

Apprenticeship Levy: Questions and Answers (March 2016 Update)

Introduction

The government has set out its vision for Apprenticeships until the year 2020 which includes the introduction of an Apprenticeship Levy¹. The Association of Employment and Learning Providers recognises that the Apprenticeship Levy will drive engagement by larger employers in high-quality Apprenticeships, a drive which we believe strongly will positively impact on:

- the prospects of sustained employment and progression for an individual's career
- bottom-line productivity returns for employers and
- the economic health of the nation through an enhanced skills base.

AELP is concerned however that a number of key issues remain unanswered. The ambitious timelines that are being proposed for implementation may also create difficulties in transition and lead to unintended consequences.

This Q&A document outlines our current understanding of the Levy proposals and to make clear current AELP policy on a number of issues.

1. Who will the Levy apply to?

The Levy will be calculated on 0.5% of the payroll bill of all employees across the whole of the UK including Scotland, Wales and Northern Ireland. However there will be a £15,000 allowance for Levy payers meaning that employers with a payroll bill of less than £3m will not pay the Levy at all. In broad terms this means that employers with around 150 reasonably paid employees will pay a Levy.

This will also mean that there will be two systems of payment for Levy and non-Levy payers which will increase complexity and create a difficult area where employers may fall just below or above the Levy payment levels. Non-levy payers will have access to levy funding, but the details of how this will work have not yet been announced.

2. When will employers pay?

The Levy will be collected on a monthly basis, based on 'live' HMRC payroll data. It will include all directly employed employees but not contractors. It will include all payments made through payrolls but not 'benefits'. It will be applied to 'groups' of companies but not franchisees. HMRC will set out the rules and will collect the Levy.

The rules must be clear and allow employers to plan their likely contributions so that they know how much they have to fund their apprenticeships which

1. Useful links: <https://www.gov.uk/government/publications/apprenticeships-in-england-vision-for-2020>
<https://www.gov.uk/government/publications/apprenticeship-trailblazers-evaluation-final-report>

can be a three or four year programme. We believe that employers will have to spend their Levy money by the end of the tax year following the year in which the contributions are paid.

3. How will the Levy work and will there be 'top-ups'?

Levy funding can only be used in England for the funding of Apprenticeships. The employer will pay the tax and their 'virtual' account will be credited with that amount. They will then be able to pass vouchers for up to that amount to their provider of choice to draw that money down for the cost of the apprenticeship training and assessment. The government will apply a 10% top-up to monthly funds entering levy payers digital accounts in England from April 2017.

There may well be a need for employers to access further top-ups which is still to be agreed but it could involve further contributions made by the employer which may be 'matched' by government. This system will be required for those employers that currently deliver more apprentices than the Levy will fund.

Employers may also be allowed to spend some of their allocated funds on apprenticeships for employers in their supply chain. It could be a percentage of their tax paid such as 10%. We believe that this will be a significant complication to funding and should not be introduced until the core system settles down and is proved to work.

4. How much can be drawn down for each apprentice?

Draft funding rates (likely to be in the form of caps) will be published in June 2017. These will allow employers negotiate a price and payment schedule with the provider, or a rate and payment schedule set by government for each standard. AELP would prefer the Institute for Apprenticeships to set rates rather than caps as this would be a simpler system to manage and predict.

The payments for English and maths and additional learner support need to be made clear in any funding system. Currently these essential payments are made separately to the funding of the rest of the framework or standard but may now be included in the total funding cap. If this is the case, then there is a danger that employers may choose only to recruit apprentices that already have the required English and maths qualifications.

The core funding will also have to cover the cost of assessment which could be significant. We believe that assessment processes should be simple and the core funding should be focused on training and supporting the apprentice. The development of assessment processes is continuing to delay the start of many of the new standards.

5. How will it work for the devolved nations?

Because the tax is collected by HMRC, the UK government is unlikely to be able to separate the payroll costs between the nations. The Levy will be collected across the UK and a formula (yet to be decided) will be used to allocate the monies between the nations. The estimate is that £3bn will be collected across the UK and approximately £2.5bn will apply to England. The devolved nations will decide how to spend their allocations but we assume it will have to go towards funding apprenticeships. It may be a very different system from England.

We are concerned that this means that an employer with 100% of its employees in England may not get 100% credit in its virtual account because some of their money will be allocated to the other nations. It is not clear how the government will manage this issue, nor how companies based in the devolved nations would be able to access levy funding for their English workforce. It will make it even more difficult for employers who have apprentices in more than one nation to manage a consistent and coherent programme.

6. Will the employers paying the Levy have to pay any further contributions?

We do not believe so. The funding of the Apprenticeship programme will be drawn down from the employer's Levy account and this should cover 100% of the cost of the training and assessment. This will be based on a set rate (our preference), or negotiated by the employer up to a maximum cap. We believe that this will include the total cost of the training including the main programme, English and maths and any additional learning support. If the system moves to a set rate, then the English and maths would have to be an additional payment which we believe would be a more effective system and would ensure that the Apprenticeship programme remains open to all learners.

If the employer wants to spend more than their Levy amount tax paid, we believe they will have to contribute further payments. This may be at a discount from the full cost of training, i.e. the government may make a contribution.

7. Will there be any incentive to recruit 16 – 18 year olds?

Under the Trailblazer funding system, the employer gets an incentive payment if they recruit a 16 – 18 year old. It is not clear if this will still be available under the Levy system. If the incentive is available then that funding may or may not come from the Levy 'account' or from other government sources. We believe the latter should be the case as only then will it be a real incentive.

8. Over what period can Levy contributions be spent?

Levy contributions made in any tax year remain in scope for expenditure by the contributing company until the end of the following tax year – for example, Levy contributions made in April 2017 will remain live until March 2019, a period of 24 months.

However, this 'sunset timeline' means that there is effectively a sliding scale of periods of time in which contributions can be made, as (using the example above) if the same employer made levy contributions in March 2018, then these would also only remain live until March 2019, a period of 12 months.

9. How will the system work for non-Levy payers?

This is still not clear. The government has announced that when the Levy system is launched, only Levy payers will be able to access the funds, though they have indicated that ultimately non-levy payers will be able to access at least some of the funding.

Our view is that the government will use some form of the Trailblazer funding process where SMEs contribute a third of the cost of training, thus retaining the current systems of funding frameworks and standards for at least a further year or two. Non-levy paying employers will be able to choose their provider, who will draw down the government contribution (the other two thirds). The government is likely to use the existing caps for trailblazers although we are still recommending a rate which would be far simpler than caps.

If mandatory cash contributions are required, it will be a barrier to entry for many SMEs especially in sectors such as hairdressing and construction for example. However with the incentives for small businesses (less than 50), for 16 – 18 year olds and for completion, the incentives often balance the contributions SMEs have to make. We have suggested that training providers manage all these payments within the period of the programme so that the transactions can be netted off. This would significantly simplify the process. The current proposals will require multiple cash transactions at a high cost for SMEs. Our recommendation will mean that providers manage the process on behalf of the SMEs.

10. Will this affect the numbers of SMEs involved in Apprenticeships?

If SMEs have to contribute one third of the cost of the training, some small employers will not take on an apprentice. However if providers are able to manage all the payments, many employers are entitled to incentives which mean they will not have to make upfront cash payments at all. This will significantly reduce any adverse impact.

In any event the advent of the Levy will mean that the focus of the programme will shift to larger and public sector employers and the growth in the programme will be achieved primarily through larger firms. However, as the productivity impact of the Apprenticeship programme is greatest for SMEs, we do not support the requirement for mandatory cash contributions.

11. Which training providers will be able to deliver the training for employers?

In the current and Trailblazer funding systems, employers have to choose a training provider that has a direct contract with the government. Even if the employer chooses a training provider that is a subcontractor, then that subcontractor has to have a contract with a lead provider.

In the Levy based system the government seems to be moving towards a concept of a 'registered' training provider. Most people have assumed that will be the ROTO. However there are around 3,000 training providers registered on ROTO so it is difficult to see how the funding agency and Ofsted can manage all of those organisations from day one. We believe therefore that there will be a new set of criteria applied to the ROTO companies to create a new eligible list of Apprenticeship providers.

The recent announcement which removed subcontracting from the Advanced Learner Loans system had a requirement of two years' delivery and minimum performance levels for providers that wanted a direct loans facility. The SFA may introduce a similar system for Apprenticeships.

We have recommended a staged process that builds on the current system of lead providers but facilitates a transparent process for other subcontractors to apply to be a lead provider. There are many training companies on ROTO that have never delivered any apprenticeships, and there are hundreds of other training providers that have a contract of less than £100,000 that have never registered on ROTO but who will register if the rules change.

There needs to be greater flexibility than the current system but there is a risk of losing control of the quality of delivery.

12. How will the government control the overall spend?

This is by no means clear. The amount of Levy collected from large employers, less the amounts given to Scotland, Northern Ireland and Wales will be allocated to the large employers' virtual accounts. All of that money could be spent by those employers in England. Any government contribution going to SMEs would have to be covered by the Treasury through the existing funding (currently £1.5bn for England). However if the funds from large employers is not spent, the Treasury may use it to fund SMEs, additional apprenticeships with large employers who have spent their initial allocations, or on other Apprenticeship related activities.

It is not clear therefore whether the government will have to find more funds than money generated by the Levy. We estimate that around half of existing apprentices are employed by companies who will pay the Levy. The government has said that only 2% of companies in the UK will pay the Levy but that is a misleading figure. A large proportion of businesses in the UK are micro businesses and do not have employees at all, let alone employ apprentices. However, many large employers may not spend their full allocations which means that the government may well save much of its current £1.5bn investment. We believe the government must be prepared to make that investment in SMEs, as we believe the large employers will indeed spend most of the funds generated by the Levy.

13. What is the expected timing of further detail?

We are expecting further announcements in April 2016, but the full details of funding will not be available until June 2016 at the earliest.

Paul Warner
Director of Policy and Strategy
pwarner@aelp.org.uk

21 March 2016 | Enquiries: enquiries@aelp.org.uk
Web: www.aelp.org.uk | Twitter: [@AELPUK](https://twitter.com/AELPUK) | LinkedIn: [AELP](https://www.linkedin.com/company/aelp) |