



HTA Information Sheet

A Guide to the Apprenticeship Levy



A guide to the Apprenticeship Levy

Background to the Levy

As part of its industrial strategy the government in its 2015's autumn statement announced its intention to launch an Apprenticeship Levy in order to stimulate the creation of an increased number of apprenticeships, in an attempt to improve the countries widely reported skills shortage. The scheme aims to change the way in which apprenticeships are funded to increase their uptake and bring more business/ industry involvement into their running. Further to this it is hoped that the changes will improve the UK economy's lagging productivity and meet industry's demands for skilled workers.

Following the Brexit vote, the ongoing availability of migrant labour has come in to question. Should tighter immigration rules be put in place it will become increasingly essential that skilled labour be sourced at home to ensure the labour market is able to facilitate economic growth in the future, hence introducing the levy has become even more important for the government.

The Apprenticeship Levy will work in conjunction with the government's 'Trailblazer' initiative which was designed to increase the involvement of employers in the running of apprenticeship programmes. The government hopes that the standards developed by trailblazers will replace the old apprenticeship framework which primarily focus on workplace and classroom training structured around professional qualifications in favour of the employer-led approach.

What is the Apprenticeship Levy?

The Levy will be paid by employers with a payroll exceeding £3 million annually at a rate of 0.5% and it is expected to raise £2.5bn-£3bn each year. Every employer has a £15,000 allowance which offsets the levy.



For example:

Employer A has 250 employees, each with a gross salary of £20,000. They would pay:

- Pay bill: $250 \times £20,000 = £5,000,000$
- Levy sum: $0.5\% \times £5,000,000 = £25,000$
- Allowance: $£25,000 - £15,000 = £10,000$ annual levy payment

Employer B has 100 employees, each with a gross salary of £20,000. They would pay:

- Pay bill: $100 \times £20,000 = £2,000,000$
- Levy sum: $0.5\% \times £2,000,000 = £10,000$
- Allowance: $£10,000 - £15,000 = £0$ annual levy payment

Employers who operate multiple payrolls will only be able to claim one allowance.

(Source: <https://www.apprenticeships.scot/take-on-an-ma/apprenticeship-levy/> 28/09/16)

The levy is set to be introduced in April 2017 so the first payments will be made in May 2017. It will be calculated on the total amount of earnings employers pay which are subject to Class 1 Secondary National Insurance Contributions and can be used by employers to fund apprenticeships through an approved apprenticeship training agency. Employers can view a register of approved apprenticeship training agencies and assessment organisations via a newly created Digital Apprenticeship Service (DAS); they'll also be able to view their own, and the government's 10% 'top-up' contributions there too (e.g. for every £1 employers contribute the government will add an extra 10p to go towards funding the apprenticeships). Employers will be able to register for the DAS in January 2017.

What does this mean for me?

If your payroll is less than £3 million and you don't currently, or plan to, employ an apprentice(s) then the changes will not affect you.

If your payroll is less than £3million and you want to train an apprentice, then the government are proposing a 'co-investment', meaning they'd contribute 90% of the funds towards training the apprentice(s).

If your payroll is above £3 million your first contribution will be taken in May 2017, from then you will have 24 months to use the funds in your DAS to train an apprentice through an apprenticeship training agency, after this time the funds expire. If you decide to make use of the scheme you can fund the apprenticeship(s) using your own, and the government contributions accessible through the DAS.



How will it affect Wales, Northern Ireland and Scotland?

The levy will be charged across the UK to HMRC and redistributed to the devolved administrations through the Barnett formula, as such it will be up to each of the nations to determine how they spend the extra funds. It is predicted that £2.5bn of the total £3bn the levy is expected to raise will be spent in England with the remaining £0.5bn being redistributed to Wales, Northern Ireland and Scotland. The Welsh and Northern Irish governments both have ruled out following a similar model to that which England is set to adopt citing concerns that the additional tax burden placed on large businesses may have a detrimental impact on their economy's, therefore they may choose to reallocate the funds away from apprenticeship promotion. The Scottish Government launched a consultation seeking proposals on how best to allocate the funds which closed on 26th August 2016; they are yet to announce when they will release the results. Further to this, Skills Development Scotland setup the employer lead Scottish Apprenticeship Advisory Board to review the proposals in the consultations and make provisions to meet the Scottish Governments targets on apprenticeships.

Funding bands

There will be no funding limit based on age, rather it will be based on the skill level of the apprenticeship training. However, an additional £1000 will be paid to employers and apprenticeship providers for training 16-18 year olds and 19-24 year olds who were formerly in care or who have an Education and Health Care plan. All currently available apprenticeship programmes, whether standard or framework have been given a band number, the funding bands are provided overleaf;

Number	Band Upper Limit
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

As an additional transitional measure the government will pay providers a further 20% of the funding band maximum for the training of apprentices aged 16-18 year olds on frameworks and 19-24 year olds who have previously been in care or who have a Local Authority Education, Health and Care plan. These payments will come direct from the government and will not be deducted from an employer's digital account.

Other information

If funds in your digital account are insufficient to cover the cost of the apprenticeships then the government will meet 90% of these additional costs up to a maximum threshold, the employers will then pay the remaining 10% straight to the apprenticeship provider. If training costs exceed the maximum threshold for government funding, then the employer will be expected to meet 100% of these costs and pay them directly to the apprentice provider.



If for periods of the year, perhaps due to employing seasonal staff, your payroll exceeds the monthly limit then any contributions made to the apprenticeship levy will be repaid during the year through a reduction in other PAYE payments.

The funds in your digital account can only be used to pay an approved apprenticeship training provider or assessment organisation, the funds are not meant to pay for an apprentice's wages or other associated costs.

If you will not pay the levy you won't need to use the DAS until at least 2018, the government will release more guidance on this closer to the time.

To be eligible for an apprenticeship the employee must be in a real job working towards an approved apprenticeship standard or framework. It must last at least 12 months and they must spend over 20% of their time on off-the-job training.

In the first year following the launch of the levy employers will not be able to reallocate funds in their DAS. After the first year employers will then be able to transfer up to 10% of the annual value of the funds entering their digital account to other employers to maximise the amount of apprenticeships on offer. Organisations may choose to do this because they have surplus funds in their DAS and it could improve the skills of workers in their supply chain.

Further guidance about calculating the cost of the levy will be available in December 2016.

For more information, go to:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562401/Apprenticeship_funding_from_May_2017.pdf

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work#eligibility-for-training>

Employers interested in becoming an apprenticeship training provider can find information at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562755/Employer-provider_guide_Oct_16.pdf