BVCA consultation response – The Future of Apprenticeships in England: Next Steps from the Richard Review

About the BVCA

The BVCA is the industry body and public policy advocate for the private equity and venture capital industry in the UK. The BVCA membership comprises over 230 private equity, mid-market and venture capital firms with an accumulated total of over £200 billion funds under management; as well as nearly 300 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers, and placement agents. Additional members include international investors and funds-of-funds, secondary purchasers, university teams and academics and fellow national private equity and venture capital associations globally.

Foreword

The BVCA wholeheartedly supports the Government's aim to boost the number of UK apprenticeships, as specified in the Coalition Agreement. Apprenticeships can equip people, both young and old, with the skills needed to prosper in the UK labour market.

A number of our members' portfolio companies are currently setting the standard in ensuring that apprenticeships are able to service the needs of a changing economy, and provide people from all walks of life with greater choice when deciding upon an appropriate career path. Given their experience of investing in and supporting companies that have established innovative and challenging apprenticeships, we believe we are well placed to provide insight and feedback on the excellent set of recommendations put forward by Doug Richard.

The majority of the points made in this submission are based on the findings of our recently published "Growth Initiative"[1]. Over the last six months we have spoken to around 50 CEOs of leading companies backed by BVCA members, to get their insights on how they are growing their business and also what policy interventions would help them grow faster. This process culminated with the publication of "The Growth Initiative" in February.

One of the recurring themes highlighted by interviewees was the need to incentivise businesses to take on more apprentices. Either unprompted, or when asked about this policy, all respondents were in favour, citing the need to strengthen our commitment to, and boost the status and availability, of vocational education. The notion of a tax credit, as suggested by Mr Richard, was particularly well received as a means to achieve this end.

We are aware that the Government has not, as of yet, decided to act upon this particular recommendation. While we accept that implementing a tax credit could prove difficult, especially as apprenticeship spending and policy is devolved, we remain convinced that the policy has considerable merit. We have included a hypothetical pricing of the tax credit in the annex to this submission, but the numbers could equally be applied to a grant-based scheme if the Government was keen to pursue its implementation in England only. This is our primary contribution to this response.

We will also provide input on a small number of other questions, where the experience of our members and their portfolio companies may provide a number of helpful insights.

[1] BVCA (2013) The Growth Initiative - http://admin.bvca.co.uk//library/documents/Growth_Initiative2.pdf

What are your views on the proposed criteria for apprenticeship standards as set out in Section 2 of this document?

The set of standards put forward in the response from Government appears both sensible and financially prudent.

The January 2013 discussion paper – "Traineeships – Supporting young people to develop the skills for Apprenticeships and other sustained jobs"[2] - from the Department for Business Innovation and Skills (BIS) identifies that businesses are concerned that young people often lack the appropriate level of skills and correct attitude when they apply for an apprenticeship or other job. This is a sentiment that was shared by the CEOs interviewed for "The Growth Initiative".

Apprenticeships cannot be perceived as a vehicle that caters for the steady acclimatisation to the world of work. Apprentices must be ready to hit the ground running. Of course, in many cases this will be an individual's first "job" and that should be accounted for, but core employability skills such as punctuality, teamwork, presentation et cetera must be in evidence prior to enrolment. The Government may wish to consider including a "workplace readiness" module in the curriculum for school leavers to account for this.

If this can be addressed then the criterion outlined in the Government response to the Richard Review is appropriate. Apprenticeships will only attain a standing rivalling that of university education if they are challenging and offer transferable skills, as acknowledged by the Government.

How can we make sure that the new standards stay relevant to employers, and are not compromised over time?

We agree with the recommendation of Doug Richard that government should play a key role in developing standards at the outset, perhaps by coordinating meetings of apprenticeship providers to discuss best practice.

As evidenced by "The Growth Initiative" the BVCA is naturally located in a good position to relay the views of our members' portfolio companies to Government. This is a process we are happy to repeat.

What approaches are effective to inform young people and their parents about the opportunities provided by an apprenticeship?

Increasing awareness of apprenticeships over university education is likely to be a long-term process. Initiatives such as the annual National Apprenticeship Week are useful in terms of strengthening brand awareness and should be maintained, but a more systematic approach is necessary if more school leavers are to take up an apprenticeship.

In this regard the BVCA can only echo the concerns raised by the BIS Select Committee report from October 2012[3] on apprenticeships. To date the National Apprenticeship Scheme (NAS) has received considerable funding to both educate on the benefits of apprenticeships, and act as a portal where vacancies can be found. However, it has not yet performed to the desired standard on either count.

[2] Department for Business Innovation and Skills (2013) - http://media.education.gov.uk/assets/files/pdf/t/updated_%20traineeships%20discussion%20paper%20-%20january%202013.pdf

[3] House of Commons (2012) Business Innovation and Skills Committee – Apprenticeships – Fifth Report of Session 2012-13 - http://www.publications.parliament.uk/pa/cm201213/cmselect/cmbis/83/83.pdf

The Government should, of course, seek to address this shortcoming, but at present it should be more focused on boosting the overall supply of schemes.

With more vacancies come more success stories which demonstrate the credibility of the career path. A tax credit (or extended grant scheme) will have a directly beneficial effect in this regard.

How can we support employers to engage with learners of all ages to provide information about apprenticeship opportunities?

Again, this is an issue that can be addressed with greater supply.

Employers claiming a tax relief or in receipt of a grant to support the costs of their apprentices on staff (for the first 12 months) will have greater financial freedom to structure a course in such a fashion that offers the greatest long-term return to the business.

Do you have any further comments on the issues in this consultation?

The BVCA remains a strong advocate of increasing the level of Government funding available to support businesses taking on an apprentice. In 2010/11 only 5 per cent of UK employers had an apprentice on staff, despite there being a 140 per cent increase in the number of adult apprenticeship starts in 2010/11 compared to 2006/7[4]. The increasing number of applications for the £1,500 Apprenticeship Grant for Employers (AGE) available for SMEs taking on their first apprentice[5] (the scheme can provide up to a maximum of 40,000 grants) demonstrates that there is demand in the economy for Government support in this area. This needs increasing however if apprenticeships are to play a central role in boosting the skills of the country's workforce.

We concur with the recommendation made by entrepreneur Jason Holt last spring. In his report – "Making apprenticeships more accessible to SMEs" - he stated that: "Government [should] explore other incentivisation options to employers in addition to the AGE." The BVCA is of the view that this additional support could take one of two forms:

- An apprenticeship tax credit; or
- An expanded system of grants.

The larger subsidy that would come as part of these schemes could help alleviate two key concerns identified in a 2012 National Audit Office (NAO) report on the current state of UK apprenticeships.

First, that "most apprenticeships in England are at 'lower level' [equivalent to five A*- C GCSEs) than those in other countries"[6]; and second that many schemes are delivered "too quickly". Both a tax credit and a larger grant would be available for a 12 month period and could thus help alleviate these two problems.

[4] National Audit Office (2012) Report by the Comptroller and Auditor General – HC 1787 Session 2010-2012 – "Adult Apprenticeships" - http://www.nao.org.uk/publications/1012/adult_apprenticeships.aspx
[5] There were 6,800 Apprenticeship starts during 2011, for which a payment was made through the grant system, with a further 12,100 in the pipeline between February and October 2012 - http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr_current/
[6] National Audit Office (2012) Report by the Comptroller and Auditor General – HC 1787 Session 2010-2012 – "Adult Apprenticeships: "Only 33% of apprenticeships are at an advanced level, compared 60% in France for example. These apprenticeships are usually more valuable to apprentices and employers, and the Department aims to increase them in total".

The parameters of our proposed support also sit well with last year's announcement by BIS that all apprenticeship schemes should last for at least a year[7]. This would help encourage the development of more "advanced" [equivalent to 2 A-levels] and "higher" apprenticeships [equivalent to a foundation degree] that may originally have been shunned by employers due to concerns over cost.

Further development of these schemes would be to the benefit of the country at large: the NAO estimates that the economic returns to every £1 of public spending on apprenticeships, (assuming training would not have occurred without public support) would generate £16 at the intermediate level, and £21 for advanced level apprenticeships[8].

Potential policy framework

The level of support available under a tax credit and expanded system of grants would be roughly the same, so the following policy framework and costing remains applicable in both cases. The specific advantages and disadvantages of each scheme will be discussed in greater detail below.

How much support would be available?

Tax credit: Eligible employers could apply for a refundable tax credit for a one off 12 month period on qualifying expenditures (apprentice salary for example) on a maximum of 10 apprentices per employer, equal to the lesser of:

- 25 per cent (35 per cent for small business) of eligible expenditures made in respect of that apprenticeship; or
- £3,500 (£5,000 for SMEs) per apprentice.

Expanded system of grants: Eligible employers could apply for a grant, valued at 25 per cent of the annual mean apprenticeship salary in England, Scotland, Wales and Northern Ireland, for the previous financial year.

According to the March 2012 BIS Research Paper "Apprenticeship Pay Survey 2011"[9], the mean rate of hourly pay received by apprentices in the UK was £5.83 and the mean contract length was 34 and a half hours per week.

This gives a mean weekly salary of £201 (=£5.87*34.5). Over a year this pays £10,459.

On a £10,459 salary a 25% claim would cost roughly **£2615** per apprentice.

Hypothetical costing

There were 6,800 apprenticeship starts for which a payment was made through the AGE, with a further 12,100 in the pipeline between February and October 2012.

[7] Department for Business Innovation and Skills (2012) New minimum 12 month duration for all apprenticeships - https://www.gov.uk/government/news/new-minimum-12-month-duration-for-all-apprenticeships

[8] National Audit Office (2012) Report by the Comptroller and Auditor General – HC 1787 Session 2010-2012 – "Adult Apprenticeships"

[9] Department for Business Innovation & Skills (2012) Apprenticeship Pay Survey 2011 - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32286/12-p137-apprenticeship-pay-survey-2011.pdf

On a conservative reading, this means around half of the total apprenticeships grant budget - £60m[10] - has been spent, leaving £30m that could be reallocated towards a new programme of subsidies.

The larger allowance available under one of the two proposed schemes could increase applications by employers to say at least 30,000 qualifying apprentices next year based on existing take-up for AGE.

£2,615 x 30,000 = £78,450,000

(But +£30m savings reallocated from the defunct apprenticeship grant scheme)

Net additional spend needed on pay-outs for year one 2014/15 = **roughly £50m**

Where could the money come from?

"The overall funding for adult Further Education (FE) and Skills will be £4.1bn in the 2013-14 FY. Of this, £3.6bn will be routed through the Skills Funding Agency to support the capacity for over 3 million learners**.**

"The adult teaching and learning budget in 2013-14 FY will be £3.2bn of which an estimate of £764m will be available to support Adult Apprenticeships (£770m projected spend for 2014-15)[11]."

Figure 1 - Breakdown of adult apprenticeship spend over the last two years[12]

		Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
4.02	**Adult Apprenticeships**		
	19+ Apprenticeships – Colleges	101,981	314,722
	19+ Apprenticeships – Training Organisations	237,331	0
	25+ Apprenticeships – Colleges	57,248	136,158
	25+ Apprenticeships – Training Organisations	228,042	0
	Total Adult Apprenticeships	**624,602**	**450,880**

The percentage of spend on each of the four headings under the Adult Apprenticeship budget for the year ended March 2012 is roughly as follows:

- 19+ Apprenticeships – Colleges – £102m - 16%
- 19+ Apprenticeships – Training Organisations – £237m - 38%
- 25+ Apprenticeships – Colleges – £57m - 9%
- 25+ Apprenticeships – Training Organisations – £228m - 37%

[10] Personnel Today (2012) Calling all Businesses: Apply now and get your slice of £60m government funding - http://www.personneltoday.com/blogs/press-release-service/2012/02/calling-all-businesses-apply-now-and-get-your-slice-of-60m-government-funding.html

[11] Department for Business Innovation & Skills (2012) - Skills Funding Statement – 2012-2015 - http://www.bis.gov.uk/assets/BISCore/further-education-skills/docs/S/12-p172-skills-funding-statement-2012-2015.pdf

[12] Skills Funding Agency (2012) Annual Reports and Accounts 2011-12 - http://www.bis.gov.uk/assets/BISCore/further-education-skills/docs/S/12-p172-skills-funding-statement-2012-2015.pdf

If we apply these same percentage weightings to the projected spend for 2014-15 - £770m – we arrive at the following:

- 19+ Apprenticeships – Colleges –£124m - 16%
- 19+ Apprenticeships – Training Organisations – £292m - 38%
- 25+ Apprenticeships – Colleges –£69m - 9%
- 25+ Apprenticeships – Training Organisations – £285 - 37%

A 10% redirection in the projected Training Organisation and Colleges budget for both 19+ and 25+ Apprenticeships respectively, coupled with the abolition of the AGE, could provide sufficient capital to cover the costs of the new tax credit (the percentage of redirection would subsequently have to increase to roughly 15 per cent from 2015/16 onwards, to compensate for the loss of the original windfall received from the abolition of the £1,500 grant).

The up-front capital expenditure on Apprenticeship Training Agencies (ATAs)[13] has been high as the project was essentially launched from a standing start. According to a York Consulting LLP evaluation[14] of ATAs: "The key feature of the ATA approach is that apprentices are recruited and employed by the ATA, but then work in host organisations where there are job opportunities enabling the achievement of the work related elements of the apprenticeship".

A new tax credit or expanded system of grants would boost the provision of apprenticeship schemes purely from the private sector. The ATAs role could then be refashioned as more of a conduit, signposting potential applicants to the end providers of apprenticeships, rather than seeking to recruit themselves. If demand for credit is higher than budgeted, more resource could be diverted from the reshaped ATAs.

Tax credit or grants?

1. A tax credit

A tax credit could replace the current system of grants and provide a more generous allowance for businesses both large and small that recruit apprentices. The level of expenditure that could be written-off against a company's corporate tax bill (or if not liable for corporation tax, delivered in the form of a payable tax credit) would remain proportionately greater for SMEs, thus mirroring the policy goals of the existing AGE. Whilst we support the broader rebalancing of the economy through a more localised approach to financing in skills **we believe a strong, high profile and centrally delivered apprenticeship tax credit would be a significant fillip for employment**.

Total taxable income of qualifying apprentices in the first 12 months is likely to be nil because of the personal allowance. The employer would still pay National Insurance Contributions (NICs) for apprentices on staff, though at present, there is no statutory definition of what is meant by a contract of an apprenticeship. We would suggest using the definition currently employed for the AGE.

[13] The ATA model is intended to support the delivery of a high quality apprenticeship programme with a focus on small employers who wish to use the services of an ATA to source, arrange and host their apprenticeships - http://www.apprenticeships.org.uk/Employers/Steps-to-make-it-happen/GTA-ATA.aspx
[14] York Consulting (2011) Evaluation of the ATA / GTA Pilots - http://www.yorkconsulting.co.uk/uploads/NAS-ATA-GTA-EvaluationReport-March2011.pdf

The Canadian experience

The policy framework outlined above for a tax credit is modelled on the Ontario Apprenticeship Training Tax Credit (ATTC).

The ATTC[15] is a refundable tax credit launched in 2004. It is available to employers who hire and train apprentices in the following four skilled trades: construction, industrial/manufacturing, automotive, power and service.

The Canada Revenue Agency (CRA) administers the programme on behalf of Ontario through the federal income tax system.

The parameters of the original scheme were as follows: "Corporations and unincorporated businesses would be eligible for a 25 per cent refundable tax credit on eligible expenditures incurred with respect to eligible apprentices. For businesses with total payroll costs not exceeding $400,000, the tax credit rate would be increased to 30 per cent.

An employer would be eligible for a tax credit of up to $5,000 per year per eligible apprentice to a maximum of $15,000 over the first 36 months of the apprenticeship. The maximum annual tax credit of $5,000 would be pro-rated for the number of days the apprentice is employed with that employer during the year"[16].

The 2009 Ontario Budget introduced enhancements to the ATTC for expenditures incurred after March 26, 2009. The ATTC reimburses employers up to 35 per cent of eligible expenditures. Small businesses are eligible for a higher credit rate of 45 per cent. The maximum annual amount of the tax credit is $10,000 per qualifying apprentice during the first 48 months of an apprenticeship program. For expenditures incurred prior to March 27, 2009, the ATTC reimburses employers 25 to 30 per cent of eligible expenditures paid during the first 36 months of an apprenticeship program to a maximum annual credit of $5,000. The enhanced maximum amount of the ATTC is prorated for taxation years straddling the effective date.

Figure 2 - Budgeting for the extended scheme is presented in the Ontario Budget 2009[17] (figures in Canadian dollars)

Ontario Book Publishing Tax Credit (OBPTC)	–	(3)	(3)	(3)	(3)
Supporting Skills and Knowledge					
Co-operative Education Tax Credit (CETC)	–	(10)	(10)	(10)	(10)
Apprenticeship Training Tax Credit (ATTC)	–	(40)	(40)	(40)	(40)
Helping Seniors and Families					
Ontario Property and Sales Tax Credits for Seniors	(1)	(5)	–	–	–
Concordance with the *Income Tax Act* (Canada)	(9)	(9)	(3)	(4)	(5)
Tax-Free Savings Accounts (TFSAs)	–	(2)	(3)	(5)	(6)
Total Targeted Tax Measures	**(14)**	**(217)**	**(210)**	**(216)**	**(301)**

The credit itself is mentioned as a model of good practice in the September 2012 OECD note on "Quality Apprenticeships" for the G20 Task Force on Employment[18].

[15] See the following for more details: http://www.fin.gov.on.ca/en/credit/attc/
[16] http://www.fin.gov.on.ca/en/budget/ontariobudgets/2004/pdf/papers_all.pdf
[17] Ontario Ministry of Finance (2009) Ontario Budget 2009 - http://www.fin.gov.on.ca/en/budget/ontariobudgets/2009/papers_all.pdf

Implementation in the UK

There are a number of potential obstacles to implementation of an ATTC modelled tax credit in the UK however. Here we take each in turn and explain how they could be overcome.

- *Controlling the scale of the fiscal cost is difficult through the tax system.*

Inevitably, the introduction of a tax credit leaves open the possibility of potential gaming of the system by individuals and businesses. This should not dissuade the Government from introducing tax relief. Indeed this has not been the case, as demonstrated by the introduction of other such tax relief based schemes, including the Enterprise Investment Scheme, Seed Enterprise Investment Scheme, Venture Capital Trusts (VCTs), and of course the R&D Tax Credit. The logic underpinning these schemes should be applied to a prospective apprenticeship tax credit.

An apprenticeship tax credit may well pay for itself if designed correctly and takeup is strong, as is the case with VCTs. For example, if the number of investors claiming tax relief via the use of VCTs is small, the cost to the Exchequer will, by definition, be likewise. However, if a significant number of professional investors claim relief as part of the scheme, they are consequently providing capital to the trust which will be used to help finance the growth of small businesses, increasing levels of taxable income.

If the number of companies claiming tax relief via an apprenticeship tax credit is high, then by definition, there will be more individuals in work. For one, this will decrease the number of Job Seekers Allowance claimants across the country.

Also, unlike the R&D tax credit, which for example allows profitable SMEs to recover up to 30 per cent of eligible CAPEX expenditure, the proposed UK apprenticeship tax credit scheme outlined above only allows the **lesser** of 25 per cent or £3,500 to be claimed for each qualifying apprentice (up to a maximum of 10 apprentices).

By introducing a fixed cash element to the amount eligible to be claimed, the room for manoeuvre for would-be gamers of the system is considerably limited.

- *Apprenticeships are funded at different rates dependent on type and sector*

The Government could limit the application of the tax credit to certain sectors (thereby reducing cost and bureaucracy), as is in the case in Ontario for construction, industrial/manufacturing, automotive, power and service. This would allow the Government to prioritise and target those areas which would likely generate the greatest benefit to the economy at large.

- *There is no obvious tax to offset*

If corporation tax (CT) is deemed unsuitable, a possible solution would be to credit the incentive to the PAYE / NIC account of the employer which could be used to settle some of the employer's liabilities. This would bring a very immediate benefit in most circumstances. This is not the same as delivering the benefit through the complex NIC system but rather delivering a cash credit which can relieve the employer of remitting some of the PAYE or NIC due. This approach would also obviate HMRC needing to manage the payments.

---

[18] OECD (2012) Note on "Quality Apprenticeships" for the G20 task force on employment - http://www.oecd.org/els/emp/OECD%20Apprenticeship%20Note%2026%20Sept.pdf

In the case of self-employed individuals or partnerships which may not be subject to CT and consequently unable to claim relief on it, they could simply claim a deduction against income tax which is likely to be just as, if not more, valuable than CT relief. This would ensure that businesses of all could be included within the remit of the scheme.

- *It would be complex to administer for business and Government*

The businesses interviewed for our "The Growth Initiative" complained about the hassle of complying with over burdensome regulation, but rarely in cases when funding was on offer. In the current economic climate businesses are still keen for Government to boost incentives for them to hire more staff, even at the cost of increased compliance.

- *The tax system is for the UK, not England only. Apprenticeship spending and policy is devolved so the interaction with the devolved authorities through the tax system and Barnett funding is likely to be complicated.*

This is the most significant hurdle to overcome, and as indicated may require significant time and effort on the part of HMRC in particular with regards to Barnett funding.

The Government should look carefully at the Canadian example to see if any lessons or parallels can be drawn on how the Canada Revenue Agency administers a local tax credit.

The BVCA is of the view that an apprenticeship tax credit would be preferable to a system of expanded grants. The high-profile nature of such a policy would likely boost awareness of the scheme and consequently increase takeup from employers. If the Government is able to overcome the challenges surrounding devolution / Barnett funding we would strongly recommend its implementation.

Mr David Frankish, CEO of NFT Distribution (a market leader in chilled food distribution) said of the proposal:

"Adoption of the apprenticeship tax credit proposal would certainly encourage NFT to take on more apprentices and I wholeheartedly support direct recruitment by private sector companies with an accompanying redefinition of the ATAs."

If, however, the concerns surrounding a tax credit are sufficient to prevent adoption, we advise the Government to consider implementing an expanded system of grants.

2. An expanded system of grants

The success of the AGE has demonstrated that there is demand for this kind of direct subsidy to bolster employment numbers.

This course of action offers two principal benefits:

- Business would have access to funding upfront, as opposed to having to wait until the end of the tax year; and
- There are no real issues surrounding devolution – grants could be introduced in England to begin with and, over time, rolled out elsewhere.

The BVCA is happy to expand upon any of the points contained in this proposal, if requested to do so.

In the first instance please contact either Simon Horner (shorner@bvca.co.uk) or Simon Burns (sburns@bvca.co.uk)