



Department
for Business
Innovation & Skills

APPRENTICESHIP LEVY –
EMPLOYER OWNED
APPRENTICESHIP TRAINING

Government response

NOVEMBER 2015

Contents

Apprenticeship Levy – Employer owned Apprenticeship Training – Government Response

Purpose of the consultation exercise.....	3
Overview of the Consultation Proposals.....	4
Conducting the consultation	5
Summary of responses received	6
Summary of responses	7
Employers operating across the UK	10
Next Steps	24
Annex A - List of Respondents	25
Annex B – Fact sheet.....	33

Apprenticeship Levy – Employer owned Apprenticeship Training – Government Response

Purpose of the consultation exercise

1. When the Chancellor announced the Apprenticeship Levy at the summer 2015 budget, the Government wanted to open up an early dialogue with employers on how a levy system might work in practice, what would and wouldn't work for employers who are delivering apprenticeships and how the funds raised from the levy could be used.
2. We also wanted to hear the views of employer representative groups; training providers, third sector organisations and individuals who have a vested interest in this policy. Our consultation sought views on the key elements of the apprenticeship levy. We have combined responses to the consultation with the results of our wider discussions with employers and other stakeholders. All of this has helped to inform the development of the policy in advance of setting out more detail at the Spending Review.

Overview of the Consultation Proposals

1. Our consultation sought views on the implementation of the levy on the following themes;
 - *Paying the levy.* This section of the consultation sought views on how the size of firms paying the levy should be calculated, our proposal to collect the levy via PAYE, whether money collected from larger firms paying the levy should be used to support smaller firms and whether firms paying the levy should be able to direct some of their funding to those that don't.
 - *Employers operating across the UK.* This section of the consultation set out that the levy will be UK wide and sought views on how the England operations of employers across the UK could be identified.
 - *Allowing employers to get back more than they put in.* This section set out our proposal that employers who pay the levy should have the opportunity to get out more than they put in. It sought views on how this should work and what controls should be put in place.
 - *The levy is fair.* This section set out our proposal that employers should control the purchasing decisions in the system. It sought views on what controls might be needed to ensure that the use of funds within the system was fair.
 - *Giving employers real control.* This section set out our proposed model for a digital apprenticeship service. It sought views on what financial and quality assurance should be built into the system.
 - *The levy is simple.* In this section we set out how the system currently supports employers of younger apprentices and sought views as to how we could support employers of younger apprentices within the levy system. We also set out our position that the levy should pay for the direct costs of apprenticeship training and assessment, and sought views on whether this was the right approach.

The full consultation document can be found on GOV.UK here

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455101/bis-15-477-apprenticeships-levy-consultation.pdf

Conducting the consultation

1. The consultation was launched on 21 August and closed on 2 October to give the Government time to consider the responses ahead of the Spending Review
2. The consultation was available on the .GOV.UK and Citizen Space websites and was promoted in national and local media. We have received 711 responses (Annex A). These came from a wide variety of interested parties including employers, private training providers, colleges, schools and universities. 119 responses were received from representative bodies such as trade unions, professional bodies and business representative bodies.
3. In addition to the public consultation we engaged with stakeholders informally. As part of this exercise we met with over 200 businesses, representative bodies and Whitehall departments.
4. The consultation applied to the whole of the UK because the levy will apply to the whole of the UK. Skills policy, however, is a devolved matter in Scotland, Wales and Northern Ireland.

Summary of responses received

5. We received 711 responses via the online Citizen Space portal and by post and email. The majority of respondents were responding on behalf of an organisation and were employers who employed over 250 people. The highest proportions were from England based services firms and public administration, education & health.
6. 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
7. Through our wider engagement with employers they also raised concerns about the effect of the levy on apprenticeship quality and the capacity of the supply side to meet increased demand.

Summary of responses

8. The following sections set out the questions in the consultation and our response. Where there are linked issues we have grouped questions and our response by theme. Where there is a number in brackets in the text this indicates the number of respondents who gave the response being described.

Paying the levy

Should a proportion of the apprenticeship funding raised from larger companies be used to support apprenticeship training by smaller companies that have not paid the levy?

9. Just over half (353) of respondents agreed that a proportion of the apprenticeship funding raised from larger companies should be used to support apprenticeship training by smaller companies that have not paid the levy.
10. Of those respondents who provided additional comments, the majority outlined their general agreement with the statement, rather than any more specific detail, with many taking an opportunity to share their thoughts on the levy in general, rather than providing specific answers to the question. There were also a number of mixed responses, with a small number of respondents (40) suggesting that using a proportion of the apprenticeship funding raised from large employers to smaller employers would be unfair. Linked to this response were views that all sizes of employers should contribute to the levy, and that only those employers that contribute to the levy should benefit.
11. Views were also offered on the role of individual industries in the relation to the levy. 34 respondents to the consultation stated that the levy should be industry-focused, i.e. collected and distributed by industry. Respondents who offered this view thought it would be unfair to fund apprenticeships in other industries.

Do you have any comments on the proposed mechanism for collecting the levy via PAYE?

12. When commenting on the proposed mechanism, the most frequently stated response was that the system had to be simple for employers. Respondents want an easy system that is transparent and fair.

In your opinion, how should the size of firm paying the levy be calculated?

13. Responses to this question fell into three distinct categories; those which suggest a measure by which size of firm should be calculated, those suggesting a threshold above which the levy should be paid, and those which commented on wider aspects of the levy rather than the direct question.
14. The most frequent suggestion for a measure of calculating the size of firms was to calculate it by the number of employees. However, some 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.
15. In relation to size of employer that should pay the levy, most respondents did not suggest a specific threshold above which the levy should be paid, however a key message emerging is that whatever system is used it should be “fair”.
16. Overall comments to this question varied, but there are a few clear common points. Specifically many respondents wanted further information on:
- Which types of employees would count in the measure;
 - What the levy rate will be; and
 - How this measure would apply to employees/employers operating across the UK.

Should employers be able to spend their apprenticeship funding on training for apprentices that are not their employees?

17. More than half of respondents felt that employers should be able to spend their apprenticeship funding on training for apprentices that are not their employees, with many respondents giving the view that employers should be able to spend apprenticeship funding on training for apprentices within their supply chain.
18. Although employers are clearly open to the idea of spending their funding on apprentices who were not their employees, the feeling is that this should be an option available to the employer should they wish to do so, and not a requirement of the system.

Conclusion

19. It is clear from the responses to this section of the consultation that employers want early clarity on the rate and scope of the levy, and a simple system for paying it once it is implemented.

20. In concluding the Spending Review process we are now in a position to confirm both the rate for the apprenticeship levy and its scope. The rate for the levy will be set at 0.5% of an employer's pay bill and will be collected via PAYE. Employers will receive an allowance of £15,000. The effect of this allowance is that the levy will only be payable on pay bill in excess of £3,000,000 – employers with a pay bill less than £3,000,000 will not pay anything. An example of how this will work is at Annex B. By introducing an allowance, rather than excluding employers based on the number of employees (which a number of responses noted is a crude way to determine the size of the firm), this will both avoid cliff edges in the system, and reduce the burden on employers. As is usual with measures of this type HMRC will work closely with employers and providers of payroll services to minimise the burden of implementing these changes.
21. We think that a levy set and collected on this basis meets employers' expectations that the levy will be fair and transparent. It is fair in that it shares the responsibility for paying for the apprenticeship training the economy needs across a broad base of employers and it is transparent as to who has to pay it, and on what basis.
22. There is clearly an appetite from employers in England to use the funds in their digital account to pay for apprenticeship training for apprentices that are not their employees. This is encouraging as it shows that these employers recognise that they have a collective responsibility for creating the apprenticeship training that the economy needs to grow and prosper. We want to give employers in England flexibility on how they use the funds in their digital account without introducing additional and unintended complexity into the system. On that basis we will continue to engage with employers in England between now and the implementation of the levy to better understand what this might look like in practice and the pros and cons of any approach before deciding on how to proceed.
23. From the comments made by respondents it is also clear that we need to ensure that the administrative burden on employers is kept to a minimum and need to give clear guidance to employers on how the system will work in relation to different types of workers.

Employers operating across the UK

How should the England operations of employers operating across the UK be identified?

24. The levy will apply to employers across the UK. As skills training is a devolved policy area in Northern Ireland, Scotland and Wales, only employers in England will receive funds in their digital account to spend on apprenticeships training in England.
25. We sought views on how best to identify which elements of employers' levy contributions relate to the England operations in a manner which does not impose undue burdens on employers operating across the UK.
26. Respondents to the consultation were keen to stress the mobility of staff across the UK (and in some instances internationally) and the flexibility that employers required to offer the most appropriate training.

Conclusion

27. It is clear from the responses to this section of the consultation that employers want us to develop a solution which takes account of employers right across the UK. Ahead of the levy's implementation, we will continue to work with the Devolved Administrations 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.

Use of the apprenticeship levy in England

Allowing employers to get back more than they put in

How long should employers have to use their levy funding before it expires?

28. More than one quarter (197) of respondents felt that employers should have 2 years to use their levy funding before it expires. Just over 1 in 10 (81) felt that employers should spend their levy within one year. The largest proportion, however, (292) felt that another timescale was preferable. Where respondents chose this option, they largely felt that the employer's use of funding should be as flexible as possible.

Do you have any other view on how this part of the system should work?

29. The most common request was that the model be simple in order to minimise administrative burden and costs (53). Other responses to this question also suggested that the funding should be available to employers throughout the duration of training (38), and that funding should potentially be available to support the whole talent pipeline, including pre-apprenticeships, up-skilling and re-skilling (37).

Conclusion

30. While views were mixed, over a quarter of respondents were of the view that 24 months strikes the right balance in terms of giving employers sufficient time to use their funding and having a single expiry period which is transparent and fair.

31. We need to make sure 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. In designing this part of the system we will need to recognise the needs of committed employers and balance these with the need to motivate employers who have not yet engaged with apprenticeships.

32. We have been clear that the levy will be used to support apprenticeship training for employers who are committed to training. We will use the time between now and the implementation of the levy to work closely with employers and training providers on the practicalities of how and when funds will flow through the system to best support employers' training needs and apprenticeships of different lengths.

Do you agree that there should be a limit on the amount that individual employer's voucher accounts can be topped up?

33. Respondents who answered this question were divided over whether there should be a limit on the amount that individual employer accounts can be topped up, with 279 agreeing and 242 disagreeing. Respondents gave a wide range of reasons to support their views.

34. The respondents who provided further comments on why they support the implementation of a limit on voucher account top-ups do so because:

- the approach ensures fairness (26),
- the approach reduces the potential misuse of funds (26) and
- funding for apprenticeships is finite and there should be flexibility (19).

35. The respondents that don't support limits to top-up and provided further detail said that:

- the limit would be a disincentive to train apprentices (43)
- there should be no limit; funding should only be based on skills need (27) and
- only organisations driving apprenticeship growth should be rewarded encouraged or incentivised (21).

36. A number of respondents suggested that funding should be based on the skills needs and business requirements of the sector, but there was a split between those who agreed with the limit but said it should be based on sector needs (21), and those who disagreed with the limit because sector needs should be taken into account (27).

How do you think this limit should be calculated?

37. Of those respondents who provided suggestions on calculating a limit, the most frequent response (58) was 'through a percentage of the contribution to the levy that an organisation pays'. Suggested percentages for this contribution ranged from 5% to 50%, and the most common was 10%.

38. Occupational importance and the extent of gaps in the sector or industry are other important considerations when calculating the limit (41). Respondents emphasised the need to ensure that sector skills shortages were addressed as a priority, and that digital account top ups should be prioritised for areas of specific need.

What should we do to support employers who want to take on more apprentices than their levy funding plus any top-ups will pay for?

39. Where respondents provided a specific response to the question, the most common suggestion was to create a separate grant funding system, different to that proposed

(for example, by bidding for additional funding, providing further financial incentives for employers, or through central government funding) (56). Respondents were split in their belief that, if employers want to take more apprentices on, either they should pay the costs themselves (72), or the Government should support such growth over and above the funding in their digital account plus any top-ups (57). Whichever approach is taken, respondents suggested that any additional funding should be:

- determined by genuine demand from industry (46)
- through the reinvestment/redistribution of unused surpluses (36)
- determined by strategic requirements for specific sectors (38).

Conclusion

40. From the responses we have had on the issue of to what extent “top ups” should be limited, it is clear we need to make sure the system is fair and that we do not create barriers for employers who want to take on apprentices.
41. 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. 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. All employers who do not pay the levy will be able to access support for apprenticeships.
42. Employers expect us to create a fair and simple service through which to access apprenticeship funding. Every employer will have the opportunity to direct the funds that are available in their digital accounts to meet their apprenticeship training needs with approved training providers, and will be given a reasonable amount of time to do so. Where employers choose not to use the funds in their digital accounts we will make these more widely available.

The levy is fair

How can we make sure that the levy supports the development of high-quality apprenticeship provision?

43. Respondents provided a wide variety of suggestions and it is clear that the issues of quality and value for money are important ones. The main suggestion for ensuring quality in apprenticeship provision is to build on strong and effective quality assurance processes. Many respondents (79) stated that this type of regulation should be conducted by existing regulatory bodies such as Ofsted, Ofqual and SFA. Other respondents suggested that the quality assurance of training providers is important, with a number of respondents suggesting that quality assurance and value for money could be achieved by restricting employers to using funds with training providers who are on a registered, preferred supplier list (54).
44. Respondents were keen to point out that learning from the experiences of trailblazer groups can be a good way of ensuring quality and value for money (58), with large employers more likely to suggest this approach. Respondents from the construction industry were more likely to highlight existing levy approaches to quality.
45. Consistency in assessment approaches was also seen as important, and respondents stated that building a common assessment framework (32), and linking funding to apprenticeship outcomes and success (39) are important. Similarly useful was the suggestion that employers and learners have the opportunity to feedback on the quality of offer provided by training providers (22). Many respondents thought that it was important for employers as well as training providers to undergo quality assurance (29).

How should these ceilings be set, and reviewed over time?

46. In our consultation document we set out that it is important that the system is not open to abuse, and costs can be controlled. In practice this means a ceiling on the cost of each individual apprenticeship under each of the new standards, beyond which funding can't be used.
47. The most frequent view offered is that the ceiling should be set based on consultation with employers and training providers (50) and based on apprenticeship standards and the cost of training (47), or otherwise set based on sector feedback and consultation (33). The most popular suggestion for how often ceilings are reviewed is for an annual review (35).

How best can we engage employers in the creation and wider operation of the apprenticeship levy?

48. The overwhelming majority of responses to this question focused on the need for clear, on-going two-way communication, with particular reference to communicating with Small and Medium Enterprises (SMEs) (125). More specifically, many respondents were keen to bring employer representative bodies and organisations such as LEPs into the process of communicating and implementing the levy (119). Some respondents also stated that the creation of employer representative groups would be beneficial in engaging employers more generally (37). In addition to a communication process, other suggestions included building a targeted advertising campaign (22), and making employers more aware of the benefits of recruiting an apprentice into their organisation (35). Many employers were clear that the process must be simple and bureaucracy-free.

Conclusion

49. Responses to this section of the consultation have told us that employers want assurance on quality and value for money. Many see the registration of providers as a key tool for protecting the quality of apprenticeship training provision and maintaining the integrity of the apprenticeship brand. This is something that we will look at in the new system. Employers also want us to harness the good work already undertaken by the Trailblazer groups on employers working together to drive quality and to look at the approaches that existing statutory training levies take. We will do both as part of our work to develop and implement the levy. Employers also want an apprenticeship system that doesn't trade off quality for quantity, something government completely agrees with. We see employers having access to high quality apprenticeship training as being at the heart of the Government's ambition of creating 3 million apprentices by 2020. The implementation of an apprenticeship levy will allow us to meet employers' ambitions for improvement in training quality, while growing numbers of apprentices. We will manage the change in funding policy carefully so that the transition works for employers and also supports growth and innovation in the training provider network.

50. Ultimately employers will be able to secure quality by directing funding using the Digital Apprenticeship Service. We intend that all employers will have access to the Digital Apprenticeship Service, which will also support employers to choose an apprenticeship, find a candidate and choose a training provider.

51. The Digital Apprenticeship Service will provide employers with the means to pay for the off the job training of their apprentices drawing on government funds, including those raised by the levy. We are considering closely the best way to manage those funds, including how any ceilings may be set.

52. To ensure employers drive quality in the apprenticeship system we will establish the Institute for Apprenticeships, a new independent body, led by employers, to regulate the quality of apprenticeships within the context of achieving three million starts by 2020.
53. An independent Chair will lead the work of the body, supported by a small Board made up primarily of employers, business leaders and their representatives, to ensure employers continue to improve apprenticeship quality at the highest level.
54. Building on the current Trailblazer processes, the body will put in place transparent mechanisms for the approval of apprenticeship standards and assessment plans, and maintain clear quality criteria so that only standards that are valued by employers will be approved and funded. The body will use data showing the take-up of apprenticeships by employers and the concrete wage returns to apprentices to review the effectiveness and quality of standards over time.
55. Employers will continue to design new apprenticeships and they will engage directly with the body to submit their standards and assessment plans for approval. These will be peer reviewed by a small number of experts to ensure they meet the published quality standard before being approved for publication. The body will also support the work of BIS and DfE in setting a cap on the level of funding available for each apprenticeship standard.
56. We believe that competition drives improvement so the body will ensure that apprenticeships remain open for any employer to access. Standards and assessment plans will be published and be free for any employer to use and the body will ensure that there remains a free market in apprenticeship delivery. Employers will, in accordance with the standard and assessment plan, continue to be free to select which training provider and assessment organisation they wish to use from the SFA registers.
57. It is our intention that the body will be established by April 2017 to fulfil an initial core set of apprenticeship functions to support quality apprenticeships and advise government on the pricing of apprenticeship standards at the same time as the introduction of the levy. Operational functions associated with funding for apprenticeships and administration of the levy will be fulfilled by the Government's operational agencies. Ofsted and Ofqual will continue to fulfil their existing functions.

Giving employers real control

Does the potential model enable employers to easily and simply access their funding for apprenticeship training?

58. Respondents views are divided as to whether the potential model enables employers to easily and simply access their funding for apprenticeship training: a third (236) agreed that it does, but a similar proportion (221) disagreed.
59. A large proportion of respondents felt that further detail was required before they could assess the ease and simplicity of the potential model (157). Other respondents stated that they generally agreed that the levy provided easy and simple access to funding (40), while others stated that the levy could lead to even better access to funding for training. However, some respondents (65) were wary of the potential for administrative burden in the process, particularly for SMEs.

Should we maintain the arrangement of having lead providers or should employers have the option to work directly with multiple providers and take this lead role themselves if they choose to do so?

60. Of those respondents who gave specific responses, the majority felt that employers should have the option to work directly with multiple providers and to take this lead role themselves (123). 50 respondents suggested that employers should be able to choose the approach they wish to take. However there was some support for the lead provider approach (47).

If employers take on the lead role themselves what checks should we build in to the system to give other contributing employers assurance that the levy is being used to deliver high quality legitimate apprenticeship training?

61. In order to provide assurance that the public funds are being used to deliver high quality, legitimate apprenticeship training many (136) respondents agreed that regulation, auditing and inspection were essential. There were varying views as to how this should work but the most cited response (145) was to regulate and audit via existing regulatory organisations (Ofsted, Ofqual, SFA, Awarding Bodies).
62. Some (37) respondents felt that it would be more appropriate to regulate and audit through industry or trade led bodies (e.g. Sector Skills Councils, or trade/industry bodies), while a further 20 respondents felt that whatever audit system is used, good practice could be obtained from looking at the existing levy systems.
63. Employers and providers being regulated in the same way was suggested by 75 respondents, or that a register of approved providers should be used (15). In addition, 31 respondents suggest that publishing data associated with apprenticeship

outcomes, completion results and organisational performance would provide assurances as to the quality of the training delivered.

Should training providers that can receive levy funding have to be registered and/or be subject to some form of approval or inspection?

64. The vast majority of respondents (521) agreed that training providers that can receive levy funding should have to be registered and/or subject to some form of approval or inspection.

If providers aren't subject to approval and inspection, what checks should we build into the system to give contributing employers assurance that the levy is being used to deliver high quality legitimate apprenticeship training?

65. Many people who responded to this question used it to reinforce their view that that providers should be subject to approval and inspection. 259 respondents stated this directly, with many remaining responses focused on specific methods. For example, some respondents suggested that it should be possible to check available performance monitoring data, (apprentice outcomes, delivery league tables and satisfaction scores) (31), and that it should be feasible for employers to undertake these checks so that they can make informed decisions (21).

What other factors should we take into account in order to maximise value for money and prevent abuse?

66. Those respondents who provided specific responses reiterated that quality assurance auditing of processes is, again, considered to be the key factor in maximising value for money and preventing abuse of the proposed levy system (93). Again, this process includes a number of similar methods, including the provision of a record of apprenticeship achievement and experience (42), an assessment of skills gaps and shortages in a particular sector (28), a central data collection process with the publishing of levy activity (31), and a feedback ratings system and sanctions for those who do not meet requirements (22). Any process set up should be simple and transparent (59) and provide employers with ownership of their training budgets (23).

Conclusion

67. Responses to this section of the consultation have told us that employers want early assurance on apprenticeship quality, details on the approval mechanism for training providers and a system that maximises value for money, prevents abuse and ensures the legitimacy of the apprenticeship training being delivered. Employers are also keen to have further detail on the ease of access to their funding and further information on how a digital service will work in practice. It is also very clear that for the apprenticeship levy to work for employers, and in particular SMEs, we need to keep administrative burdens to an absolute minimum. We also need to move towards an assurance model that works for employers who chose to work with lead providers and for those employers who want to take on key functions themselves.
68. Key to making the system work for employers is getting to the heart of what employers want from it. To achieve this we will work closely with the Government Digital Service to build a system that will be easy for employers to access and use. We intend to build this based on user needs which we will identify, test and refine through on-going engagement with employers during the development and implementation. In particular we will make sure that SMEs are part of this process so that we develop a system which works for all employers, regardless of size.
69. Employers have used this consultation to tell us very clearly that they value quality and this must continue to remain at the heart of our apprenticeship reforms. In particular they want employer oversight of the system so that it allows high quality apprenticeship growth. We will set out further information on the new employer-led Institute for Apprenticeships within the next few weeks.
70. In building the new apprenticeship system we need to make sure there are appropriate safeguards to protect quality, to protect funding and to protect the apprentice. In our reforms so far we have built in protection through the creation of a lead provider model, which sees the lead provider accountable to the employer and government for quality and funding, across the providers who come together to deliver the training against the apprenticeship standard. In responding to this consultation we have seen many employers tell us that they value the role of the lead provider, particularly as a way of minimising administrative burdens.
71. However there are those employers who feel ready and able to take on the role of working with multiple providers to deliver training against an apprenticeship standard themselves. For those employers we want to think about moving towards an assurance model that works for employers who choose to work with lead providers and for those employers who want to take on key functions themselves.

The levy is simple

How should the new system best support the interests of 16-18 year olds and their employers?

72. Supporting the interests of 16–18 year olds and their employers is a particularly important question for respondents. Of those respondents who offered a comment, the majority stated that because the cost of delivering apprenticeships for 16–18 year olds is much higher, additional funding should be available to cover this (100). In this respect, additional costs can include the need for more pastoral care, support with additional functional skills training or basic English and Maths teaching, support in helping young people become “work ready”, or by providing dedicated mentoring. Similarly, many respondents also stated that because of some of these issues, a “tariff” or graded system of funding should be implemented where there is more funding available, depending on the age of the apprentice (65).
73. There was also a view that employers should be incentivised to recruit 16–18 year old apprentices (83). Small and medium sized employers were more likely to express this view than large employers. Despite the majority of respondents stating that more funding and support should be available for 16–18 year old apprentices, 60 respondents disagreed with this, and stated that it is important to ensure that the system does not discriminate on the grounds of age.
74. As well as funding, another focus of respondents was on building quality services around the apprenticeship programme in general. For example, respondents stated that effective information, advice and guidance should be developed, and not just for prospective apprentices but also for employers and for providers too (44). Others stated that the best way to support 16–18 year olds was to simply provide a quality apprenticeship experience by ensuring that the programme also provided opportunities for further and alternative training, that there were genuine progression routes available, and that the welfare and safeguarding of the apprentice was paramount (21). Some respondents stated that the best way to support 16–18 year olds and their employers was to give employers the freedom to choose how to fund training and skills development (16).
75. Some (12) respondents were concerned that, due to regulations associated with health and safety, or high-skill occupations, it is problematic recruiting 16–18 year old apprentices. For these employers, who are predominately in the construction and manufacturing industries, there needs to be easier ways to recruit young people.

Conclusion

76. Respondents to the consultation recognised that additional support may be required for 16-18 year old apprentices and their employers. From the responses given it is clear that this goes beyond simple financial measures to include a wider package of support to help young people move from the world of school to the world of work. To support this we set up the Careers and Enterprise Company in December 2014 with £20m of initial government funding, focused on unlocking the potential of 12-18 year olds through strengthening links between schools and colleges, employers and careers organisations. We will set out further details on how we plan to go further in helping young people make the step from school to apprenticeships in the near future.

77. We have also noted that many respondents felt that as well as practical support for apprentices and employers, there is a measure of additional financial support that is required for apprentices in this age group, compared to older apprentices, to cover some of the additional costs they face. We will continue to engage with employers on this point, in advance of setting out our apprenticeship funding policy.

Do you agree that apprenticeship levy funding should only be used to pay for the direct costs of apprenticeship training and assessment?

If not, what else would you want vouchers to be able to be used for and how would spending be controlled or audited to ensure the overall system remains fair?

78. 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. Where respondents made a further comment on this issue, the largest proportion of respondents felt that the funding should cover other types of non-direct training costs; including, equipment, capital investment, expenses and monitoring and management expenses (128 responses). Others, who thought the funds should be used more widely, believed that they should be used to develop new apprenticeships (15), or that to cover all apprenticeship costs (20) such as apprentice's wages. Some respondents also took the opportunity through wider comments on the consultation to suggest that the funds could be used to support employer costs in relation to Traineeships.

Conclusion

79. Respondents were divided on what costs the apprenticeship funds should cover. However we need to meet employers' expectation that the system is fair. That is why we have set the rate at 0.5%. We believe this rate balances funding 3 million apprenticeships by 2020 and increasing quality of apprenticeships, with the need to make sure the levy does not place an unreasonable burden on employers.

80. If apprenticeship funding were used to meet a wider set of non-direct training costs to employers it would have required the setting of a significantly higher levy rate. Employers in some sectors may have been able to use a higher level of contribution to meet wider costs, but this would not be true of every employer in every sector. That is why we think it is better that individual employers can choose how and when to meet these wider costs, outside of the apprenticeship funding system.
81. Traineeships are an important route into work and have a strong link to apprenticeships. Through our on-going dialogue with employers on the introduction of the apprenticeship levy we want to explore how using the levy could further strengthen this link, by possibly meeting some of the costs employers incur when supporting Traineeships.

Are there any other issues we should consider for the design and implementation of the levy that haven't been covered by the consultation questions we have asked you?

82. The majority of respondents who felt that there were other issues to consider wanted additional information about how the levy will work, in particular how the rates will be calculated. The other primary concerns were:
- I. *What provisions will be made for SMEs?* Respondents were keen to acknowledge the importance of apprenticeships to SMEs and the reliance of many industries on SMEs taking on apprentices.
 - II. *Will current levy contributors be exempt, and will existing levies continue or be amalgamated into the new levy?* Industries that already contribute to an existing levy system do not wish to contribute to two levies at once.
 - III. There is a risk that *employers may divert training from other areas to account for levy costs*. This would reduce the continuing professional development of the existing workforce and could impact on the overall skill level of specific industries.

Conclusion

83. All employers who do not pay the levy will be able to access government support for apprenticeships through the Digital Apprenticeship Service. We will provide further details on the support available in due course.
84. We understand that employers in sectors where a levy is already in place want clarity on what the introduction of an apprenticeship levy means for them. Two sectors operate mandatory training levies: construction and engineering construction. We are working with the relevant Industry Training Boards to consult with their members ahead of the introduction of the apprenticeship levy on how their existing arrangements will be affected and whether any changes are required. We will also talk to employers in the creative sector about the interaction with their voluntary levy.

85. Whilst there is a risk that employers may divert training from other areas to account for levy costs, we want to be clear in our message to employers: that the apprenticeships programme for England is an all- age, all-sector, all-level programme where employers have control over standard setting and training content. And if employers do not think that any of the existing frameworks or standards meet their needs, they are free to develop a standard which better meets the needs of their workforce; future and existing. For the majority of employers it does not mean having to make a choice between apprenticeships and other forms of workforce training they value, but rather apprenticeships become an integral part of a wider workforce development package.

Next steps

86. Whilst the consultation was an effective way of engaging with employers and a wide variety of stakeholders, it is by no means the only method we are using to engage with employers and stakeholders as we develop and implement the apprenticeship levy. As we set out further detail on how the levy will work in practice, we will continue to talk to employers and wider stakeholders.
87. We are engaging in further discussions now, which will continue throughout the design and policy development phase right through to implementation and beyond. The levy is a true opportunity to shape the skills system within the UK and drive up productivity and growth for the whole economy. The Government wants employers and stakeholders to be very much at the heart of this system.
88. If you would like to be involved in the development of the Digital Apprenticeship Service you can register your interest by e-mailing: DAS@bis.gsi.gov.uk.

Annex A - List of respondents

711 responses were received to the consultation. A few of the respondents chose not to provide their name, when making a response.

Please note that a number of respondents have either asked for their response to be treated as confidential or have not indicated whether it should be treated as such. These names have been omitted from the list. Names of individuals responding to the consultation have also been omitted from this list.

- 23 Skidoo Ltd
- A F Blakemore & Son Ltd
- A&N shilliday co ltd
- ABC (Oxford) Ltd.
- Acacia Training and Development Ltd
- Ace consulting
- ACostE
- Admiral Lord Nelson School
- Advanced Roofing Ltd
- AELP
- Ageas UK
- Aggregate Industries
- AgPlus Diagnostics Ltd
- Airbus Operations Ltd
- Albion Stone Restoration ltd
- Ambassador Theatre Group
- Amec Foster Wheeler
- Amey plc
- AoC
- Apprenticeships Explained (apprenticeship delivery and policy)
- Arqiva
- Arts Council England
- Asquith Day Nurseries and Pre Schools
- Association of Licensed Multiple Retailers
- Atkins Ltd.
- Autochair Ltd
- AWE plc
- Aylesbury Grammar School
- BAM Nuttall
- Barking & Dagenham College
- Bath Fringe Ltd.
- Be Wiser Insurance
- Beds and Herts Provider Network
- Bentley Motors Limited
- Berthon Boat Company Ltd
- Bibby Offshore Limited
- Bilfinger Industrial Services UK Ltd & Bilfinger Salmis UK Ltd
- Black Country Chamber of Commerce

- Blackpool Council
- Blue Arrow Ltd
- BMW UK Ltd
- BPIF
- British Army
- British Chambers of Commerce
- British Chemical Engineering Contractors Association (BCECA)
- British Film Institute
- British Glass Manufacturers' Confederation
- British Retail Consortium
- BSH Home Appliances Ltd
- Building and Engineering Services Association (B&ES)
- Build UK
- C&C Marshall Limited
- C9LLS Management Services
- calex uk
- Call Aid UK Ltd
- Capgemini UK
- Care UK Residential Care Services
- Catch22
- CBI
- Centre for Process Innovation
- Centre for Vocational Education Research, London School of Economics and Political Science
- Chartered Institute of Credit Management
- Chartered Insurance Institute
- Chartered Institute of Taxation
- Chemical Industries Association
- Chemoxy International
- CIPD
- CITB
- City of Westminster Council
- City of Wolverhampton College
- Civic Engineering Contractors Association
- Civil Engineering Contractors Association Scotland
- Clanchy & Co Ltd
- Clarke Energy
- Class of Your Own Ltd
- Cobham plc
- Colchester Institute
- Collyer's
- CONSTRUCT
- Construction Scotland
- Convention of Scottish Local Authorities (COSLA)
- Cornwall Council
- Cornwall Marine Network
- Cosmic

- Costain
- Costain Group
- Council for Awards in Care Health and Education (CACHE)
- County Training
- Creative & Cultural Skills
- Creative Arts East
- Creative England
- Cristal Pigment UK Ltd
- Cybertots at Copley Close CC
- Devon & Cornwall Training Provider Network Ltd
- diamond hard surfaces ltd
- Doncaster and Bassetlaw NHS Foundation Trust
- Doncaster College
- Doncaster Metropolitan Borough Council's Skills, Enterprise, Policy and Improvement Team)
- Doosan Babcock Ltd
- Dorset/Solent Apprentice Ambassador Network
- Dunhills (Pontefract) PLC
- East London NHS Foundation Trust
- EDGE Careers
- EEF
- Electricity North West
- Electronic Systems Council - ESCO
- Electronic Temperature Instruments Ltd
- Engie
- Engineering Construction Industry Association (ECIA)
- Engineering Construction Industry Training Board
- eni engineering e&p ltd
- EPN (Esss Provider Network)
- Europalite c/o marwoodgroup Ltd
- European Metal Recycling Ltd
- Faber & Faber Ltd
- Fairfield Croydon Ltd
- fairgrove homes ltd
- Fairy Glam Ltd
- Fareham College
- Faurecia
- Federation of Small Businesses
- FeRFA - The Resin Flooring Association
- Fiander Tovell LLP
- FirstGroup
- FISSS
- Fluor
- Ford Motor Company
- Forster Group Ltd
- Framestore
- Framestore

- Full On Marketing Ltd
- Funding Solutions 4 Business
- Gabriel-Chemie UK Ltd
- Garden of Ideas
- Gestamp Tallent Ltd
- Gkcarr Services Ltd.
- Glantre Engineering Ltd
- Gloucestershire Hospitals NHS Foundation Trust
- Gloucestershire Hospitals NHS Foundation Trust
- gmcvo
- Great Western Hospitals NHS Foundation Trust
- Green Tomato Cars
- Greenbank Services Limited
- Greggs
- GSK
- GTA England
- Guy's and St Thomas' NHS Trust
- Hawthorns Consulting Ltd
- Health Education Kent, Surrey and Sussex
- Heritage Lottery Fund
- Hertfordshire Community NHS Trust
- Hertfordshire County Council
- Hewlett Packard
- HIT Training Ltd
- Hodgson Sayers Ltd
- Holroyd Precision Ltd
- Homerton University Hospital NHS Foundation Trust
- HTAE
- Hudson Accountants Ltd
- Hungry Caterpillar Day Nurseries
- Huntingdonshire Regional College
- Hyperion Insurance Group Ltd
- ICAEW
- IET/ACostE Project Controls Network
- Imagination Technologies
- IMPACT Apprenticeships
- Imperial College Healthcare NHS Trust
- Institute of Directors
- Investment 2020
- Ipeco Holdings Ltd
- Ishida Europe
- Isomerase Therapeutics Ltd
- JCB
- Jedd O'Keeffe Racing
- John Reilly Civil Engineering Ltd
- jordanroad surfacing Ltd
- KBR (UK) Limited

- Kent Training and Apprenticeships
- King & Fowler UK Limited
- Knightstone Housing Association
- Lakervent Eng Ltd
- Lantra
- Leeds Apprenticeship Training Agency Ltd
- Leeds teaching hospitals nhs trust
- Leicester College
- London Borough of Camden
- London Hairdressing Apprenticeship Academy Limited
- London Work Based Learning Alliance (LWBLA)
- M&J Group (Construction & Roofing) Ltd
- Mactaggart & Mickel homes Ltd
- Management Process Systems Limited
- Mentor Training Solutions Ltd.
- MGB Engineering Ltd
- Middlesex Group Ltd
- MiddletonMurray
- Ministry of Defence, CAAS
- Mitchells & Butlers
- Molinare TV & Film Ltd
- MTM Products (I.S.P.P.) Limited
- MTR Crossrail
- Nagel Langdons Ltd
- National Association of Shopfitters
- National Federation of Demolition Contractors Ltd.
- National Federation of Roofing Contractors (NFRC)
- National Grid Plc
- National Hairdressers Federation
- National Housing Federation
- National Skills Academy Financial Services
- National Theatre
- Newcastle City Council
- newtec Construction Ltd
- NF Coverdale Ltd
- NG Bailey
- Nigg Skills Academy
- NNB GenCo (EDF Energy) – Hinkley Point C
- Norfolk and Norwich University Hospitals NHS Foundation Trust
- Norfolk Community Health and Care NHS Trust
- North East of England Process Industry Cluster (NEPIC)
- Northampton College
- Nottingham Citycare Partnerships
- NPTC group
- NSL services led
- Oak Lee Montessori School Ltd
- Omnibus Training Solutions

- Open Awards
- Otter Controls
- OYAP Trust
- P T Contractors Ltd
- PA Consulting
- PDSA
- Pendragon Plc
- People 1st
- PERSONA HR LTD
- Plymouth City Council
- Port Skills and Safety
- Pre-school Learning Alliance
- Priestman Associates LLP
- Priorclave Ltd
- Productiv Ltd
- QA Ltd
- Quadron Services Ltd
- Qube Qualifications and Development Ltd
- R Moulding & Co (Salisbury) Limited
- RACPD
- Rail Freight Group
- RCCCL
- Redcar & Cleveland Borough Council
- Resource Productions
- Retail Motor Industry Federation
- RIG Healthcare Recruit
- Riverside Training
- Road Haulage Association
- Robert Martell and Partners
- Roger Bullivant Limited
- Roof Ltd & Chairman of The London Region Construction Training Group
- Rotherham MBC
- Rotherham NHS
- Royal Cornwall Polytechnic society
- Salford City Council
- Scania (Great Britain) Limited
- Schema Management Group
- SCITEK Consultants
- Scotia Gas Networks
- Seddon
- Sheffield Teaching Hospitals NHS FT
- SJD Associates Ltd t/a SJD Electrical
- Skanska UK
- Skillnet Limited
- Skills Ladder Ltd
- Smart Training
- South Coast Roof Training Ltd

- South Essex College
- South Warwickshire NHS Foundation Trust
- South West Apprenticeship Company (SWAC)
- South West Water Limited
- Southend United Community & Educational Trust
- SSP
- St Andrew's Healthcare
- Stage Electrics Partnership Ltd
- Starbucks Coffee Company
- STATS UK Ltd
- StreetGames
- Studio3 Arts
- Studsvik UK Ltd
- Sunderland Economic Leadership Board
- Superdrug Stores PLC
- Suzuki GB PLC
- Swallow Hill Homes
- Taunton and Somerset NHS Foundation Trust
- Tech UK
- The British and Irish Association of Zoos and Aquariums
- The British Racing School
- The Cooperative Childcare
- The Fed
- The Institute of the Motor Industry (IMI)
- The National Skills Academy for Railway Engineering
- The National Stud
- The Pennine Acute Hospitals NHS Trust
- The Thoroughbred Breeders' Association
- THE TORO COMPANY
- The Welding Institute
- Theatre Bristol
- Thomas Dudley Ltd
- Time 4 You Coaching
- TIR Training
- Toni & Guy UK Training LTD
- Training and Apprenticeships in Construction trading as TrAC
- trent park equestrian centre
- Truro College
- T-shirts etc!
- TUC
- TUI Group
- TXM Academy
- UK Leather Federation
- UK Screen Association
- UKinbound
- United Utilities
- University of Brighton

- University of Oxford
- Voyage Group Limited
- WAMITAB
- Warren Services Limited
- Weightmans LLP
- West Dunbartonshire Council
- West Hertfordshire Hospitals Trust
- Western Sussex Hospitals NHS Foundation Trust
- What is the name of your organisation? - Organisation
- Wincanton Plc
- Working Actively To Change Hillfields Ltd (WATCH)
- YMCA Training
- York College

Annex B – Fact sheet

Summary

1. The apprenticeship levy will come into effect in April 2017. It will be payable by employers in the UK at 0.5% of paybill.
2. All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.
3. The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.
4. Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.
5. The levy will apply to employers across all sectors.
6. Paybill will be calculated based on total employee earnings; it will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.
7. Legislation to permit the imposition and collection of the apprenticeship levy will be introduced in the Finance Bill 2016.

Examples:

- i. Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times £5,000,000 = £25,000$

Allowance: $£25,000 - £15,000 = \mathbf{£10,000 \text{ annual levy payment}}$

- ii. Employer of 100 employees, each with a gross salary of £20,000 would pay:

Paybill: $100 \times £20,000 = £2,000,000$

Levy sum: $0.5\% \times £2,000,000 = £10,000$

Allowance: $£10,000 - £15,000 = \mathbf{£0 \text{ annual levy payment}}$



© Crown copyright 2015

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication available from www.gov.uk/bis

Contact us if you have any enquiries about this publication, including requests for alternative formats, at:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000
Email: enquiries@bis.gsi.gov.uk

BIS/15/637