



## **APM policy briefing**

### **Apprenticeships and the Apprenticeship Levy**

This short briefing provides a high-level background to the introduction of the Apprenticeship Levy on 6 April 2017 and the wider context of the growth of apprenticeships.

## Part 1: The Apprenticeship Levy

In his Summer Budget in July 2015, chancellor George Osborne announced the introduction of a levy to fund the target of three million apprenticeship starts by 2020. The introduction of a levy fundamentally alters the UK's approach to skills funding – lessening the cost to the public purse, transferring the cost burden to employers. It also seeks to address the perception that firms' investment in talent is on a downward trend. This policy was to form a key pillar of George Osborne's [Productivity Plan](#) entitled *Fixing the foundations: creating a more prosperous nation* which he published immediately after the budget. A [consultation](#) was then launched regarding the apprenticeship levy before the government announced the rate and scope of the levy in its joint Autumn Statement/Comprehensive Spending Review in November 2015.

Since November 2015, whilst the government has taken on board the concerns of many businesses, training providers, and interest groups, details surrounding the apprenticeship levy have not been universally understood – with a City and Guilds [report](#) showing that just months from the introduction of the apprenticeship levy, with two in five employers unaware whether they would even be paying the levy.

Apprenticeships undoubtedly have a vital role to play in addressing this skills challenge but that they continue to suffer from a *disparity* of esteem vis-à-vis a more mainstream 'A-levels followed by university' route suggests that there is still work to be done.

### The skills challenge

In the UK, it is anticipated that two million additional jobs will require higher-level skills by 2022, with this challenge particularly severe at levels 4 and 5, or technician level, in the 'new middle' of the labour market.

The most recent [labour market research](#) from the UK Commission for Employment and Skills (March 2016) found that demand for highly skilled workers is continuing to rise across the UK and is particularly strong in sectors critical to the rebalancing of the economy such as engineering, science and high-tech, and construction.

With investment in skills responsible for up to a fifth of productivity growth, a highly skilled workforce is the key to creating what is often called a 'virtuous cycle' – where productivity improvement spurs increased skills investment, which in turn drives productivity growth.

Apprenticeships have a vital role to play in addressing this skills challenge as part of a dynamic education and skills system. They have something to offer those entering the labour market as well as those already in the labour market.

### Apprenticeships

The history of apprenticeships spans almost 900 years, from the twelfth century to the present day. Apprenticeships first entered the statute books in 1563, with an Act of Parliament establishing a seven year apprenticeship with a master craftsman, and 400 years later, in the 1950s, apprenticeships provided the primary route into the workforce for male school-leavers. After falling into relative obscurity, the re-branding of apprenticeships in the mid-1990s as 'Modern Apprenticeships' was subsequently hindered by the Labour government's drive to get 50 per cent of young people into higher education. Fast forward to the policy prominence given to apprenticeships by the Coalition government, and the 60 per cent increase in apprenticeship starts in the year immediately following the 2010 general election did not translate into a narrowing of skills gaps with the majority increase at level 2.

The Conservative Manifesto 2015 stated: “We have already delivered 2.2 million new apprenticeships over the last five years. Over the next five years, we will deliver three million more and ensure they deliver the skills employers need.” This ambition requires 600,000 starts per year of this parliament – and indeed the figures for 2015/16 show a 17.8 per cent shortfall on this front.

## **Part 2: The Levy itself - Headline facts:**

### **Who pays the Levy – and how much will it be?**

From today, employers in all parts of the UK will be required to pay a levy of 0.5 per cent of their annual pay bill exceeding £3m. [With pay bill defined as total employee earnings subject to class 1 secondary NICs.]

An allowance of £15,000 means that only those employers with an annual pay bill of over £3m will have to pay and report the levy (as this allowance eliminates a levy liability up to a pay bill of £3m).

*[A pay bill of less than £3million may attract a levy liability where an employer operates multiple payrolls/has more than one HMRC reference/is a connected company or charity, as only one allowance is available.]*

### **How do employers report their levy?**

Employers will report their levy liability monthly on the Employer Payment Summary (EPS), as they do other PAYE liabilities. The first declaration will be on 1 May 2017 for April’s pay bill.

How is the levy collected?

The levy will be collected monthly by HMRC through the employer’s Pay As You Earn (PAYE) and will be payable alongside income tax and national insurance. Similarly, the annual allowance of £15,000 will be deducted on a monthly basis (£15,000 divided by 12 months).

### **How do employers access their levy funds?**

Once employers have declared the levy to HMRC they will be able to access funding for English apprenticeships through their account with the Apprenticeship Service (AS) [account registration opened in January 2017].

### **What else does the Apprenticeship Service enable employers to do?**

Through the AS, employers will be able to:

- select an apprenticeship framework or standard;
- choose the training provider or providers they want to deliver the training;
- choose the organisation that will assess their apprentices;
- access post apprenticeship vacancies.

Employers will also be able to set the price they have agreed with their selected training provider as well as to pay for apprenticeship training and assessment. Importantly, should an apprentice stop training or take a break, employers will also be able to stop or pause payments through the AS.

### How much will employers be able to spend?

The amount appearing in an employer's AS account will be calculated using data that HMRC already hold about the home addresses of employees, so that the value of digital vouchers will correspond to the proportion of the pay bill paid to employees living in England.

After the levy fund has been multiplied by the proportion of the employer's pay bill paid to their workforce living in England, it will then be subject to a 10 per cent government top up to this amount.

### What happens to the levy funds paid for employees in the devolved nations?

As skills policy has been devolved, governments in each of the devolved nations will receive a 'population share' of the apprenticeship levy.

The Office for Budget Responsibility's latest apprenticeship levy forecast (Published in March 2016) is as follows:

Population share of levy funding (£m)	2017-18	2018-19	2019-20
Scottish Government	221	230	239
Welsh Government	128	133	138
Northern Ireland Executive	76	79	82

### How can funds be spent?

Digital vouchers will be valid for 24 months and can only be spent on apprenticeship training – and not the wider associated costs of apprenticeships, for example apprentices' salaries. If an employer has registered to become a provider in their own right they may be able to use their levy funds more widely.

### What happens to unspent vouchers?

The new apprenticeship funding system will comprise of 15 funding bands. Employers will be expected to negotiate a price for their apprentice's training and assessment in the knowledge that there is a maximum that government is prepared to commit from its funds for the off the job training and assessment for each apprenticeship.

Band:	Band upper limit / cap:
1	£1,500
2	£2,000
3	£2,500
4	£3,000
5	£3,500
6	£4,000
7	£5,000
8	£6,000
9	£9,000
10	£12,000
11	£15,000
12	£18,000
13	£21,000
14	£24,000
15	£27,000

Source: [DfE Apprenticeship funding in England from May 2017](#)

### **What happens to funding for apprenticeships commenced before 6 April?**

Apprenticeships started before this date continue with the current funding arrangement.

### **APM Policy Briefing**

This briefing is part of a series of APM briefings focusing on apprenticeships and the wider skills agenda. A more detailed guidance document for employers will be available in the near future.

### **Details about APM Trailblazer Apprenticeships can be found here:**

<https://www.apm.org.uk/qualifications-and-training/apprenticeships/>

Useful links:

[APM Apprenticeships](#)

[Apprenticeships – ESFA General Information and Guidance](#)

[Institute for Apprenticeships](#)

[Apprenticeship Funding](#) (Updated March 2017)

[Apprenticeship Service](#)

[Guidance for Trailblazers](#)