



**Social Enterprise UK response to the joint Department
for Business, Innovation and Skills and Department for
Education Consultation on Funding Reforms for
Apprenticeships in England**

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About Social Enterprise UK

Social Enterprise UK was established in 2002 as the national body for social enterprise in the UK. We are a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

Social enterprises are businesses driven by social or environmental objectives whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures and charitable models.

Our members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK. With them we are:

- creating a better environment for social enterprises to do business
- helping the social enterprise movement to grow and become stronger
- building networks to share, learn and create business opportunities

The UK social enterprise movement is recognised as a world leader and our members are united in their commitment to changing the world through business. The current climate presents the social enterprise movement with a unique opportunity. We know it can solve some of the UK's most pressing problems, promote social justice and help to bring about the more diverse, bottom-up economic growth that we urgently need. In particular, social enterprises are well placed to deliver on the Government's three priorities for civil society: empowering communities, opening up public services and promoting social action.

This submission

Social Enterprise UK welcomes the opportunity to respond to the government's consultation on funding reform for apprenticeships. We support the government's drive to ensure that Apprenticeships are responsive to the needs of employers and individuals in order to provide opportunities that will benefit society and the economy. Our members include both training providers and businesses taking on Apprentices, giving us a rounded view of the system. In line with the nature of social enterprise, all of these organisations are united by a drive to provide high quality opportunities for people to learn and forge career paths - often those people furthest from the labour market and in the most deprived communities.

Most social enterprises working to train or employ Apprentices are small and medium-sized businesses. Further, social enterprise training providers frequently work with traditional local SMEs

employers in delivering Apprenticeships - not surprising given that SMEs account for 59.1 per cent of private sector employment in the UK. Given that the majority of employment opportunities in the UK come from these organisations, the viability of any proposed scheme to small and medium-sized businesses, whether social enterprises or private sector organisations, is key to the success of any reforms.

In responding to this consultation, our focus is therefore on ensuring that the system enables the development of a mature market, which does not result in inadvertent and unwanted consequences such as a playing field tilted towards large businesses, a shrinking of the marketplace and reduction in quality or meaningful choice, or the loss of Apprenticeship opportunities in deprived areas where they are greatly needed.

Our response focuses directly on two core aspects to the reforms proposed in this consultation: the principle of an employer-led programme; and the practicalities of implementation and the three proposed models for funding. For further detail on the individual consultation questions from a provider perspective, Social Enterprise UK recommends the response submitted by PM Training - a flagship social enterprise providing high quality training across Staffordshire.

Principle of employer-led Apprenticeship

In terms of the principles driving these reforms, we support the desire to ensure that training is relevant to the employers and that Apprentices are equipped with knowledge and skills to help them succeed in forging careers. However, channelling funding through employers in order to achieve this raises a number of questions in terms of the provider market, where it is likely to disadvantage smaller providers.

Firstly, the creation of more market-driven relationships shifts additional risk onto providers. Providers would need to carry out rigorous due diligence on employers, to ensure fair and timely payment mechanisms are in place and to avoid situations involving unscrupulous behaviour and malpractice. This risk will weigh more heavily on smaller providers who are less able to bear these financial risks.

Secondly, by creating a purchasing agreement between the employer and trainer, a VAT issue arises. Providers not eligible for a VAT exemption (most independent training providers) would have to charge VAT whilst colleges would not. Whilst most employers would be able to reclaim the VAT, they would have to be in a position to pay this upfront and bear the cash flow implications of this as well as the administrative burden - this is both disproportionately burdensome on small providers and places market advantage in the hands of colleges, thereby creating an uneven playing field.

Thirdly, consideration must be given to the needs of Apprentices. Providers have a role in protecting the Apprentice, ensuring the quality of their placement, time for core out-of-work English and Maths studies, and in extreme cases seeking a change in employer where necessary. This would be much more difficult under an employer-led system.

Proposed models 1-3

Through consultation with their own members, the Federation of Small Businesses has established that there are two clear issues within the proposed options that will significantly impact of the ability of SMEs to provide employment opportunities for Apprentices. These are:

1) Payment by results is an unrealistic option - the realities of cash flow in SMEs mean that they cannot be burdened with the working capital for funding Apprenticeships.

This is a recurring issue within public service markets for smaller organisations and one that Social Enterprise UK has reported on many times to government. In many cases, the direct effect of payment by results is to preclude market entry for smaller organisations, which works against a) the government's drive towards healthy, plural markets which include SMEs, social enterprises and voluntary organisations and b) the government's desire for local, specialist providers who are best-placed to tackle some of our communities' most entrenched needs.

2) The implicit subsidies on the part of employers, where government is yet to provide detail on what the level of co-investment might look like.

This is supported by research from the social enterprise sector. One of Social Enterprise UK's flagship members, PM Training - who were showcased in the Department for Business, Innovation and Skills' January consultation on Traineeships - are one of the largest providers of Apprenticeships in Staffordshire and were praised in their 2011 Ofsted report for their outstanding approach to working with local employers. PM Training have conducted their own survey of approximately 500 businesses within their network which showed that 47% of respondents (mainly SMEs) said that having to pay for apprenticeship training would deter them from taking on an Apprentice.

Particularly in less affluent parts of the country, where getting training opportunities right is all the more important, many local employers simply do not make sufficient profit to make further investment in Apprenticeships.

Recommendations

Social Enterprise UK urges the government to carefully review the options for reforming the Apprenticeship funding model, taking particular note of issues raised by the Federation for Small Businesses in order to ensure that the small businesses on which Apprenticeships rely are not squeezed out.

In the aforementioned survey conducted by PM Training, 62% of respondents (the majority of which are SMEs) stated a preference for the continuation of a model whereby the provider draws down the funding, a statistic reinforced by the 88% of respondents who said they relied on their training provider to carry out most of the administration relating to the Apprenticeship.

We therefore further strongly encourage government to explore a more nuanced system that meets the needs of the diversity of training providers and employers in order to provide the greatest number of high quality opportunities for Apprenticeships. Multiple mechanisms (including employee-led and provider-led funding as well as personal budgets for Apprentices) should be explored and considered as part of a simultaneous suite of funding options in order to create a

level playing field and the diverse provider market needed to deliver in all our communities. Additionally, we encourage the piloting of models before a full, national roll-out in order to create a system that is truly fit for purpose.

For further information on this response, please contact Social Enterprise UK's policy team on 020 3589 4953.