in a more market-style environment, moving away from the current allocations-based funding system for apprenticeships. We expect to see further education colleges taking a greater share of the apprenticeship training market, alongside other types of providers".[4]

14. Responses from colleges suggest that income growth – if or when it comes – may necessarily translate into sufficient margins for reasons associated with the new design of the programme. Several respondents identified rising costs for apprentices taking new standards:

"*Changes to standards are driving significant staffing changes. The standards also being new end point assessment costs. Overall income per student is dropping as result of the rate changes and allied to rising costs, we are seeing an increasing squeeze on apprenticeship margin/contribution. We may need to look at stopping certain areas depending upon the funding rates.*"

"It is becoming increasingly difficult to appoint assessors in areas such as Engineering, where the salary costs are high, therefore assessor salaries are having to be raised to attract suitably qualified assessors"

"Apprenticeship standards are more specialised, this has resulted in an increase in the cost of recruiting suitable, qualified staff with recent industry experience. Assessors are demanding a higher hourly rate, which is not in line with the funding band assigned to the standard."

15. At the same time, nationally set funding rates (which cap the amount that can be charged per apprentice) do not always cover costs. This is particularly a problem in certain sectors and for the frameworks which are being gradually (but slowly) replaced by standards:

"Some Standards are funded at too low a level and this is deterring providers from running them. For example, the maximum funding value for Health and Social Care is so low that it is difficult to see how the training can be delivered for this amount. Another example is Groundworks. Construction employers need people with skills but the low funding value does not cover the considerable amount that this standard

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4 DFE and BIS "Reviewing Post 16 Education; Updated Guidance" March 2016

requires to set up and run. Many employers are concerned at the lack of qualifications in the new standards. To 'sell' the apprenticeships to them, we are having to add extra qualifications to the standards and it is not always easy to ask employers to pay for this when they believe that they have paid enough by making their levy contributions or their 10% contribution"

"Most new standards have adequate funding for delivery apart from those approved for Health and Social Care"

"Standards are not yet in place in Engineering, Early Years and Supporting Teaching in Schools which means we have to use lower funded frameworks"

"Many of the Level 2 and Level 3 apprenticeships have a low value in the funding bands. This is driving providers towards the higher value / higher level provision and away from the lower level provision (for example childcare / health and social care"

16. Other identified costs associated with the transition to the new system:

"The transition from frameworks to standards and developing curriculum content and models to deliver new standards is costly. Government allocated development funds for degree apprentices but not for those at a lower level. Funding for English and maths is still woefully inadequate given the level and intensity of support some learners require to improve their skills"

"Employers consistently query the large differential between rates for frameworks and standards. Explaining the standards involve end point assessment does not justify the higher charge. Nor are they convinced by explanations that we historically delivered frameworks at cost or just a slight margin."

17. Several respondents identified administration costs as an issue:

"The cost of administering apprenticeships has increased by around 30% due to the extra contract management plus the commitment statement. More time is devoted to helping employers understand the system and in particular the double lock"

"We have spent a lot on internal activities: a) keeping up with changes b) communicating changes c) writing bids d) try to reconcile financial ESFA reports to remittances e) introduce and implement new systems and processes

"Cash collection from employers have been a new cost and managing debtors a new problem. We have endeavoured to mitigate in our new terms of business (requiring payment up front).

"Levy paying employers expect providers to undertake the significant majority of work (including a lot of work employers should really be undertaking) and this adds to the cost of delivering and supporting apprenticeships."

18. In some cases, colleges are incurring new administration costs but facing a fall in activity.

"Costs to administer the apprenticeship funding have increased due to the increased bureaucracy. We are currently experiencing a reduction in apprenticeship starts c. 50%. We are reorganising our business development team to help deal with this. The local economy in one area where we operate is growing so there is still potential."

19. Ultimately the financial issues will have an impact on college decisions:

"Apprenticeships are just not financially viable to deliver in the current climate"

"If we could assemble consistently big groups of apprentices to follow standards, then we might be able to make significant surpluses"

Cost-effective delivery of apprenticeships is naturally more difficult to ensure than classroom provision. To generate decent contributions, particularly with small (non-levy) employers is especially difficult as opportunities for delivering assessor visits to multiple employees on the same occasion, or bringing together apprentices for group provision of, say, English and maths are few and far between.

"All curriculum plans are scrutinised at board level to ensure minimum 40% contribution by programme area. This allows for a detailed cost based to be developed that's supports high quality training and assessing. All changes from frameworks to standards have been subject to an

individual costing model, which has been validated by a Group Apprenticeship Standards panel."

"Three months of little/no Apprenticeship starts in May-July 2017 and a slowdown in starts from August 2017 onwards has impacted on income. The College had been on a growth trajectory financially, year on year, prior to the introduction of the new funding regime. A good outturn from this current year would be to (almost) achieve the same level of income as 2016/17. The high level of carry in activity from 2016/17 into 2017/18 has cushioned the blow; however, in reality it has merely delayed the full (detrimental) impact on the College's Apprenticeship growth strategy until 2018/19. Costs in 2016/17 and 2017/18 have increased significantly due to the increased level of complexity and increased level of support required by employers. College had invested in a transition manager for 12 months prior to the reforms to manage and lead on the implementation of the different work streams in the internal transition plan; this work continues. Additionally costs have increased in regards to staff costs related to management and administration including contract and financial management. Significant costs (i.e. staff time) have also been incurred and continue to be with the transition to standards - designing new delivery models, developing new curriculum, end point assessment"

Cashflow

20. Colleges are financially independent and need to manage their own cashflow to ensure they can pay their staff and bills. Question 9 explore the issues associated with apprenticeships.

21. Many respondents reported an adverse impact. One respondent explained the problems within the Digital Apprenticeship Service (DAS):

"The double lock on payments from the DAS is creating unnecessary delays in payments coming into the college. There is also an extra layer of chasing employers to make sure learners are added to the DAS system and that final details are approved to release payments. This has resulted in some apprentices being with the college for months before the funding is released."

22. Another respondent traced problems further back:

"There are a number of reasons why funds are delayed in reaching providers, as follows:

• Employers taking a long time to sign contracts. The length and complexity of the contracts is deterring employers or as a minimum is meaning that they are seeking legal advice before doing so and this is delaying the enrolment of apprentices

• Employers having difficulties setting up their Digital Accounts and in some cases giving up on this. To get round this we have use our own HR dept, to speak to their staff to help them to do this but this does not always address the problem and not all employers are interested enough to bother with this

• Employers are often slow and reluctant to pay their contribution – a situation exacerbated by the fact that for many years, many providers waived the employer contribution and so there is a tradition of notpaying this or not paying it promptly. We cannot claim funding until the contribution is paid, again delaying receipt of income from both sources and the enrolment of the apprentice "

23. The impact for colleges has been a deterioration in the terms of trade. Here is how one respondent put it:

"Cashflow has been negatively affected by apprenticeship reform. Previously, two months of funding was received in the first month. This reflected the additional activity required at the start of an apprenticeship to recruit, assess and sign up the apprentice. Meanwhile the final achievement payment will be delayed by a month under the new process. The top up payments for Provider bonus, intended to compensate for the lower funding rates are also later - payments at 90 and 365 days – This makes cash flow much more challenging to manage."

"All the work to recruit and start an apprentice is front loaded, whereas the funding does not start for an apprentice until they start learning. Funding is then in a linear line with 20% held back for achievement."

24. One respondent from a financially strong college anticipated payment delays – and was proved right:

"The College anticipated £1 million in income would not be paid in 2017-18 but would come in August 2018 or later. This has been borne out with funding being c300k behind delivery at this point in the year."

25. The situation for another respondent looks a little harder to manage:

"ESFA allocated us a lower allocations in the 8 month period and in the recent tender than we will need. We are already taking on unfunded starts to maintain relationships with employers. We are at risk of breaching a bank covenant and it also might harm financial health. The whole process makes it impossible to have a proper and stable business planning cycle."
"Cashflow is difficult to predict. We are much reliant on others - i.e. employers. It is far more volatile. We will be capped this month , owing to a misguided contract reduction. It is hard to monitor, as the reports are difficult to understand and manage and don't reconcile to the cash receipts. Cash is dependent on employers fulfilling their role, which they don't."

26. Several respondents raised the problems again that they are experiencing in tracking payments:

"The management of the Apprenticeship finances including the cashflow has increased not least in the profiling, tracking and reconciling of income. At this stage we are still not confident that the funds being received from the ESFA (Levy and non-Levy) accurately reflect the level of activity"

Bureaucracy

27. Question 10 asked for specific points on bureaucracy.

28. Respondents made similar points covering a range of issues. Here is a sample:

"The changeover has meant significant increased bureaucracy and process, including:

- *Time spent working with small employers and levy payers to clarify the apprenticeship reforms*
- *Additional invoicing and chasing of payments*
- *Additional legal and contractual documentation, for both the college and the employer*
- *Explaining DAS and assisting employers in activating their accounts*
- *The tendering and performance management process is bureaucratic and lacks the clarity needed to effectively business plan, for example In year adjustments to contact without a clear rationale or underlying data or process (these all create extra work and time)"*

"Major changes to the Apprenticeship programme has increased bureaucracy and increased the level of support from providers to employers. Changes have increased the volume of paperwork and the amount of time it takes to recruit employers. Signing up Apprentices is much more protracted caused by the contracts. Agreeing Commitment Statements for 16-18 year olds can be particularly protracted where parents are involved. Evidencing 20% of the job training has also increased bureaucracy. Providers are heavily reliant on employers understanding the importance of accurate and timely recording of cohort information in DAS and addressing errors when highlighted by providers

29. Several respondents identified problems with the IT system and funding rules:

There have been errors in the levy reports, in which we are told that we have to make a co-investment charge to an employer, even though there are sufficient funds in their digital account The information in the remittance advice and the amounts received do not marry up with the detail provided in the Apprenticeship Funding Reports The 20% off the job training rule continues to deter employers from using apprenticeships for CPD. Operating with three different profiles for non-levy apprentices (pre 1st May, post 1st May and post 1st Jan) makes monitoring much more complex and time consuming with more room for error.

Published reports surrounding apprenticeship funding performance have grown in size making the reconciliation of funding earned and remittances very difficult. Sign up paperwork and the rigid application of 20% off the job training is making apprenticeships harder to market to many employers.

The reports from the ESFA aren't in a format that is easy to create regular pivot tables from without extensive manipulation. Sometimes payments seem to be shown in the payments column but for some reason haven't actually been made. We have followed all of the guidance set out for reconciling the file and still tend to be out of balance each month on some funding streams mainly Non Levy. It would be helpful if we could have a file that actually lists the payments made by student and employer rather than having to manipulate the current file and then check the DLOCK file against it. The overall system is very complicated to administer particularly where companies have exceeded their levy pot. According to a recent payments report we need to invoice one company for £2.56 and another company for £8.35 for the co-investment element. These *companies are unlikely to understand why they are being invoiced and the time taken to chase these payments doesn't justify the resource.*

30. Some respondents located the problem with the new demands on and from employers:

    We are spending significant amounts of time reconciling various complicated apprenticeship funding streams, match them over different periods and across financial year, and review different reports to try to control the financial position. But possibly the biggest (and most surprising) call on time is the amount of tendering work we are now having to undergo for individual levy employers, involving bid-writing, due diligence and presentations, often for no results or just a few apprenticeship offers.

    "We have been required to increase the level of resources devoted to contract negotiation and enrolment as the majority of employers are still ignorant of the new requirements (non-levy, 10% contribution and/or levy paying arrangements). We have been working with an increasing number of employers (new to apprenticeships) with little/no institutional memory of managing apprenticeships requiring a lot more management attention and support (unfunded) to establish apprenticeship training programmes. We have amended and introduced new terms and conditions to reflect to new business/trading models however these can be the subject of extended negotiation.   Collecting cash (contributions from employers) and chasing late payment has added to our administrative requirements."

31. As some respondents points out, this additional work isn't easily covered from income:

    There is a significant amount of bureaucracy in meeting the new requirements that isn't covered by the funding.   For example, creating, negotiating and chasing completion of employer contracts. In some cases, this delays starts with legal teams checking contracts and requesting amendments. The need for a parent signature on the agreement for learners aged 16-18 is also adding another administrative layer to the process. Monitoring completion of 20% off the job training and ensuring compliance with the rules is also increasing the administrative workload.

    We are managing. However, the additional contracting work for levy contracts, allied to the payment management means that we are spending *two to three times the amount of time and effort in managing apprenticeship administration compared to 18 months ago.*

A couple of years ago apprenticeship policy was filled with 'reducing bureaucracy' and simplifying funding. Since May 2017 anyone associated with adult funding is subject to three different occupancy reports using different methodology and formatting for loan bursaries, apprenticeships and AEB with apprenticeship carry in funding. Colleges are now required to contract levy employers and support them with paying the levy through the apprenticeship system. This is in addition to carrying out health and Safety checks, signing commitment statements, ensuring that their employer agreements meet funding and employment rules and that employers are releasing their apprentices for the 20% off the job requirements of the apprenticeship. The new incentive payments for employers with 16 - 18 year old apprentices must be paid directly to the employer by the College, with no payment to the College for the administrative process associated with this. The Government rhetoric informing employers that they are in control of apprenticeship standards and funding has given employers unrealistic expectations of the options they can ask providers to provide for the funding available. This means providers may need to run programmes at a loss if they are to carry out the employers requests.

32. To summarise the point about bureaucracy:

"Far too much of it. Overly complex. Adverse impact on employers as well as ourselves."

Report compiled by Julian Gravatt, AoC