

## Template for costing policies of opposition parties

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Description of policy
<p>The Business Select Committee have made this recommendation on apprenticeship numbers linked to public procurement:</p> <p>- <i>'we recommend that Central Government, Local Government and other publicly funded bodies should seek to achieve at least one additional apprenticeship for every £1m awarded through public procurement as a benchmark'</i> (<a href="#">link</a>).</p> <p>Labour have explicitly endorsed this, e.g. opposition day debate, 12 March 2013:</p> <p>- <i>'I beg to move, That this House...notes the need to increase apprenticeship places; <b>and</b> therefore resolves that the Government uses the billions of pounds committed to public procurement to boost apprenticeships by requiring firms winning public contracts worth over £1 million to offer apprenticeship opportunities, implementing the recommendation of the Fifth Report of the Business, Innovation and Skills Committee, HC 83, on Apprenticeships...A public procurement policy for apprenticeships would start to transform the numbers and the life chances of tens of thousands of young people. It makes economic sense, but it is also the right thing to do. We believe in a one nation Britain with not only social cohesion and fairness but economic cohesion, in which apprenticeships have a firm stake. That is why we have put the proposal centre stage today and that is why I am proud to move the motion.'</i> (<a href="#">link</a>).</p> <p>A Labour BIS team press release:</p> <p>- <i>'The benchmark used by the Committee is that at least one new apprentice should be employed for every £1 million of spending on public procurement, creating thousands of new apprenticeship opportunities. Last month, Ed Miliband demonstrated how this could work in practice by calling on the government to create 33,000 apprenticeships through the major High Speed 2 rail project. The approach of using government procurement to create apprenticeships was used by Labour in government'</i>. (<a href="#">link</a>)</p> <p>Tristram Hunt: <i>"We need to drive up the quality of apprenticeships by making them all level 3 and last a minimum of two years"</i> (<a href="#">Labour press release</a>).</p>
Additional policy assumptions
<ul style="list-style-type: none"><li>• Assume that for every public procurement contract worth over £1 million the private provider employs one additional apprentice for every £1 million the contract is worth.</li><li>• Don't include the direct exchequer costs of these apprenticeships (i.e. paying for training). This is because a separate costing is due to be commissioned on Labour's overall target for apprenticeships and these apprenticeships should not be considered additional to that target.</li><li>• Assume that any higher costs to the employer, resulting from employing more apprentices, are passed through to the exchequer because these costs will raise the cost of providing the contract.</li></ul>

- Assume that all the apprenticeships are level 3 and last at least 2 years, in line with policy announced by Tristram Hunt.

**Additional technical modelling assumptions or judgements required**

- In terms of ‘higher costs to the employer’ we have presented two main scenarios (Table 1 and Table 2). In the first, the employer is able to claim all known costs: salary, supervision, recruitment and administration. These costs are estimated from a published study – “Employer investment in apprenticeships and workplace learning: the fifth net benefits of training to employers study” (available at <https://www.gov.uk/government/publications/employer-investment-in-apprenticeships-and-workplace-learning-the-fifth-net-benefits-of-training-to-employers-study>). In the second, only the apprentice’s salary can be reclaimed. In neither scenario do we assume that the employer ‘nets off’ the productive contribution which the apprentice makes to the business from the apprentice’s salary.
- We have also presented a sub-scenario (Table 1a) which is similar to scenario 1 – the employer is able to claim all known costs: salary, supervision, recruitment and administration – except that we also assume that the employer ‘nets off’ the productive contribution which the apprentice makes to the business from the apprentice’s salary. This reflects a scenario where employers fully substitute apprentices for other employees to produce the output needed to complete a given project. The value of the productivity or output of the apprentices is a proxy for the wage saving that the firm makes by employing fewer non-apprentice employees. This value is estimated based on the wage of a fully experienced worker. So table 1a shows the non-salary costs to the employer of the apprentices plus the difference between the salary costs of the apprentice and the productivity of fully experienced workers.
- Assume the same mix of type of apprenticeship starts - by subject and age - as we have currently.
- Assume ratio of employer costs to government costs is equivalent to a L3 engineering Apprenticeship (this is used to estimate the average employer costs of a L3 Apprenticeship lasting at least two years).
- Volumes of new apprenticeships are based on the predicted value of public procurement contracts between 2015/16 and 2018/19, provided by Cabinet Office. The range presented reflects inclusion of contracts with a ‘high’ confidence rating only (lower cost), or inclusion of those with a ‘low’ or ‘medium’ confidence rating as well (higher cost). The value of contracts in 2019/20 is assumed to be the same as in 2018/19.

**If needed, information required on distributional effects of the policy**

**Cost/Revenue to the Exchequer over five years**

**Table 1 Costs to the exchequer resulting from employing more apprentices (apprentice's salary, supervision costs, recruitment costs, course fees, administration costs)**

DEL	2015-16	2016-17	2017-18	2018-19	2019-20
Current £m	£148-£234	£256-£525	£246-£597	£206-£505	£206-£505

The total costs range from £1.1bn to £2.4bn over the next Parliament (with no adjustment for inflation).

**Table 1a Costs to the exchequer resulting from employing more apprentices assuming that the employer 'nets off' the productive contribution apprentices make to the business from the apprentice's salary**

DEL	2015-16	2016-17	2017-18	2018-19	2019-20
Current £m	£67-£107	£117-£240	£113-£273	£94-£231	£94-£231

The total costs range from £0.5bn to £1.1bn over the next Parliament (with no adjustment for inflation).

**Table 2 Costs to exchequer resulting from employing more apprentices (apprentice's salary only)**

DEL	2015-16	2016-17	2017-18	2018-19	2019-20
Current £m	£90-£142	£156-£320	£150-£363	£125-£307	£125-£307

The total costs range between £0.6bn to £1.4bn over the next Parliament (with no adjustment for inflation).

Distributional effects (if none requested, any significant):

The increase in Apprenticeship volumes will be distributed in direct proportion to the sectors in which the procurement contracts are made.

Comparison with current system (if applicable):

Not applicable.

Other comments (including other Departments consulted):

Estimates were derived in consultation with HM Treasury and Cabinet Office who supplied data on procurement contracts expected over the course of the next Parliament. The document has been signed off by the Permanent Secretary's in BIS and DfE.

*To be completed by Permanent Secretary's Office*  
Date costing signed off:

19/12/2014

*[If applicable]*  
Date revised costing signed off: