Introduction

The Chancellor’s latest Autumn Statement outlined some notable changes to the way apprenticeships in England are funded. These changes are part of the bid to increase the number of apprenticeships to meet the Conservative manifesto.

In particular, the introduction of a levy on all large employers, regardless of whether they employ apprentices or not, was announced. These payments will be ring-fenced as employer contributions to supplement existing government funding for apprenticeship training.

It is expected to raise £3bn annually over the next five years.

What exactly is the new levy? Why was it introduced? What effect does it have on your organisation and what steps can you take to benefit?

What is the new levy and how does it impact your organisation?

- The first levy payments will be due in April 2017 and will be paid through Pay as You Earn.
- The levy will apply to all large organisations, regardless of whether they already employ apprentices or not.
- The rate for the levy will be set at 0.5% of an employer’s pay bill.
- Employers will receive an allowance of £15,000.
- The effect of this allowance is that the levy will only be payable on annual pay bills in excess of £3m – employers with a pay bill less than £3m will not pay anything.
- HMRC will work closely with employers and providers of payroll services to minimise the burden of implementing these changes.
- The levy payment will be then ring-fenced in the form of an electronic voucher that can be used to purchase training from recognised providers.
- The levy will put control of apprenticeship funding in the hands of employers and will encourage employers to invest in their apprentices and take on more. Employers in England who pay the levy and are committed to apprenticeship training will be able to get out more than they pay in to the levy, through a top up to their digital accounts.
- Organisations will pay the levy, regardless of whether they subsequently re-claim voucher funds to purchase apprenticeship training.

Calculate your levy payments

You will need to model the estimated cost of the levy based on your UK payroll bill. You will also need to take into account accessing top up levy funds and any additional employer incentives that the Government may offer, combined with the NI savings that will come into effect in April 2016 to estimate the net cost to your organisation.

Using this information you can start to profile the apprenticeship model aligned to your workforce planning needs within your organisation that maximizes the value of your levy pot.

Currently the private sector employs 2.3% of their workforce as apprentices with the public sector employing 1.7% - so employing 3% of your staff as apprentices is, in our opinion, a realistic target to aim for.

If you would like a levy calculation tailored specifically to your organisation then please get in touch.
Why the levy is being introduced?

The Government’s agenda is to increase apprenticeship starts to 3 million by 2020 – the levy is the ‘logical solution’ to funding that increase.

Driven by their productivity agenda, the government is committed to pressing ahead with the introduction of more rigorous apprenticeship standards (The Trailblazer Initiative). Financing this commitment to a step change in the quality and standards of apprenticeship training would alone have been challenging enough. But it comes coupled with a high-profile Conservative manifesto commitment to provide three million apprenticeships over the five-year term of government – which if achieved will be 30% more than was achieved in the previous five years. As Alison Wolf has pointed out in an environment of static budgets, the sums just do not add up and employers must accept that they too must make a larger contribution. The apprenticeship levy is, she argues, the logical solution, and the Chancellor, as confirmed in his Autumn Statement, agrees.

An Ofsted report into apprenticeships in October 2015 stated that the government’s ambition to boost the number of apprenticeships is commendable and has the potential to raise the profile and position apprenticeships as a direct route to greater business productivity. However, the report concluded, recent growth in numbers has not focused enough on the priorities that benefit employers or the economy.

Reforms are already underway to improve these statistics. Apprenticeships have been given equal legal treatment to degrees, and from April 2016 organisations will no longer be required to pay National Insurance Contributions for apprentices aged under 25. Apprenticeship targets have also been set for public sector bodies.

Removing the expectations built from the past

The introduction of Modern Apprenticeships in 1994 committed the government to contributing to the financing of apprenticeship training. Employers’ expectations of ‘free’ apprenticeship training became firmly established over the 25 year period that this system operated.

Bringing England in line with best practice

Co-funding of apprenticeships by all the parties that benefit – the employer, the apprentice and the government – is the accepted financing model in all modern economies as the Centre for Economics Performance pointed out. But in England it has proved especially difficult to find a way of ensuring that employers make a contribution to the costs of apprentice training.

Official statistics show that about six in ten apprenticeships started since 2009 have been at intermediate level 2, with typically about a third at advanced level three and under 3% at higher level. Ofsted believe, rightly, that there are still far too few 16 - 18 year olds starting an apprenticeship, and that secondary schools are still not doing enough to promote apprenticeships to young people.
Will the levy achieve its goals? Our viewpoint

At Solihull College and University Centre, we believe that the levy has the potential to dramatically change the apprenticeship landscape.

Most importantly, greater employer ownership of apprenticeship – which has so long been the goal of government – should be easier to achieve once the levy is in place and is something that, as a regional training partner for many large corporate companies and public sector organisations, we welcome.

There are so many benefits to employing apprentices onto high quality programmes. In fact, the recent increase in apprenticeship numbers has resulted from government legislation opening up the apprenticeship route to cover qualifications at degree level and above. It is imperative that the focus of the new levy is centred on raising quality levels. Employers and young people must both benefit and an apprenticeship needs to be regarded as a viable alternative to university and not seen as a poor second choice for academic under-achievers.

While the apprenticeship levy will undoubtedly play a part in increasing apprenticeship recruitment, Solihull College and University Centre viewpoint is that the biggest challenge will still be to increase the volume of high-level jobs available for apprentices. We encourage organisations to consider the benefits of taking on apprentices to create more employment opportunities for young people across the region.

Employers want an apprenticeship system that doesn’t trade off quality for quantity. The government hopes that the implementation of an apprenticeship levy will meet employers’ ambitions for improvement in training quality, while growing numbers of apprentices.

Employers will be able to secure quality by directing funding using the Digital Apprenticeship Service. The government are also establishing a new independent regulatory body for Apprenticeships. Known as the Institute for Apprenticeships, this will be led by employers, and will regulate the quality of apprenticeships within the context of achieving three million starts by 2020.

The Treasury’s productivity plan promises to put control of the funding raised by the levy squarely in the hands of employers. Now we know more around the detail of the levy this still poses some big questions.

- Will employers be willing to work to the government’s productivity agenda and distribute funding accordingly?
- Will the large firms contributing to the levy turn out to be the main beneficiaries at the expense of smaller firms?
- Has the levy been set at a level sufficient to bridge the estimated £2bn gap between the government’s contribution and the cost of apprenticeship training?

Employers are looking for a solution which takes account of the Devolved Administrations, not just England. The Government say they will look to resolve the practical issues of implementation, funding flows and the interaction of the levy with devolved skills responsibilities to ensure the levy works for employers across the UK.

How long should employers have to use their levy funding before it expires? This hasn’t yet been defined, however the government says it will ensure that the expiry period selected enables the levy collection and payment system to take account of apprenticeships of different lengths so that employers can pay for the apprenticeship training they need, when the need it.

Additional support is required for 16-18 year old apprentices and their employers. The government will set out further details on how they plan to go further in helping young people make the step from school to apprenticeships in the near future.
Next Steps

Solihull College and University Centre Apprenticeships is perfectly positioned to work with employers as they work through this changing landscape.

Unique in being aligned with recognised professional qualifications, all our programmes offer clear progression paths to further qualifications and career progression. Solihull College and University Centre working collaboratively with employers to create apprenticeship and school leaver programmes tailored to individual business needs with structured development to recruit and build future talent from within.

Solihull College and University Centre Business Skills Advisors will be able to offer further information and advice, reviewing your organisation's current Professional Qualification, Graduate, Apprentice and Internal Training programmes to ensure you maximise the value of your levy.

We share the government’s view that for the majority of organisations the levy does not mean having to make a choice between apprenticeships and other forms of workforce training they value. Solihull College and University Centre will work with you to enable apprenticeships to become an integral part of a wider workforce development package.
Funding reforms and the Apprenticeship Levy

As one of the West Midlands leading College for apprenticeships and vocational training, Solihull College & University Centre is well placed to support our employers to maximise their return on investment from the levy.

Background

The government is committed to developing vocational skills and to increasing the quantity and quality of apprenticeships. It has committed to three million apprenticeship starts in England by 2020. The levy has been introduced to support the delivery of new apprenticeships and at the same time to put employers at the centre of the system.

How much is the levy?

The levy will be charged at a rate of 0.5% of an employer’s pay bill and will be collected through PAYE. There will be a fixed £15,000 annual allowance for employers to offset against their levy payment, which means those with a pay bill of less than £3m won’t pay any levy.

The pay bill will be based on total employee earnings subject to class 1 secondary NICs.

Example 1:
Employer of 250 employees, each with a gross salary of £20,000 would pay:
Pay bill: 250 x £20,000 = £5,000,000
Levy sum: 0.5% x £5,000,000 = £25,000
Allowance: £25,000 - £15,000 = £10,000 annual levy payment

Example 2:
Employer of 100 employees, each with a gross salary of £20,000 would pay:
Pay bill: 100 x £20,000 = £2,000,000
Levy sum: 0.5% x £2,000,000 = £10,000
Allowance: £10,000 - £15,000 = £0 annual levy payment

Example 3:
Employer of 2,000 employees, each with a gross salary of £25,000 would pay:
Pay bill: 2,000 x £25,000 = £50,000,000
Levy sum: 0.5% x £50,000,000 = £250,000
Allowance: £250,000 - £15,000 = £235,000 annual levy payment

How will the levy work?

The apprenticeship levy will be a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship funding will be put in the hands of employers through the Digital Apprenticeship Service.

Employers will be able to use their digital account to buy apprenticeship training and assessment. If the levy is not used within 24 months it will be reallocated by the government to other organisations. The money in the digital account must be spent with registered training providers.

Funding bands for Frameworks and Standards have been set which limit the amount of levy funds an employer can spend on training and assessment for an individual apprentice.

Government top-up

The government has confirmed that it will apply a 10% top-up to the monthly funds entering levy paying employers' digital accounts. So for every £1 entered through the levy the government will add £0.10.

What if my organisation has a pay bill of less than £3 million?

Employers who are not eligible to pay the apprenticeship levy will be able to access government support and funding for their apprentices (subject to eligibility). The government has confirmed that employers with no levy pot (or those that have run out of levy) will need to make a contribution to the cost of training and the government will pay the rest, up to the maximum funding band.
This contribution will have to be paid direct to the training provider. The government has set this employer contribution at 10% of the total cost with the government funding the remaining 90%.

To support smaller employers, the government has confirmed that employers with fewer than 50 employees will not have to pay anything towards the cost of training a 16 to 18 year old apprentice (or for apprentices 19 to 23 years old who have been in care or who have an Education and Health Care (EHC) plan).

Who will pay for any English and maths training?

Apprentices have to meet a minimum standard in both English and maths. If an apprentice doesn’t already have these, they may need to do an English and maths qualification. These qualifications will be fully funded by the government for both levy and non-levy payers. The government will pay providers directly for the Level 1 and 2 English and maths training they provide to an apprentice.

Incentives

Apprentices aged between 16 and 18 will attract an incentive payment of £1,000 to the employer and £1,000 to the Training Provider. This will also be payable for apprentices 19 to 23 years old who have been in care or who have an Education and Health Care (EHC) plan.

When will it come into effect?

The levy will have effect on and after 6 April 2017, but the new funding rules won’t start until 1 May 2017. Apprentices who have started an apprenticeship programme prior to May 2017 will be funded for the duration of the apprenticeship under the terms and conditions that were in place at the time the apprenticeship started.

Approved Providers

Only providers registered on the Register of Approved Training Providers (RoATP) will be able to deliver training (for both levy and non-levy payers). The approved providers are expected to be announced in March 2017.

Further information

Further information can be found on the Government website:
How it will work: https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work
Levy information: https://www.gov.uk/government/publications/apprenticeship-levy
If you would like to discuss what the levy means for your organisation please contact us by email at: sales@solihull.ac.uk or call us on 0121 678 7181. We are here to help you upskill the current and future workforce.