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BRIEFING PAPER

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The Apprenticeship Levy

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The Apprenticeship Levy - FAQ

What is it?

The Apprenticeship Levy is a new charge set at 0.5% of any large UK employer's pay bill worth more than £3 million. It aims at providing employers-led funding for the 3 million apprenticeship starts the Government wants to create by 2020.

How does it work?

All employers will have a £15,000 allowance to offset against their levy payment. In effect, this means that employers will only pay the 0.5% portion if their pay bill is above the £3 million threshold.

Who will be eligible?

The Government estimates that less than 2% of UK employers will be eligible against those criteria, including public sector organisations like the National Health Service and government departments. Regardless of whether they have apprentices or not, all UK employers with a pay bill worth more than £3 million will pay the levy.

When will it be introduced?

The levy will be introduced on 6 April 2017 and replace the current system in which the bulk of apprenticeship funding was supplied by the Government.

How much revenue will it generate?

The Government predicts that by 2019-20 the levy will bring in over £3 billion of revenue per year.

How will it be used?

Revenue generated by the levy will be equally available to employers that pay and do not pay the levy to pay the training costs of approved English apprenticeships. Recent government guidance suggests that those who don't pay into the levy will still contribute to part of the training costs. Employers who do pay into the levy will receive 10% top-ups on their levy payments. The funding will be accessible via online accounts.

Will the amount of funding one can buy with levy funds be capped?

Yes, the so-called "training vouchers" will be capped and limited in time (18 months).

Will it be spent in England only?

The levy is UK-wide but the bulk of it (£2.5 billion) will only be spent exclusively on English apprenticeships and in England. The rest (£500 million) will be split among the three devolved nations.

Who will collect the levy?

HM Revenue and Customs.

Who will monitor and decide how funding is spent?

The Institute for Apprenticeships – it was legislated for in the *Enterprise Act 2016*. Its role will be to advise the Secretary of State for Business, Innovation and Skills on the administration of funding raised with the levy to various apprenticeship standards.

1. The levy

1.1 Policy background

The Spending Review and Autumn Statement 2015

In the *Summer Budget 2015*, the Government announced that it would create a new charge for large employers, the Apprenticeship levy, to fund its flagship '3 million new apprenticeships' policy. The details of the levy were announced in the *Spending Review and Autumn Statement 2015*.

The levy will be introduced on 6 April 2017, which is when the first payments will be taken from employers' pay bills. It is still unclear whether this is also when the first training vouchers will be available for training purposes.[1]

The Government predicts that by 2019-20 it will bring in over £3 billion per year - £2.5 billion of which will be spent in England only[2] while £500 million will be split between the three devolved administrations.[3] It is still unclear whether this amount will be added to or deducted from these nations' block grants.

Skills being a devolved policy area, the Welsh, Scottish and Irish governments have the power to decide how funding is spent on their respective apprenticeship programmes and how to support employers into hiring apprentices.

In England, spending will be ring-fenced – meaning it will be protected within departmental budgets to be spent on apprenticeships only.[4]

1.2 How it works

Rate and eligibility

The levy will be set at a rate of 0.5% of an employer's gross pay bill.[5] Each employer will receive a £15,000 allowance, meaning that only those paying pay bills worth more than £3 million will pay the levy.[6] They will only pay the portion of their pay bill that is above this £3 million threshold.

All UK employers with a pay bill worth more than £3 million, regardless of whether they have apprentices or not, will pay the levy.

[1] Apprenticeship years run from 1 August to 31 July so it is unclear if funds from the levy will be available to cover the last months of apprenticeship year 2016/17.
[2] HM Treasury, *Spending Review and Autumn Statement 2015*, 1.33, p.15
[3] Department for Business, Innovation and Skills (BIS), *Guidance Apprenticeship levy: how it will work*, 18 March 2016
[4] *Spending Review 2015*,1.173, p.46
[5] HM Treasury, *Spending Review and Autumn Statement 2015: policy costings*, p.9
[6] This is because 0.5%*£3 million = £15,000. Therefore any employer with a pay bill below £3 million falls within the £15,000 allowance that is taken off the levy amount.

The levy will be collected through employers' Pay As You Earn. Only one allowance per company will be allowed, including for connected companies and charities[7].

The Government estimates that less than 2% of UK employers will be eligible.[8] According to the latest Office for National Statistics (ONS) estimates, the UK counted 2.36 million PAYE or VAT registered businesses in 2015.[9]

Public bodies like the NHS and government departments will also pay the levy if their pay bills meet the eligibility criteria.

Accessing funding

All employers, regardless of whether they pay the levy or not, will be able to access government funding for apprenticeships through a topping-up of their digital accounts.

Recent government guidance suggests that those who don't pay into the levy will still contribute to part of the training costs; whilst those who do pay into the levy will receive 10% top-ups on their payments so they 'draw down more than they put in'.[10]

Digital accounts (Digital Apprenticeship System) are online accounts where employers will be able to see their levy contribution and/or how much apprenticeship training they can purchase with a registered training provider. [11]

The amount of funding an employer can spend per apprentice will be caped and will vary depending on the level and type of apprenticeship.[12] This will be formally announced in June 2016.

The Institute for Apprenticeships

The creation of an independent body, the Institute for Apprenticeships, was announced shortly after the Spending Review and legislated for in the *Enterprise Act 2016*.[13]

Its role will be to advise the Secretary of State for Business, Innovation and Skills on the administration of funding raised with the levy to various apprenticeship standards. It will also have a role in designing new apprenticeship standards and maintaining the quality of existing standards.

Industry training boards

The Construction Industry Training Board (CITB) and the Engineering Construction Industry Training Board (ECITB) already charge a training levy. As a result, concerns arose from employers in these sectors about being taxed for two separate training levies.

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7 Finance (No.2) Bill [HC] 2015-16, c.90-91
8 HM Treasury, *Spending Review 2015*,1.173, p.45
9 ONS, *UK Business: Activity, size and location: 2015*, 6 October 2015
10 HM Treasury, *Budget 2016*, 1.99, p.33
11 BIS, *Apprenticeship Levy, Employer owned apprenticeship training*, August 2015, p.13.
12 BIS, *Guidance Apprenticeship levy: how it will work*
13 *Enterprise Act 2016*, clauses 22 & 23

The Government recently confirmed that industries that are already paying into such training levies will still be required to pay the apprenticeship levy. Their Industry Training Boards are expected to negotiate with their own members about changes to their existing levies.

1.3 Investment in skills

The introduction of a £3 billion apprenticeship levy was announced in the context of savings to overall Resource Departmental Expenditure Limit spending worth £12 billion.[14] The levy represents the highest real terms investment in apprenticeships ever made and thus sets the adult skills budget apart from the other programmes which were scrapped at the Spending Review.[15]

For comparative purposes, in 2014/15 the Department for Business, Innovation and Skills' total Adult Skills Budget was £2.3 billion, £776.6 million of which were allocated to adult apprenticeships.[16]

The same year, the Department for Education spent £703.4 million on apprenticeships for 16-18 year-olds.[17]

By 2019-20 government spending on apprenticeships, including the yearly income from the levy, will be double the level of spending in 2010-11 in cash terms.[18] That year, the combined spending on apprenticeships for young people and adults was over £1.2 billion.[19]

[14] HM Treasury, *Spending Review 2015*,1.33, p.15
[15] HM Treasury, *Spending Review 2015*,1.158, p.44
[16] Skills Funding Agency (SFA), *Annual Reports and Accounts 2014 to 2015*, July 2015, pp.65-67
[17] SFA, *Annual Reports and Accounts 2014 to 2015*, pp.65-67
[18] HM Treasury, *Spending Review 2015*, 2.71, p.92
[19] SFA, *Annual Report and Accounts 2010/11*, July 2011

2. Reactions to the levy

2.1 Government consultation

The Government ran a consultation on the apprenticeship levy between August and October 2015. The results of the consultation were published in November 2015. It said that:

> Most respondents thought that:
>
> - funding raised by the levy should have the potential to be used to train apprentices in small firms that did not pay into the levy, or used by employers to train apprentices that are not their employees.
> - employers should have up to 2 years to use funding in their voucher accounts before it expires
> - respondents were divided over whether there should be a limit on the amount that individual employers accounts can be topped up
> - PAYE was the most practical mechanism for collecting the levy with most respondents wanting a simple, straightforward system
> - the most frequent suggestion for a measure of calculating the size of firms was to calculate it by the number of employees. However, many respondents commented that "number of employees" is a crude measure since company size does not necessarily correspond with either the ability to pay the levy or with the number of apprenticeships an employer can offer
> - respondents were divided as to whether the digital voucher would enable employers to easily access their apprenticeship funds. A significant proportion of respondents felt that more detail on the model was needed
> - training providers should have to be registered and/or be subject to approval or inspection
> - respondents were fairly evenly split over whether apprenticeship account funds should only be used to pay for the direct costs of apprenticeship training and assessment[20]

2.2 Other reactions

The Social Market Foundation and Alison Wolf

Alison Wolf, author of the *Review of Vocational Education* report, advocated for an employer-funded apprenticeship system to replace the current government-led system.[21]

She argued that substantially higher levels of funding and incentives were needed to "deliver the high skill apprenticeships required to

[20] BIS, *Apprenticeship levy – employer owned apprenticeship training*, p.6
[21] Alison Wolf, *Review of Vocational Education – The Wolf Report*, March 2011

increase UK productivity" and stop employers from "slashing their own spending on and commitment to training". In her words:

> The current government's pledge to create three million new apprenticeships in the next five years [...] is impossible to meet under the current apprenticeship system.[22]

According to her estimations, current funding arrangements would make it "impossible to meet the three million target and improve the quality and labour market relevance of apprenticeships at the same time."

As a result, she strongly argued for a "National Apprenticeship Fund, into which every employer would pay in via a small levy on payroll" which would…

> … provide more money, allow spending decisions to be controlled by employers, and will ensure that all employers are directly involved with the apprenticeship system, even if they do not currently employ an apprentice.[23]

The private sector

In response to the Government's consultation on the apprenticeship levy, the CBI voiced its opposition. Although "the CBI and the government see eye-to-eye [...] on the necessity of growing apprenticeships", the organisation is unambiguous about not supporting the levy model "due to the risk that it will be unsuccessful".[24]

The CBI believes that it might be unsuccessful if businesses reduce apprentice numbers due to the costs of complying with the levy. It is also particularly concerned about timing as the levy will come into force at about the same time as the National Living Wage.

Local authorities

The Local Government Association (LGA) has demanded that local authorities be exempt from the obligation to contribute to the public sector apprenticeship targets and levy. The LGA estimates that the levy will cost local authorities £207 million a year and will affect 90% of councils.[25]

The CIPD

The CIPD's view about the levy after the Budget 2016 is that

> Measures such as the Apprenticeship Levy and the National Living Wage in isolation are unlikely to deliver sustained improvements in productivity. Financial measures can provide the incentive to increase productivity, but businesses usually need other types of support as well if they are to turn intentions into reality.[26]

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[22] Wolf, *Review of Vocational Education*, p.1
[23] Wolf, *Review of Vocational Education*, p.2
[24] CBI, *CBI response to the government's consultation on the introduction of an apprenticeship levy*
[25] LGA, 'National apprenticeship reforms to cost councils £600 million a year', press release 15 March 2016
[26] CIPD, 'Chancellor's 'forgotten workforce' fuels Britain's productivity problem', press release 17 March 2016

After the Spending Review 2015, the CIPD had already raised concerns about the levy:

> The apprenticeship levy could prove to be a double-edged sword in that the new charge of 0.5% of payroll may improve the quality of apprenticeships but it could also squeeze out training opportunities for other sections of the workforce.[27]

[27] CIPD, 'Chancellor commits to building new capital but does the UK have the skills to deliver it?', press release 26 November 2015

3. Useful links and sources of information

Information about the levy is available in several places including:

- HMRC's web portal about the levy with access to the policy paper, draft legislation and explanatory notes
- BIS's Guidance on the levy, including on payment, access to funds, purchase of training and eligibility rules
- The Spending Review and Autumn 2015 documents
- The Budget 2016
- BIS's consultation on the levy

More information will also be released in June, October and December 2016 on points detailed here.

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