

**THE FUTURE OF
APPRENTICESHIPS IN ENGLAND**

Funding Reform Technical
Consultation

MARCH 2014

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Foreword



Apprenticeships are an increasingly important part of the UK's long term plan for improved workforce development and enhanced productivity. They have the potential to make an even greater impact in future. To achieve this, we need to raise the standard of all Apprenticeships to the level of the best by making them more rigorous and more responsive to the needs of employers.

We have already made considerable progress on the reforms we announced in our Implementation Plan last October, focused on giving employers more control over the design of Apprenticeships and their assessment. Eleven new Apprenticeship standards, developed by our employer-led Trailblazers, have already been endorsed and published, with first starts based on them anticipated in the 2014/15 academic year.

Giving employers direct control over the funding for the external training of their apprentices so they can drive up its quality and relevance completes the reform picture.

Building on the results of our funding consultation last summer and our subsequent decision, announced in the Autumn Statement, to route Apprenticeship funding direct to employers using HMRC systems, this consultation sets out a core model that could be implemented either through PAYE or an Apprenticeship Credit.

While the principles of the new funding system are firm, much still remains to be decided, both in terms of the detail underpinning the principles and the funding mechanism. We would therefore welcome views from all those who have an interest in the future of Apprenticeships in England via this consultation.

A handwritten signature in black ink, appearing to read 'Matthew Hancock'.

Matthew Hancock MP,
Minister for Skills & Enterprise

A handwritten signature in black ink, appearing to read 'David Gauke'.

David Gauke MP
Exchequer Secretary to the Treasury

Introduction

1. The government's Apprenticeships reform programme is aimed at ensuring Apprenticeships in England become more rigorous and more responsive to the needs of employers. Its origins lie in Doug Richard's November 2012 report¹, the principles of which were accepted by the government in March 2013.
2. The government subsequently consulted on the implementation of these principles in March² and July³ 2013, and published an Implementation Plan⁴ last October. This set out a number of reform principles including that:
 - Apprenticeships would be based on short, easy to understand standards of competence designed by employers to meet their needs, including those of smaller businesses;
 - apprentices would be required to demonstrate their competence through rigorous assessment, focused primarily on testing their competence at the end of their Apprenticeship;
 - grading would be introduced to encourage apprentices to strive for excellence;
 - English and maths requirements would be strengthened, reflecting the importance of these transferable skills; and
 - Trailblazers in a range of sectors would be used to develop the first new standards and high level approaches to assessment, with all other sectors following on.
3. The Implementation Plan did not cover how Apprenticeships would be funded, but this is clearly an important element of giving employers more control, and is therefore central to the reform programme. Whilst the government recognises that employers already contribute significantly to Apprenticeship costs via wages, mentoring and in-house training etc, ensuring employers contribute to external training costs, along with routing the government's contribution through them, will incentivise them to drive up the quality and relevance of such training.
4. The July 2013 funding reform document consulted on some key principles including co-investment and payment by results (PBR), and set out three options for routing funding through employers. These were:
 - a direct payment model;
 - a Pay As You Earn (PAYE) payment model; and
 - a provider payment model.

¹ The Richard Review of Apprenticeships, November 2012, <https://www.gov.uk/government/news/the-richard-review-of-apprenticeships>

² The Future of Apprenticeships in England: Next Steps from the Richard Review, March 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190632/bis-13-577-the-future-of-apprenticeships-in-england-next-steps-from-the-richard-review.pdf

³ Apprenticeships Funding Reform in England, July 2013, <https://www.gov.uk/government/consultations/apprenticeship-funding-reform-in-england>

⁴ The Future of Apprenticeships in England: Implementation Plan, October 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253073/bis-13-1175-future-of-apprenticeships-in-england-implementation-plan.pdf

5. A summary of responses is included at Annex A. Informed by this feedback, the government announced in the December 2013 Autumn Statement⁵ that it will:

“.....develop a model which uses HMRC systems to route Apprenticeship funding direct to employers...and will consult on the technical details of the system in early 2014, and on the option of an alternative funding route for the smallest businesses.”

6. The Autumn Statement also committed the government to:

- introduce a compulsory employer cash contribution for a significant proportion of the external training costs of an apprentice, excluding English and maths;
- provide an additional contribution to the costs of training for 16 to 17 year olds and separately consider the approach for 18 year olds;
- introduce a number of caps on the maximum government contribution per apprentice; and
- withhold a proportion of the funding for a payment by results approach.

7. Building on the Autumn Statement announcement, this consultation is intended both to provide further clarity on the future approach to Apprenticeship funding and to seek views on its implementation.

⁵ Autumn Statement 2013: <https://www.gov.uk/government/publications/autumn-statement-2013-documents>

Section 1: New Funding Principles

1. Apprenticeships are a joint investment between the apprentice, the employer and the government. It is therefore right that the cost is shared between these three parties. Doug Richard identified the following key principles that should underpin any future approach to funding Apprenticeships, and the funding methodology in this Section is designed to deliver and encourage these:
 - the employer is the customer. Training providers should receive their funding from employers not a public agency. Positioning the employer as the customer would increase providers' incentives to respond to business needs;
 - the employer should be required to co-invest. By making a direct financial contribution towards the cost of training, employers would have a greater incentive to demand relevant high-quality training and good value;
 - the government should not set the price of training or assessment. This should be freed from public control and set by the market between employers and providers, with government paying a proportion of this. This would help prioritise the learning that delivers the most value;
 - a proportion of the government funding should be linked to achievement. Payment should be partially linked to the achievement of the standard, providing an incentive to support individuals to achieve; and
 - government funding should recognise the additional costs for the smallest employers and relating to younger apprentices to ensure all employers and apprentices of all ages can benefit from Apprenticeships.
2. The government's funding reforms will not only empower employers and incentivise them to demand higher quality and more relevant training for their apprentices, but will also dramatically simplify the funding rules and processes. No longer will there be numerous different rates for external training provision. The basic price in each case will be determined by a negotiation between the provider(s) and employer. The government's contribution to this will be based on a single co-investment rate across Apprenticeships (including Higher Apprenticeships where appropriate), and subject to a Maximum Government Contribution. As noted on page 13, the government is taking the opportunity to review the HE/FE funding complexity relating to Higher Apprenticeships.
3. Where relevant, this will be supplemented by easy to understand payments to support smaller employers and 16-17 year old apprentices. In this way, employers will be able to immediately understand what they need to contribute and what support they can expect to receive from the government.
4. In this new approach, the government will:
 - support Apprenticeships for young people aged 16 and 17 by contributing to the additional development costs employers may incur immediately after recruiting them, regardless of the size of their employer;
 - provide additional support to smaller businesses taking on apprentices that are working towards the new standards;

- co-invest with employers in the external training and assessment required to meet - and be assessed against - the Apprenticeship standard, where it is provided by an approved provider, up to the Maximum Government Contribution for the standard; or
 - contribute towards the costs of training and assessment required to meet - and be assessed against - the Apprenticeship standard, where it is provided by an employer meeting the same requirements as an external training provider;
 - support apprentices of any age to achieve English and maths up to and including the minimum of Level 2 or higher if required by the standard, by meeting the full costs;
 - incentivise employers to ensure their apprentices complete their training and achieve the relevant standard by incorporating a Payment By Results (PBR) element into the funding model; and
 - support people with learning difficulties or disabilities to undertake Apprenticeships by meeting the full costs of reasonable adjustments and support, to enable them to compete on a par with other apprentices.
5. The costs of training that the government will co-invest in will include the costs of developing training programmes, training literature and materials, consumables, staffing, registration for - and delivery of - qualifications (which have been identified as a requirement of meeting the standard or where they are part of the publicly regulated HE and FE offer) and other employment costs for the training provider.
6. From the phase 1 Trailblazers⁶, it is clear that the value attached to qualifications varies widely across sectors. The government wants to ensure that meeting the Apprenticeship standard fully demonstrates the ability of the apprentice to operate effectively in that occupation. In some sectors, genuine competence has been signified by the achievement of qualifications or licences to operate which, to date, have been excluded from Apprenticeship funding.
7. In the reformed system, where qualifications form part of the standard, the government will contribute to the costs of qualifications and licences to operate, provided these are required by the standard and they constitute the training required to achieve the standard.
8. For clarity, whilst employers will have discretion as to how to use any flat rate payments they receive, the government will only co-invest in the costs of external training and assessment. The government will not co-invest in:
- Apprenticeship wages, subsistence and travel to work or places of learning;
 - employers' internal costs such as line management time, planning, coaching or mentoring;

⁶ Trailblazers are projects led by employers to develop the first new Apprenticeship standards. The first phase of Trailblazers was announced in the October 2013 Implementation Plan, and has focused on developing standards in the aerospace, automotive, digital industries, electro-technical, energy & utilities, financial services, food & drink manufacturing and life sciences sectors. So far, they have developed 11 standards which have been approved and published.

- the costs of recruitment of apprentices (although employers will continue to have access to support for recruitment through Apprenticeship vacancies);
- internal training i.e. training delivered by the employer's staff (unless this qualifies because the employer is the registered training provider and the training is needed to meet the standard); and
- the costs of registration with professional bodies.

Overview of the new system

9. The government recognises that how these principles come together into an overall funding mechanism is vital to making the system simple for employers to operate. The diagram below illustrates how the overall system will work from an employer's viewpoint. Each aspect is further discussed in the paragraphs below.

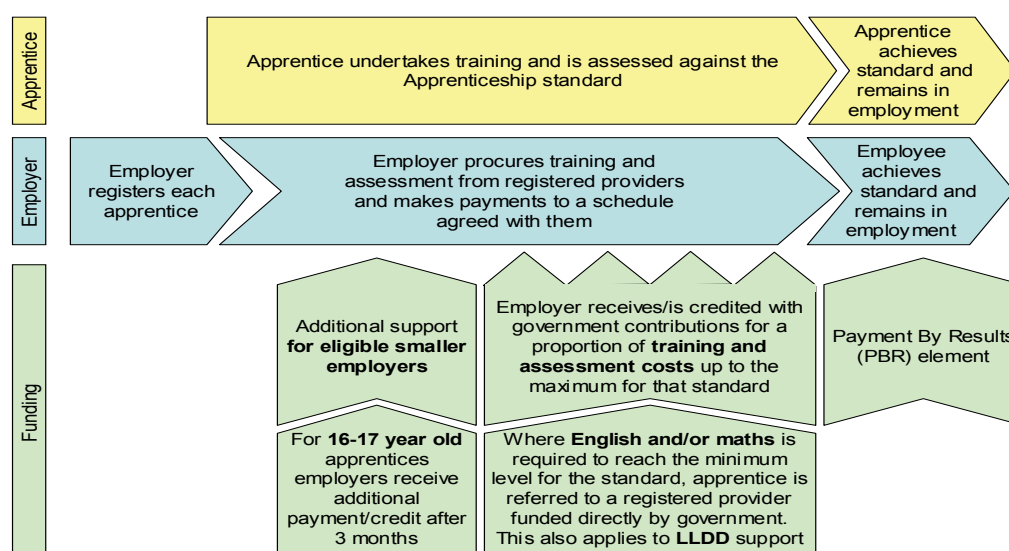


Figure 1 – Apprenticeships funding diagram

Additional support for younger apprentices

10. Younger apprentices currently attract full government funding for their Apprenticeship. Whilst this will no longer be the case as enforced co-investment is introduced, the government recognises that such apprentices (particularly those aged 16 and 17) require a greater level of supervision, guidance, education and induction into the workplace. To address this, a simple one off payment/credit will be made to the employer once any 16 or 17 year old apprentice is settled into their learning and workplace, and has completed the first three months of their Apprenticeship. The government will separately consider the approach to 18 year olds.

Additional support for smaller businesses

11. Doug Richard recommended that any reformed government funding approach should recognise the additional costs for the smallest employers and the government recognises the particular challenges that smaller businesses can face in recruiting and training apprentices.
12. Whilst it is important that all apprentice employers are incentivised to demand the best training for their apprentices, smaller businesses may find the need to co-invest in the external training and assessment more challenging than larger employers.
13. In view of this, the government intends to offer additional financial support to the smallest businesses that take on apprentices working towards the new standards. The eligibility and level of support available will be considered in the context of work to model different payment options over the coming months.

Employer co-investment of external training⁷

14. Co-investment is at the heart of the government's objective of enabling employers to drive up Apprenticeship quality and demand value for money in future. Under the current funding system, the price of training is set by a highly complex system. There are over 100 different framework rates, with numerous further variations of these possible. The relevant rate is then combined with learner and provider supplements and weightings, meaning it is hard for an employer to see what the government investment in their employee is. There are then three different notional percentages of employer co-investment applied to this final price (with these rarely being applied in practice) and a further reduction applied for Apprenticeships in large businesses.
15. The government wants to simplify the system and allow the market to determine the real costs of training apprentices. By 'freeing the price' from government red tape, employers will be able to negotiate the training package they want their apprentices to undertake to meet the standard, agreeing the price and payment schedule with registered training providers.
16. The government will set a single overall co-investment rate for Apprenticeships (including Higher Apprenticeships where appropriate) to apply to the costs of all external training and assessment regardless of the size of the employer and age of the apprentice. This will be expressed as the percentage of the overall cost of the external training as negotiated by the employer.
17. The co-investment rate will, of course, be important to employers as it will determine how much of their own funding they need to contribute to the external training and assessment costs of the Apprenticeship. This needs to be significant enough to give

⁷ Throughout the document where "external training" is referred to, this is generally also intended to encompass internal training when the employer is the registered training provider and the training is needed to meet the standard

employers an incentive to negotiate on price and drive up quality, but not so high that it is unaffordable for smaller employers. The government will be working with Trailblazers and other organisations to determine an optimum and affordable percentage of employer co-investment. This work will also be informed by the recently published BIS research exploring employers' likely behavioural responses to changes in Apprenticeship funding⁸.

Co-investment of assessment

18. Previous attempts at Apprenticeship reform have focused on the 'front end' - attempting to ensure quality by specifying, in great detail, mandatory inputs to Apprenticeship training. They did not apply an equal focus on ensuring the assessment of apprentices was rigorous enough to guarantee, to an employer, that an apprentice could really do the job. The government is determined to give employers a greater say in both the design of the standards and the rigour of assessment. To give employers ongoing leverage over assessment of competence at the end of the Apprenticeship, the costs of assessment will also be subject to the same co-investment percentage as external training, and employers will receive the government's contribution in exactly the same way as they will for training.

Maximum Government Contribution

19. A Maximum Government Contribution to the external training and assessment costs of each Apprenticeship standard will be set. A balance will be needed between simplicity and reflecting the actual costs employers incur for delivering the various standards, while ensuring excessive amounts are not spent on individual apprentices. Based on experience of the current system (in which costs range from around £2,000 to over £20,000) it is clear that a single maximum level would not be appropriate. The government expects that there will be between three and five maximum levels with each standard being allocated to one of them based solely on the anticipated cost of the external training and assessment needed for the apprentice to achieve the standard.
20. Any additional flat rate payment relating to 16-17 year old apprentices, along with any additional support for smaller businesses and any funding for English and maths will all be additional to the Maximum Government Contribution. Depending on how a Payment By Results element is implemented (see page 11), this could be within the Maximum Government Contribution or additional to it.
21. Any of the additional costs that are treated separately in the current funding system, such as additional support for the variations in cost across the country, will be expected to form part of the negotiation between employers and providers. This will avoid

⁸ BIS Research Paper 161: Employer Routed Funding - Employer responses to co-investment: <https://www.gov.uk/government/publications/employer-routed-funding-employer-responses-to-funding-reform>

complicating the system, and the Maximum Government Contribution levels will need to allow for this. Within the overall budget available to support Apprenticeships, there is a balance to be struck between the Maximum Government Contribution levels, the co-investment rate and the flat payment rates. This balance will be tested and modelled over the coming months.

Within the Maximum Government Contribution	Additional to the Maximum Government Contribution
Proportion of the costs of external training met by government	Proportion of the costs of external training met by the employer
Proportion of the costs of assessment met by the government	Proportion of the costs of assessment met by the employer
	Young apprentice payment made by the government to the employer
	Additional support for eligible smaller businesses
	Funding for maths, English and support for apprentices with learning difficulties and/or disabilities

Table 1 – Summary of what is within the Maximum Government Contribution and what is additional to it. (NB a PBR element is still subject to policy development and could feature on either side)

Funding for English and maths

22. Apprenticeships should attract some of the best students, including those that have excelled at English and maths. However, those apprentices that require further training in these subjects as part of their Apprenticeship will attract full funding up to the minimum of Level 2 or higher if required by the standard. Funding will be paid through training and education providers to minimise bureaucracy for employers. This is in line with the requirement for 16-18 year olds, the entitlement for adults without a Level 2 to study these subjects until they reach Level 2, and with the funding system outside of Apprenticeships.
23. Employers will identify a suitable provider and refer the apprentice for training and assessment. Providers will be funded through contracts with the Skills Funding Agency (SFA) or Education Funding Agency (EFA) as appropriate.

Completion of the standard

24. Doug Richard recommended that government funding should be partly linked to the achievement of the Apprenticeship standard to incentivise employers to support their apprentices through to completion. He also recognised that employers should be encouraged to offer the full breadth of training needed to reach the Apprenticeship standard, which is over and above the training they would typically offer to a new recruit.

To address this, the government announced in the Autumn Statement that it would withhold a proportion of funding for a payment by results approach.

25. The details of this approach will be considered in the context of work to model different payment options over the coming months. In this work, the Government will take into account the preference expressed by some employers not to adopt an approach which involves withholding until completion re-imburement of funds that employers have spent on training.

Learners with learning difficulties or disabilities (LLDD)

26. The government is fully committed to ensuring the skills system operates effectively to support the needs of those learners who are most disadvantaged. Under reformed Apprenticeship funding, apprentices aged 19 to 24 subject to a Learning Difficulty Assessment (LDA) or, in future, an Education, Health and Care Plan (EHCP), will continue to be treated for funding purposes as 16-18 year olds.
27. In addition, Learning Support will be retained for reformed Apprenticeships to ensure that the Programme continues to be inclusive. Learning Support enables providers to work flexibly and provide support activity to meet the learning needs of apprentices, and to meet the costs of reasonable adjustments as set out in the Equality Act 2010. This support will enable more learners with learning difficulties or disabilities to compete equally and achieve alongside their peers.
28. Specifically, employers can request an assessment for a learner by an SFA approved provider to identify learning support needs in the following circumstances:
- when the learner has self declared a learning difficulty or disability that may affect their training at the start of their Apprenticeship;
 - when the employer or provider has identified a learning support need either through the recruitment process, or after the learner has started their Apprenticeship and a learning difficulty or disability becomes apparent.
29. If the assessment identifies a need for additional funding, providers will be able to claim any expenses incurred in delivering the additional support from their Adult Skills Budget.
30. Exceptional Learning Support will continue to be available for those learners whose support costs exceed £19,000. All such costs and the process of assessment will be subject to audit by the Skills Funding Agency.

Higher Apprenticeships

31. The government's goal is for it to become the norm for young people to undertake an Apprenticeship or go to university. Higher Apprenticeships include degree level training. In the recent Autumn Statement the government announced an extra £40 million investment to fund 20,000 more Higher Apprenticeships over the next two years, demonstrating its commitment to Higher Apprenticeships including at degree and master's levels.
32. Apprenticeships at Levels 4 to 7 (i.e. certificate of higher education Level 4, foundation degree Level 5, bachelor's degree Level 6 and master's degree Level 7) are relatively new, but expanding rapidly with numbers doubling to 13,000⁹ in 2012/13.
33. They are important to an increasing number of sectors including the information economy, professional and business services, nuclear, life sciences, aerospace and automotive, and will help to develop the skills needed to improve productivity and support British business to compete internationally. They also provide a clear work-based progression pathway into Higher Education and professional careers, and have the potential to deliver high level skills tailored specifically to business needs.
34. However, a barrier to growing Higher Apprenticeships is the complexity of the public funding rules, which prevent some employers from offering Higher Apprenticeships and could in future also create incentives to choose an FE qualification over an HE qualification within an Apprenticeship, even if the latter would more effectively help the apprentice achieve competence.
35. The move to employer-designed standards and the reforms to the funding system provide an opportunity to review the funding policy for Higher Apprenticeships. The government will therefore work with employers to review the current funding arrangements and provide details in due course.

Question 1: Whilst the principles of the new funding system are now firm, please detail any issues relating to their implementation that you believe need to be taken into account and, if so, how?

Application of funding principles to particular stakeholders

Apprenticeship Training Agencies (ATAs)

36. ATAs act as employment agencies for apprentices hosted primarily in small businesses. They enable such employers, which may be concerned about their ability to offer employment for the whole duration of an Apprenticeship, to nonetheless benefit from the Apprenticeships programme and provide high quality learning opportunities for

⁹ Relates to publicly funded Apprenticeships only

apprentices. There are now over 40 approved ATAs¹⁰, and the government wants good quality ATAs to continue to be able operate in the new funding system.

Authorised but non-employed apprentices

37. Since April 2010, all apprentices have had to be in paid employment. This is a statutory requirement of the Apprenticeships, Skills, Children and Learning Act 2009, enforced through Skills Funding Agency funding rules.
38. The only exceptions to this are individuals in very specific circumstances. They include those who are made redundant during their Apprenticeship; those hoping to compete in a Commonwealth, Olympic or Paralympic Games; and those working in a small number of job roles traditionally based on non-employed arrangements. The latter include sharefishermen, film crews and people involved in certain sports, and these are covered by the Alternative Completion Condition regulations. Numbers are strictly controlled and all other quality measures apply to this group.
39. These programmes support niche sectors and are regarded as good quality. The government therefore intends to continue to support such programmes under the reformed system, and it may be necessary to exempt them from one or more of the funding principles.

Armed forces

40. The armed forces are the largest user of Apprenticeships, delivering training using its own staff and external training providers. Currently the Ministry of Defence (MoD) funds its own apprentices and then claims back a proportion of the cost afterwards. The sum they receive is based on a proportion of the cost of training but with a large employer reduction. As with non-employed apprentices, the unique nature of armed forces Apprenticeships may mean that they will need to be exempted from one or more of the funding principles.

Question 2: Please comment on how, or to what extent, the new funding principles and mechanism can be applied in practice to ATAs, authorised non-employed apprentices and the Armed Forces.

¹⁰ List of registered ATAs in England available via the following link:
<http://www.apprenticeships.org.uk/employers/steps-to-make-it-happen/gta-ata.aspx>

Section 2: New Payment Mechanism Options for Employer Routed funding

1. The government's overall aim is to design the best payment mechanism to support the new funding principles for Apprenticeships. Between July and October 2013, the government consulted on options for routing Apprenticeship funding via employers. The consultation presented three options: direct payment, in which government funding for Apprenticeships is paid directly into employers' bank accounts; routing funding through the Pay As You Earn (PAYE) system; and a provider payment model that reforms the existing funding structure. A summary of responses is included at Annex A. In addition to a general desire for more information about how the different options might operate in practice, common points made included that:
 - it is important that any payment mechanism is simple to use and provides certainty about funding for employers;
 - the requirement to meet the costs of training in full, before claiming the government's contribution, would have cash flow implications for employers – particularly micro and smaller employers of apprentices; and
 - administrative burdens on employers need to be minimised, consistent with the need to minimise the risk of fraud and error.
2. The government announced in the Autumn Statement that it would develop a model which uses HM Revenue & Customs (HMRC) systems to route Apprenticeship funding direct to employers, and would consult on the option of an alternative funding route for the smallest businesses.
3. The direct payment option has been excluded from this consultation because, on further consideration, it has been judged to carry an unacceptable risk of fraud. A pure provider payment model has also been ruled out as it does not go far enough to deliver the Richard principle of giving employers the purchasing power. Instead, the government has developed a new model that incorporates some of the advantages of the provider payment option presented in the 2013 consultation but also goes much further towards giving employers true purchasing power over Apprenticeship training.
4. This consultation therefore sets out two payment mechanisms, which are described in detail over the following pages:
 - **PAYE** – this model uses existing systems with which employers are already familiar, with a separate, alternative system for small employers which do not make sufficient PAYE payments. Whilst some employers have said they are attracted to the PAYE model, it presents issues for other employers. For example, feedback from the previous consultation indicated that directing funding through the PAYE system may present additional challenges for employers running multiple payroll schemes. Over half of employers outsource at least some of their PAYE tasks, and PAYE changes are unlikely to be recognised by those involved in decisions on employing apprentices. Some payroll agencies may charge for any new Apprenticeship function, as it would not be part of the payroll. The government would be interested in understanding how these issues could be overcome.

- **Apprenticeship Credit** – building on responses to the previous consultation, the government has developed a new model designed to be suitable for both small and larger employers, addressing the potential issues of cash flow. The government would be interested in understanding how this model could work in practice.
5. To make a decision on a new payment mechanism, the government wants to gather evidence on how the new payment mechanism could impact on employers. The questions in the rest of this section are therefore primarily directed at employers. However, views from all stakeholders are sought.

Establishing eligibility for funding and registering an apprentice

6. Under both payment mechanisms (PAYE and Apprenticeship Credit), employers would use a simple online portal on the gov.uk website to register their apprentice(s) and apply for funding. This would involve submitting key pieces of information, including:
- which standard the apprentice will work towards;
 - the apprentice's date of birth;
 - the name and address of the employer; and
 - the employer's number of employees.
7. This information will enable the website to confirm the employer's eligibility for funding, so that they can approach training and assessment providers to agree the content, price and payment schedule for the Apprenticeship.
8. The website will also help the employer to find and contact a suitable training provider and assessment body, and signpost them to the existing support available from the National Apprenticeship Service, including support for recruiting an apprentice.
9. When the apprentice starts the training and is assessed, the employer can report this through the same website (see below for details of how this would work under PAYE and under Apprenticeship Credit).
10. While the government's aim is to make it easy and attractive for employers to carry out these functions themselves, we also want to allow an employer to delegate functions to a third party, if they prefer. Organisations that might want to offer such a service could include trade associations, professional bodies, Sector Skills Councils, Apprenticeship Training Agencies, business advisors or one employer on behalf of a group of employers. The services offered could include negotiating with providers on the training content and price, which could generate the added benefit of increased bargaining power if a third party is negotiating on behalf of a group of employers.
11. The government will need to capture information about delivery in the new funding system to be able to report on activity and ensure value for money from the Apprenticeships budget. Where there is a government contribution towards the costs of delivering an Apprenticeship, the government will need to ensure that only valid employers, apprentices

and providers are involved in the programme, and that the delivery is taking place against an approved Apprenticeship standard.

12. Data requirements will be kept to a minimum, whilst ensuring the government is able to account for the funding. The system will need to accommodate employers passing some of the responsibility for data collection to their chosen training and assessment providers. Training providers may also choose to offer an administration service to employers as part of their Apprenticeship package, as many of them do in the current system.

Question 3: What sort of information would you need at the outset from a new employer website for Apprenticeship registration and funding, to give you the certainty to employ an apprentice?

Question 4: When, relative to recruiting an apprentice, would you want to know how much funding you would be eligible for?

Question 5: How can data collection requirements be minimised in the reformed funding system?

Overview of the PAYE model

13. Employers already make PAYE payments to HMRC for tax, national insurance and student loans, and can adjust their PAYE for the recovery of statutory payments. Once an employer has paid the training provider, assuming they make sufficient PAYE payments, they would be able to deduct the government's contribution from their next PAYE payment to HMRC. Employers who do not make sufficient PAYE payments would have to apply for a reimbursement once they had made a payment to the training or assessment provider. This is paid into their bank account and then accounted for in the following months through the employer's PAYE payments. This is similar to the system that already exists for statutory payments such as statutory maternity and paternity pay.
14. The government welcomes views on both the payment systems which are part of the PAYE model and on how these could impact on employers, their payroll agents and training providers.
15. It is important to note that, under the PAYE option, there would be no change to an employer's tax or national insurance liability. Employers would be asked to balance their liabilities due to HMRC with government payments and, under this model, employers would be allowed to adjust their PAYE payments. As now, Apprenticeship funding would remain public spending.
16. Apprenticeships are a devolved responsibility and therefore the coverage of this scheme would be England only. However, under the PAYE model, all employers would have to update their payroll software.

The PAYE model in detail

17. The diagrams in the remainder of this Section set out the process for employers and are explained in detail in the associated text.

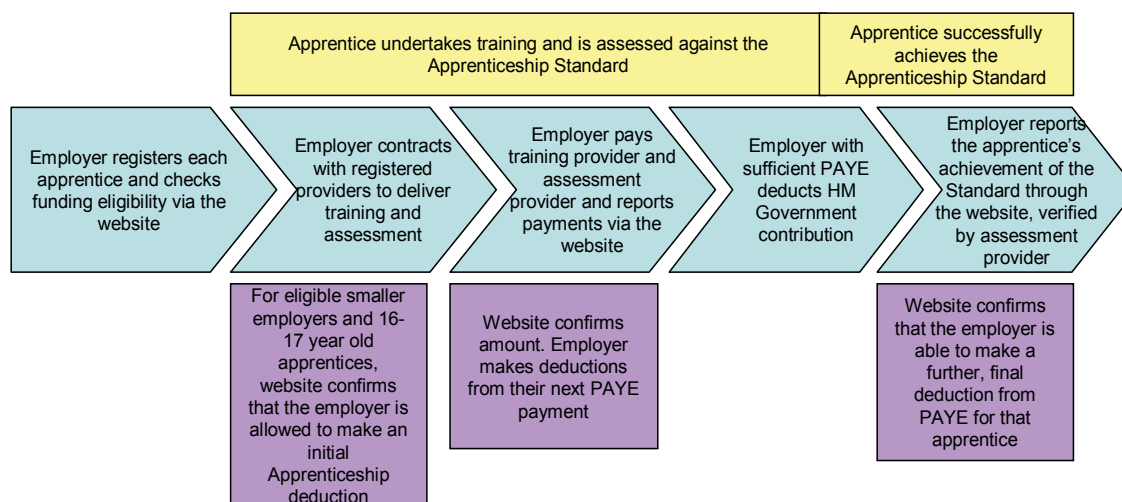


Figure 2 - Overview of the PAYE model for employers with sufficient PAYE payments

Employer makes payments and is reimbursed

- Upon registering their apprentice via the website, the employer provides their PAYE reference(s) and is authorised with HMRC to deduct Apprenticeship funding from their PAYE payments.
- The employer meets the costs of training according to the payment schedule they have agreed with the training provider and reports payments made through the website.
- The employer deducts Apprenticeship funding from their next RTI (real time information) payment. This involves the employer calculating the balance of their total employer liabilities (PAYE, national insurance, student loans deductions) with government payments (statutory payments, Apprenticeships) through the Employer Payment Summary (EPS).
- The same process applies to payment of the assessment provider.
- Additional deductions from PAYE payments may be made where the apprentice is aged 16 or 17 or the employer is eligible for additional smaller business support.
- Employers with insufficient PAYE payments would apply separately to HMRC for a reimbursement payment (see below).

Completion of Apprenticeship standard

- The apprentice completes the training and is assessed. The employer reports the apprentice's achievement on the website and the assessment provider verifies this to the Skills Funding Agency. This links to the website and notifies the employer that they are eligible to deduct the PBR payment from their next RTI payment.

Question 6: How would the PAYE model impact on the cash flow of your organisation?

Question 7: If you have multiple payrolls or outsource your payroll, how would the PAYE model work for your organisation?

Question 8a: Do you envisage additional charges for the PAYE model, such as through the update of payroll software?

Question 8b: Do you already have to regularly update the software you use and pay for those updates?

Question 9a: If you have multiple apprentices, how easy would it be for you to calculate your PAYE deductions?

Question 9b: How confident are you that you would be able to calculate the correct deductions?

Question 9c: If you did make an error, are you confident that it would be simple to resolve?

The PAYE model for employers with insufficient PAYE payments

18. Under the PAYE model there is a separate system for employers which do not make sufficient PAYE payments. This is in the form of a reimbursement which is then accounted for through future PAYE payments. The process works as follows:

- the employer calculates the amount they would need to claim, against their PAYE payment;
- the employer then applies to HMRC for a reimbursement. This is verified and (if approved) paid into the employer's bank account;
- the amount is shown on the Employer Payment Summary (EPS) and would be accounted for over future months; and
- if the amount in the EPS is greater than the deductions in the FPS (Full Payment Submission – this is the report that every employer makes each and every time payments are made to employees), then that difference is used to reduce the Apprenticeship reimbursement payment. If there is any charge still remaining at the end of the period the reimbursement covers, this represents a PAYE debt owed.

19. The recovery system outlined above is needed to ensure the Apprenticeship funding is all accounted for through PAYE.

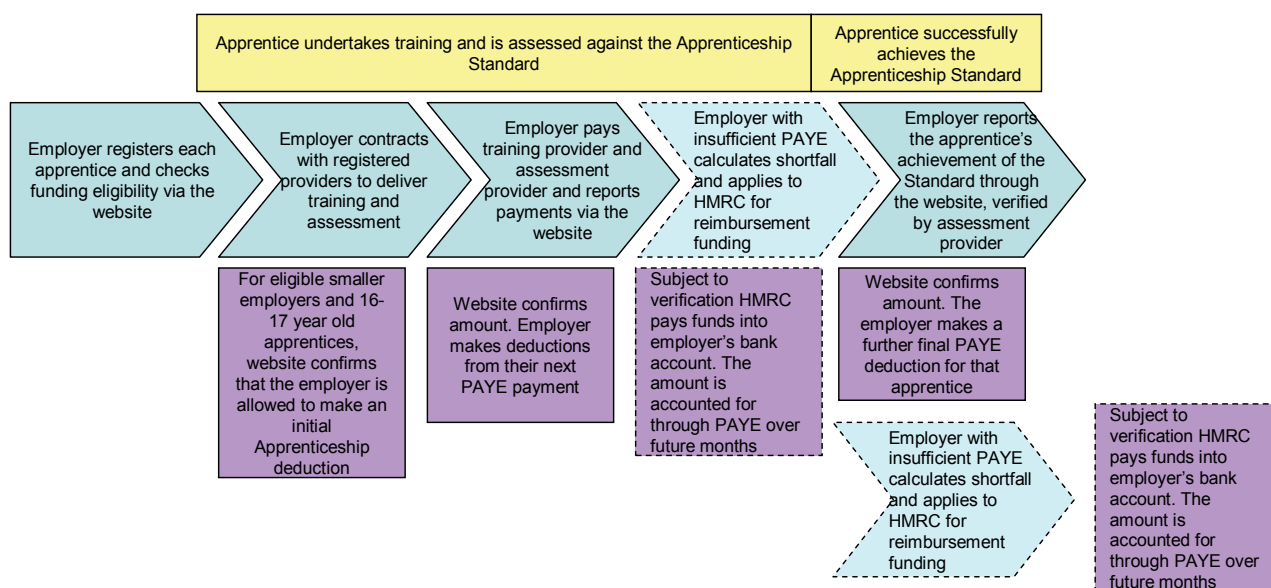


Figure 3 - Overview of the PAYE model for employers with *insufficient* PAYE payments

Question 10a: How easy would you find the process of reimbursement funding?

Question 10b: What impact would this have on your organisation's finances?

Question 10c: Would this impact on your decision to employ an apprentice?

Question 11: Are there any other issues you would like to raise in connection with the PAYE model more generally? If so, please provide details.

Overview of the Apprenticeship Credit model

20. The Apprenticeship Credit model would be an online account for employers which they use to buy the training and assessment they choose from registered providers.
21. The government has developed the Apprenticeship Credit model following the 2013 consultation, reflecting feedback about cash flow implications and administrative burdens for smaller businesses in particular.
22. The employer and the government pay their contributions into the Apprenticeship Credit account. Employers control all of the money for training and assessment, but only have to pay in their contribution. As with an online bank account, employers can log in, check their balance, make payments into the Apprenticeship Credit account and make payments out to training and assessment providers.

23. As the Apprenticeship Credit account is managed online, it should be possible to automate many processes. This includes processes to enable the government to verify that its contribution has been spent only with registered providers, for example, running reports on payments made to providers, on total balances in accounts (to understand the government's financial commitment) and to monitor any exceptional or unusual activity that may suggest the presence of fraud.

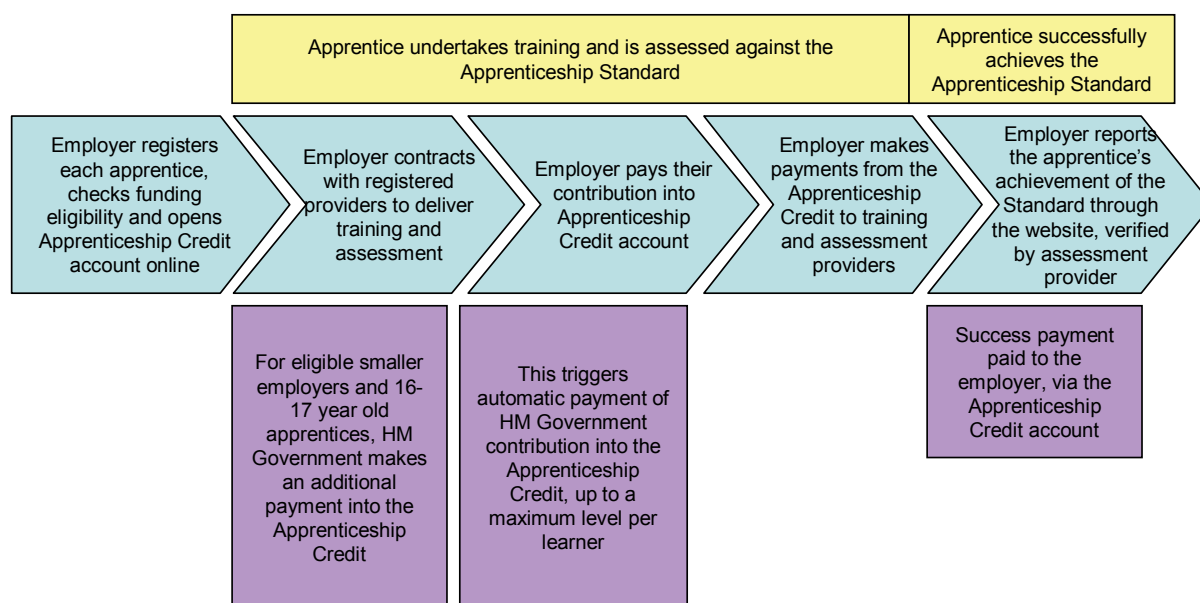


Figure 4 - Overview of the Apprenticeship Credit model

The Apprenticeship Credit model in detail

Employer sets up Apprenticeship Credit account and makes payments

- The employer uses an authorisation code provided at registration to set up their Apprenticeship Credit account online.
- The employer is then able to make payments into their account at a time of their choosing, which automatically triggers payment of the government contribution into the account.
- The employer makes electronic payments to the registered training provider as agreed with their provider.
- The same process is used to pay the assessment provider.
- Additional payments may be made into the Apprenticeship Credit account by the government, for example if the apprentice is aged 16 or 17 or the employer is eligible for additional smaller business support.
- The account balance can be viewed online and overpayments by the employer withdrawn (where they have attracted government co-investment this would also be deducted from the balance and the government contribution returned to the government).

Completion of Apprenticeship Standard

- The apprentice completes the training and is assessed. The employer reports the apprentice's achievement on the website and the assessment provider verifies this to the Skills Funding Agency. This links to the website and triggers the release of a PBR payment to the employer into their Apprenticeship Credit account which the employer will be able to withdraw.

Experiences of other online accounts and services

Question 12a: Do you already use online accounts, payment gateways and electronic payments (in purchasing training or any other service or product for your organisation)?

Question 12b: What could be learnt in the design of an Apprenticeship Credit from any existing online accounts and payment gateways that you use?

Question 13: What is most important to you in relation to setting up an online account e.g. simplicity, security etc?

Setting up your Apprenticeship Credit account

Question 14: Would you want to set up your Apprenticeship Credit account before or after negotiating and agreeing training with a training provider?

Making payments into your Apprenticeship Credit account and paying training providers from your Apprenticeship Credit account

Question 15: What might determine the frequency of your payments into the Apprenticeship Credit account?

Question 16: How would the Apprenticeship Credit account affect your cash flow?

Question 17: Are there any other issues you would like to raise in connection with the Apprenticeship Credit model in particular? If so, please provide details.

Assurance - protecting the public investment in Apprenticeships

24. In order to ensure best value for the public investment in Apprenticeships, assurance arrangements for the reformed programme will be put in place. These need to be proportionate, and the starting point should be an approach that minimises the administrative burdens of taking on apprentices rather than the wholesale transposition of current arrangements onto employers. The government recognises that a different approach is needed and will work closely with both employers and training providers to design this.

25. The assurance arrangements will require all organisations involved in the delivery of Apprenticeship training involving government co-investment to be on an approved register operated by the Skills Funding Agency, similar to the existing Register of Training Organisations. The approved register may include many organisations delivering training that are not currently on the Register of Training Organisations. Such organisations will be subject to Ofsted inspections and, where provision is subject to other quality assurance regimes such as QAA, these regimes will work together. Assurance arrangements will also need to be developed to cover the provision of assessment.
26. In order to claim government funding for Apprenticeships (regardless of the final funding route) employers will be expected to adhere to a small number of essential terms and conditions which will be set out up front, clearly and transparently, when they register an apprentice through the employer portal. These will cover areas such as the purposes for which the funding can be used, and the information that the employer may be asked to provide to validate their claim. These terms and conditions will be designed to give employers clarity and confidence in what is expected of them. Failure to adhere to these terms and conditions would result in funding being clawed back.
27. Employers will need to contract with their chosen training provider(s) to share this responsibility and to protect their own investment as well as the government's contribution.

Question 18: What factors need to be taken into account in the development of an approved register?

Question 19: How can burdens on employers be minimised whilst providing assurance for the funding systems and enabling good budget management?

Question 20: What support should government provide to help employers manage the relationship with their training providers to protect their investment and that of the government?

Section 3: Implementation

Funding implementation timeline

1. The following is a provisional timeline for implementing the funding reforms, to be refined and further populated over the coming months:

March 2014	Draft Trailblazer funding guidance issued.
1 May 2014	Technical Consultation closes and informs subsequent policy development.
May 2014	Co-investment and payment rates for Trailblazer-developed Apprenticeship standards set for 2014/15 starts.
May 2014	Outline funding guidance published.
Autumn 2014	Announcement on which payment mechanism to develop.
May 2014 to March 2015	Testing of new funding policies via Trailblazer-developed Apprenticeships starts.
Autumn 2014	Description of Apprenticeship Funding methodology published.
February 2015	Deregulation Bill, which contains clauses to enable the reforms, comes into effect following Royal Assent.
February 2015	Funding conditions for Trailblazer-developed Apprenticeships starting in 2015/16 published.
December 2015	Details for 2016/17 system published.
2016	Employer-routed funding mechanism introduced.
June 2017	Learners no longer able to start a framework-based Apprenticeship after this point.

Testing funding principles with Trailblazers

2. The Trailblazers are making good progress in developing new Apprenticeship standards and high level approaches to assessment. The first Apprenticeships based on new standards should begin in the 2014/15 academic year.
3. The employer-routed funding mechanism is expected to be available in 2016, meaning that, until then, funding for Apprenticeship training will continue to be routed via providers

or employers with Skills Funding Agency contracts. However, the government wants to test as many aspects of the new funding system as early as possible, in order to inform the design and development of the new funding mechanism and system.

4. This means applying the new funding principles to new standard-based Apprenticeships as soon as the standards are ready for use. Although funding will still be routed via providers at that stage, it is anticipated that the price will be determined through an employer-provider negotiation in each case. Employers will contribute to the external cost of training and receive flat rate payments relating to young apprentices and additional support if eligible as a smaller employer.
5. The Skills Funding Agency will work with the employers in the Trailblazer groups to set the Maximum Government Contribution for the new standards. These will be subject to change as more experience is gained from employers. In 2014/15, the Agency will provide anticipated costs of the training required to meet new standards to employers to assist them in negotiating with providers. If this proves useful to employers, this information may also be provided in 2015/16.
6. The testing of the funding principles on the first standard-based Apprenticeships will be fully evaluated in order to inform subsequent implementation for the Apprenticeships reforms across all sectors.

Question 21: What information or support needs to be provided by government and its agencies to employers so that the funding principles can be tested via the first standard-based Apprenticeships?

Helping employers and providers prepare for implementation

7. Trailblazers are already supported by Relationship Managers from the government's Apprenticeships Unit in order to help them develop their standards and high level approaches to assessment. This type of support will continue as the development of standards spreads to other sectors.
8. The government will also develop a comprehensive sector readiness programme for employers wishing to engage with reformed Apprenticeships and for providers who will need to work in a different way with employers. This will need to support early delivery through Trailblazer standards and full implementation of the new reformed funding system from 2016.

Question 22: What needs to be included in a sector readiness programme for all employers, providers and other stakeholders to support full implementation of reformed Apprenticeships?

Transition from frameworks to standards

9. Where standards are developed that would replace Apprenticeship frameworks (or part of one), there will be a period of parallel running with the old framework. This will enable any early issues with delivery of the new standard to be resolved and protect apprentices that have started on the old framework.
10. In such circumstances, there would be a limited period when apprentices could start on either an existing framework or on a new standard for that occupation. It is anticipated that the maximum time that starts would be permitted on an Apprenticeship standard and an equivalent framework would be one year. Apprentices who start on a framework would be funded to completion of their Apprenticeship on that framework and would not have to transfer to the relevant standard.

Question 23: Please detail any particular funding issues or concerns that you believe need to be taken into account during the transition period.

Section 4: Summary of Questions

Funding principles

Question 1: Whilst the principles of the new funding system are now firm, please detail any issues relating to their implementation that you believe need to be taken into account and, if so, how?

Question 2: Please comment on how, or to what extent, the new funding principles and mechanism can be applied in practice to ATAs, authorised non-employed apprentices and the Armed Forces.

Payment mechanism options – eligibility and registration

Question 3: What sort of information would you need at the outset from a new employer website for Apprenticeship registration and funding, to give you the certainty to employ an apprentice?

Question 4: When, relative to recruiting an apprentice, would you want to know how much funding you would be eligible for?

Question 5: How can data collection requirements be minimised in the reformed funding system?

Payment mechanism options - PAYE model

Question 6: How would the PAYE model impact on the cash flow of your organisation?

Question 7: If you have multiple payrolls or outsource your payroll, how would the PAYE model work for your organisation?

Question 8a: Do you envisage additional charges for the PAYE model, such as through the update of payroll software?

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Question 9a: If you have multiple apprentices, how easy would it be for you to calculate your PAYE deductions?

Question 9b: How confident are you that you would be able to calculate the correct deductions?

Question 9c: If you did make an error, are you confident that it would be simple to resolve?

Payment mechanism options - PAYE model for employers who do not make sufficient PAYE payments:

Question 10a: How easy would you find the process of reimbursement funding?

Question 10b: What impact would this have on your organisation's finances?

Question 10c: Would this impact on your decision to employ an apprentice?

Question 11: Are there any other issues you would like to raise in connection with the PAYE model more generally? If so, please provide details.

Payment mechanism options - Apprenticeship Credit model:

Experiences of other online accounts and services

Question 12a: Do you already use online accounts, payment gateways and electronic payments (in purchasing training or any other service or product for your organisation)?

Question 12b: What could be learnt in the design of an Apprenticeship Credit from any existing online accounts and payment gateways that you use?

Question 13: What is most important to you in relation to setting up an online account e.g. simplicity, security etc?

Setting up your Apprenticeship Credit account

Question 14: Would you want to set up your Apprenticeship Credit account before or after negotiating and agreeing training with a training provider?

Making payments into your Apprenticeship Credit account and paying training providers from your Apprenticeship Credit account

Question 15: What might determine the frequency of your payments into the Apprenticeship Credit account?

Question 16: How would the Apprenticeship Credit account affect your cash flow?

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Assurance

Question 18: What factors need to be taken into account in the development of an approved register?

Question 19: How can burdens on employers be minimised whilst providing assurance for the funding systems and enabling good budget management?

Question 20: What support should government provide to help employers manage the relationship with their training providers to protect their investment and that of the government?

Testing the funding principles with Trailblazers

Question 21: What information or support needs to be provided by government and its agencies to employers so that the funding principles can be tested via the first standard-based Apprenticeships?

Helping employers, providers and other stakeholders prepare for full implementation

Question 22: What needs to be included in a sector readiness programme for all employers, providers and other stakeholders to support full implementation of reformed Apprenticeships?

Transition from frameworks to standards

Question 23: Please detail any particular funding issues or concerns that you believe need to be taken into account during the transition period.

Annex A: Summary of Responses to the July 2013 Funding Consultation

In his Review of Apprenticeships, Doug Richard set out a number of recommendations to make Apprenticeships more rigorous and responsive to employers' needs, including through giving employers greater control of government funding for Apprenticeships. The government's *Consultation on Funding Reform for Apprenticeships in England* (July 2013) sought views on the relative merits of three different models for implementing the funding reform principles proposed in the Richard Review:

1. **Direct Payment Model:** Employers register apprentices and report claims for government funding through a new online system. Government funding is then paid directly into their bank account.
2. **PAYE Payment Model:** Employers register apprentices through a new online system. They then recover government funding through their PAYE payments.
3. **Provider Payment Model:** Government funding continues to be paid to training providers, but they can only draw it down when they have received the employer's financial contribution towards training.

The consultation received 366 responses, including from a wide range of employers, training providers and their representative groups.

The consultation received 80 responses from businesses (32 from micro and small businesses, 18 from medium businesses and 30 from large businesses). Smaller businesses in particular tended to prefer the provider payment model as they felt this was likely to generate the smallest administrative burden. Medium-sized businesses were more likely than others to prefer the PAYE model (25%), considering it easy to implement using existing payroll structures. Large businesses were more likely than others to prefer the direct payment model (33%), especially where they were already in receipt of direct funding to deliver Apprenticeship training.

Independent training providers and colleges made up slightly more than a third of respondents (138) and 90% of them supported provider payment.

Common themes in the responses received included:

- the importance of minimising administrative burdens on employers, consistent with the need to minimise the risk of fraud and error;
- concern that cash flow constraints should not prevent some small and micro-businesses from participating;
- the need for any funding model to reflect the greater support needed for 16 and 17 year old apprentices to reach full competence; and
- a desire for more detail on how funding rates will be set and on how the funding routes under consideration would work in practice, to enable respondents to comment more fully on the proposals.

Annex B: How to Respond

When responding, please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please select the appropriate interest group on the response form.

The consultation response form is at Annex E, but is also available electronically on the consultation page: www.gov.uk/government/consultations/apprenticeship-funding-reform-in-england-payment-mechanisms-and-funding-principles (until the consultation closes). The form can be submitted by email or by letter to:

Apprenticeship Funding Consultation
BIS/DfE Apprenticeships Unit
Department for Business, Innovation & Skills
Orchard 1, 2nd Floor
1 Victoria Street
London SW 1H 0ET

Email: Apprenticeships.consultation@bis.gsi.gov.uk

Questions about policy issues raised in this document can also be directed to the above email address.

BIS consultations are digital by default but, if required, printed copies of the consultation document can be obtained from:

BIS Publications Orderline
ADMAIL 528
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Tel: 0845-015 0010
Fax: 0845-015 0020
Minicom: 0845-015 0030
<https://www.gov.uk/government/publications?departments%5B%5D=department-for-business-innovation-skills>

The closing date for responses is Thursday 1 May 2014.

Annex C : Confidentiality & Data Protection

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Annex D: Consultation Principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

Comments or complaints on the conduct of this consultation.

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

John Conway,
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone John on 020 7215 6402
or e-mail to: john.conway@bis.gsi.gov.uk

However, if you wish to comment on the specific policy proposals you should contact the policy lead (see Annex B).

Annex E: Funding Reform Technical Consultation Response Form

Confidentiality & Data Protection

Please read this question carefully before you start responding to this consultation. The information you provide in response to this consultation, including personal information, may be subject to publication or release to other parties. If you do not want your response published or released then make sure you tick the appropriate box.

- Yes, I would like you to publish or release my response
- No, I don't want you to publish or release my response

Your details

Name:

Organisation (if applicable):

Address:

Telephone:

Email:

Please tick the box below that best describes you as a respondent to this consultation

- Business representative organisation
- Independent Training Provider
- College
- Awarding Organisation
- School
- Charity or social enterprise
- Individual
- Legal representative
- Local government
- Large business (over 250 staff)
- Medium business (50 to 250 staff)

- Small business (10 to 49 staff)
- Micro business (up to 9 staff)
- Professional body
- Trade union or staff association
- Other (please describe)

A number of these questions are directed at employers of apprentices. However, responses to those questions are welcome from all types of organisation.

Funding principles

Question 1: Whilst the principles of the new funding system are now firm, please detail any issues relating to their implementation that you believe need to be taken into account and, if so, how?

Question 2: Please comment on how, or to what extent, the new funding principles and mechanism can be applied in practice to ATAs, authorised non-employed apprentices and the Armed Forces.

Payment mechanism options – eligibility and registration

Question 3: What sort of information would you need at the outset from a new employer website for Apprenticeship registration and funding, to give you the certainty to employ an apprentice?

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Payment mechanism options - PAYE model

Question 6: How would the PAYE model impact on the cash flow of your organisation?

Question 7: If you have multiple payrolls or outsource your payroll, how would the PAYE model work for your organisation?

Question 8a: Do you envisage additional charges for the PAYE model, such as through the update of payroll software?

Yes No Don't know

Please explain your response:

Question 8b: Do you already have to regularly update the software you use and pay for those updates?

Yes No Don't know

Please provide details of costs:

Question 9a: If you have multiple apprentices, how easy would it be for you to calculate your PAYE deductions?

Easy Reasonably easy Difficult Don't know

Please explain your response:

Question 9b: How confident are you that you would be able to calculate the correct deductions?

Very confident Reasonably confident Not confident Don't know

Please explain your response:

Question 9c: If you did make an error, are you confident that it would be simple to resolve?

Very confident Reasonably confident Not confident Don't know

Please explain your response:

Payment mechanism options - PAYE model for employers who do not make sufficient PAYE payments:

Question 10a: How easy would you find the process of reimbursement funding?

Very easy Reasonably easy Difficult Don't know

Please explain your response:

Question 10b: What impact would this have on your organisation's finances?

Question 10c: Would this impact on your decision to employ an apprentice?

Yes No Don't know

Please explain your response:

Question 11: Are there any other issues you would like to raise in connection with the PAYE model more generally? If so, please provide details.

Payment mechanism options - Apprenticeship Credit model:

Experiences of other online accounts and services

Question 12a: Do you already use online accounts, payment gateways and electronic payments (in purchasing training or any other service or product for your organisation)?

Yes No Don't know

Question 12b: What could be learnt in the design of an Apprenticeship Credit from any existing online accounts and payment gateways that you use?

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Setting up your Apprenticeship Credit account

Question 14: Would you want to set up your Apprenticeship Credit account before or after negotiating and agreeing training with a training provider?

Before

After

Don't know

Please explain your response:

Making payments into your Apprenticeship Credit account and paying training providers from your Apprenticeship Credit account

Question 15: What might determine the frequency of your payments into the Apprenticeship Credit account?

Question 16: How would the Apprenticeship Credit account affect your cash flow?

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Question 22: What needs to be included in a sector readiness programme for all employers, providers and other stakeholders to support full implementation of reformed Apprenticeships?

Transition from frameworks to standards

Question 23: Please detail any particular funding issues or concerns that you believe need to be taken into account during the transition period.

Thank you for taking the time to let us have your views on this consultation. We do not acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply

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