Levy weather

In March, Cairneagle Associates surveyed stakeholders from across the skills sector about the impact the apprenticeship levy could have from 2017. Here, partner **Arun Kanwar** shares the findings

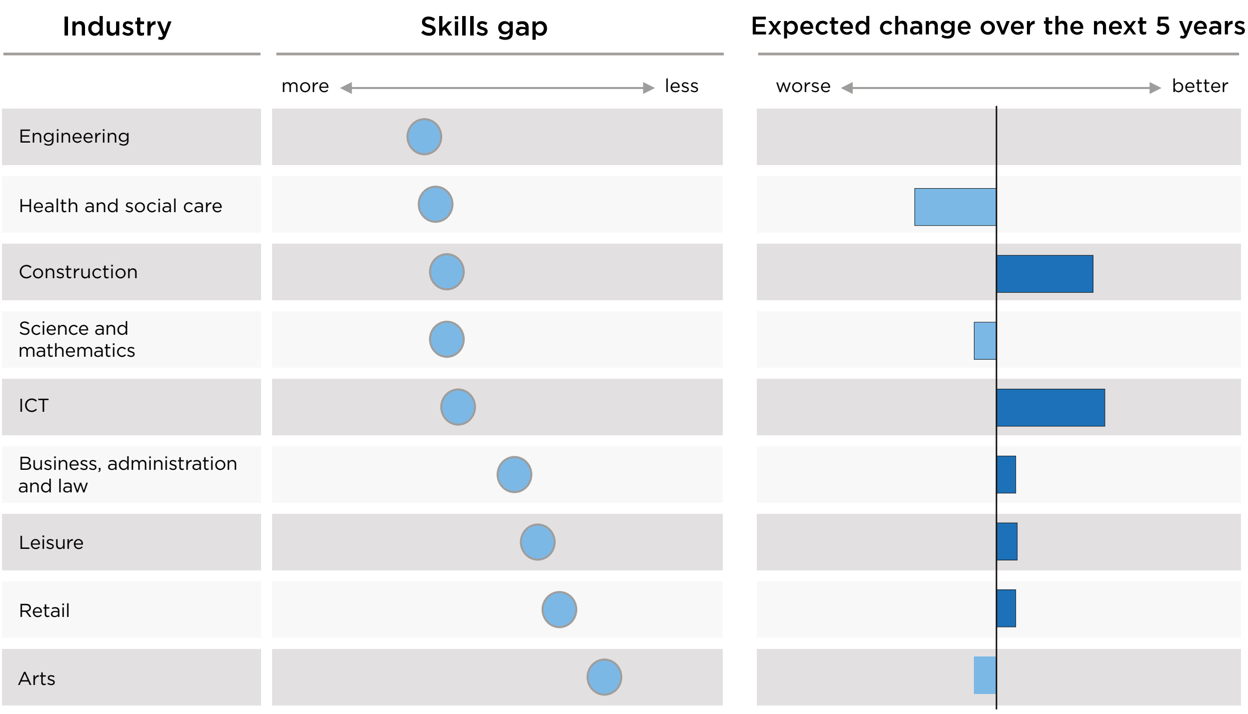
The introduction of the apprenticeship levy is fast approaching (it's due to be implemented in April 2017) but a great deal remains to be clarified about how it will be specifically applied. Key outstanding questions include how the government will spend unused funds in individual companies' levy accounts; the split co-investment in apprenticeships for companies not contributing to the levy or for companies requiring more apprenticeships than are supported by their levy contribution; and if employers will be able to choose organisations beyond the current independent training providers for delivery. More details will be provided over the coming months, but for now it makes it somewhat difficult for organisations to plan effectively.

Nevertheless, the levy is a positive stimulus for investment in and employer commitment to the vocational and skills space – the UK has a significant productivity issue (among the G7 countries, only Japan fares worse in terms of GDP per hour worked) and apprenticeships remain a fundamental ingredient in remedying the skills gap to improve this.

In March 2016, Cairneagle conducted a survey across players in the sector which included independent training providers, further education (FE) colleges, investors and the media. Respondents indicated the largest skills gaps are in engineering, health & social care, construction and science & maths (*figure 1*).

The perceived current gap in health & social care – as well as its expected worsening over the next five years – is particularly interesting as it is an area where apprenticeship starts have been growing very quickly (at 12% p.a. over the last three years) but which has had

FIGURE 1: SKILLS GAP BY INDUSTRY, AND EXPECTED CHANGE OVER THE NEXT 5 YEARS

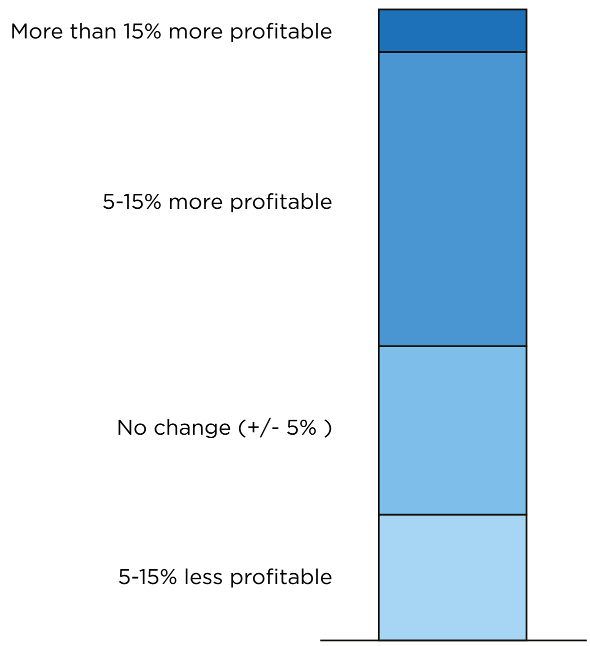


Source: Cairneagle survey on apprenticeships, skills and training – March 2016 low success rates at only 66.8% in 2013/2014. This reflects the fact that despite concerted efforts, need is not yet being adequately met perhaps both in terms of fit-for-purpose training and quality of apprentices.

In our wider discussions in the sector, one area of continued debate is the impact of the coming changes on longer term profitability. This is a complex interaction of pricing, cost of delivery/ administration and customer acquisition costs. Many standards are yet to be finalised and the cost of endpoint assessment under the new standards is still poorly defined.

Under frameworks and the trailblazers/ standards pilots, providers are already bearing the cost of administering two funding systems and the levy will likely add a third mechanism. The new Digital Apprenticeship Service may lower employer and learner recruitment costs, but perhaps also reduce competitive advantage for those organisations which have invested more heavily in successful marketing models (therefore they will need to consider how they can differentiate themselves even further).

FIGURE 2: WHAT WILL THE IMPACT OF THE NEW SYSTEM BE ON PROFITABILITY FOR TRAINING PROVIDERS?

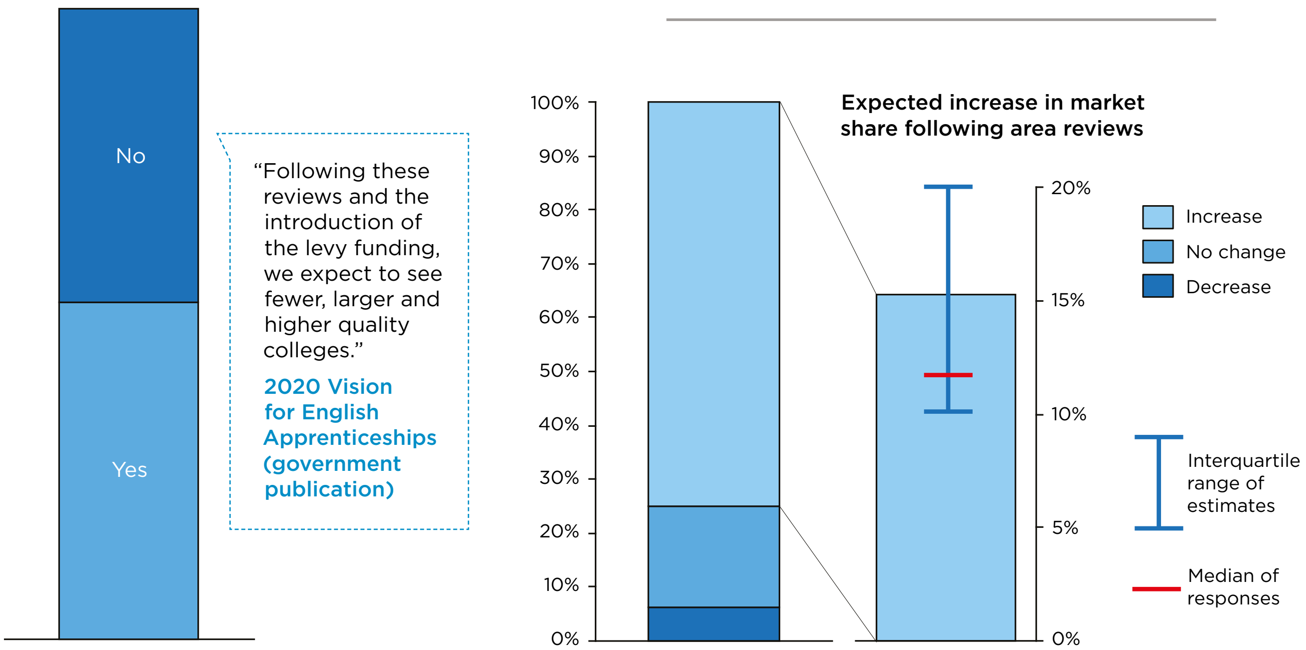


Source: Cairneagle survey on apprenticeships, skills and training – March 2016

FIGURE 3:

Will the Area Reviews will make FE Colleges more successful in the future?

What will happen to the market shares of independent training providers following the Area Reviews?

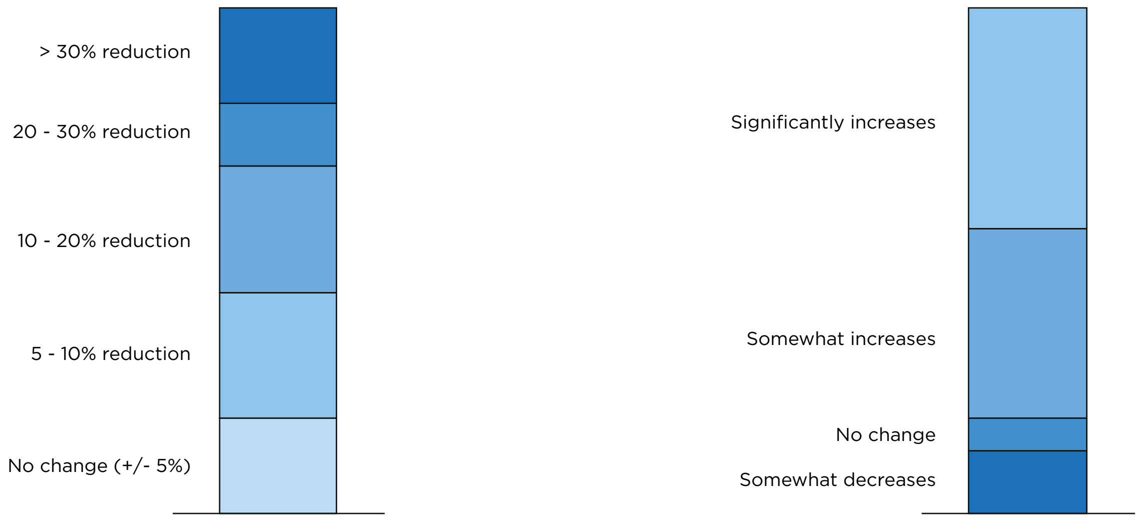


Source: Cairneagle survey on apprenticeships, skills and training – March 2016

FIGURE 4:

What will happen to the corporate training budgets of large employers required to pay the levy?

What happens to the opportunity for training providers working with large employers following the introduction of the levy?[1]



1. For Corporate Training & Apprenticeships

Source: Cairneagle survey on apprenticeships, skills and training – March 2016

Nevertheless, most of our survey respondents believed that profitability would increase under the new system (*figure 2*). This is supported by the likelihood that if, as currently proposed under the new system, employers are able to negotiate prices then they will only have limited incentive to negotiate as their levy funds are only available on a 'use it or lose it' basis. Furthermore, current profit margins for many providers are not at a level that would generally provoke the scrutiny of BIS/ the SFA – we analysed the accounts of a sample of providers and found an average ebitda of 13%, with a quarter of our sample having a current ebitda less than 5%.

Another interesting development to consider is what impact the Area Reviews (designed to make FE colleges more financially stable and more competitive) will have on independent training providers. Interestingly, while our survey respondents were split down the middle on whether the Area Reviews would achieve their aims, the majority believed that independent training providers would continue to gain share (*figure 3*) – in part driven by a continued gap in their culture of commerciality and innovation and in part because national providers are perhaps better placed to meet the needs of national companies than local colleges.

For investors, there is still some debate about whether the industry will remain attractive in the longer term beyond the support of the current political cycle – we believe that there is a fundamental and irreversible rebalancing between general and vocational education, underpinned by the ring-fenced funding that the employer levy provides.

One critical further factor is how employers will meet the training needs of their employees beyond apprenticeships. We also believe that there will be an irrevocable convergence between vocational and corporate training, with some reduction in 'traditional' corporate training budgets directly to fund the levy. Our survey respondents agree, and also believe that the overall opportunity for training with large employers will increase overall (*figure 4*). ■

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