

The Apprenticeship Levy - Explained

The levy will transform the way in which apprenticeships are funded and the basis on which businesses work with training providers, whilst so-called trailblazer reforms are already starting to change the way in which apprenticeships are designed, delivered and assessed. We believe that these changes will make a positive difference for businesses of all sizes. The system we're now happily waving goodbye to, was deathly complex, hard to navigate and driven by the supply-side. Great apprenticeship programmes were a triumph over adversity, not a necessary consequence of the operating environment. The reform programme now underway has the potential to create a much cleaner, simpler and more customer-centric offer.

The levy is coming. We're really excited about the new opportunities it brings – and we'd love to talk to you about it!

What is the apprenticeship levy?

In July 2015 the Government announced the introduction of an apprenticeship levy. Businesses will start paying the levy in April 2017. The levy is designed to encourage employers to embrace apprenticeships as a way of meeting their current and future skills needs. It will fund Government's ambition to support 3 million high quality apprenticeships over the life of the current Parliament, i.e. 2015 to 2020.

Who will pay the levy?

All employers in the UK with a **payroll bill greater than £3m per year** will have to pay the levy. The levy will apply to employers in all sectors – including those already covered by statutory levy arrangements (e.g. construction and engineering construction). If you already

pay a levy, your industry training board (ITB) will consult with you on potential changes to your existing levy arrangements.

How much will I have to pay?

The levy will be charged at 0.5% of payroll. All employers will receive an allowance of £15,000 to offset against payment of the levy. So only employers with payroll bills greater than £3m will have to pay the levy. There will be a **'connected persons' rule**, so if you operate multiple companies or payrolls, you will only be able to claim one allowance. You will be able to choose how to divide the allowance between the different connected companies. For the purposes of the levy, payroll will include all wages, bonuses, commissions and pension contributions on which NICs are due. In technical terms, payroll means the total earnings upon which Class 1 secondary NICs are paid. It will not include other payments such as benefits in kind.

How will the levy be collected?

The levy will be collected monthly through Pay As You Earn (PAYE) alongside Income Tax and National Insurance. Your £15,000 levy allowance will be translated into a monthly allowance of £1,250. If your levy liability in a given month is less than £1,250, you won't have to make a levy payment that month. Any unused allowance will be carried forward into the following month(s) until you've used it. If the reverse is true, and you find that you have made levy payments, but not used all of your allowance you will be given a credit that you can offset against other PAYE liabilities. At the end of the tax year HRMC will operate a rebate system to make sure that you pay the right amount of levy.

How will I be able access my levy?

You will be able to manage your levy through an account with the new Digital Apprenticeship Service. Once it's up and running, the Digital Apprenticeship Service will enable you to:

- See the levy funds you have available to spend in England;
- Select apprenticeship frameworks and / or standards you want to use;
- Confirm the training provider(s) you want to use to deliver your apprentices' training;

- Confirm the price you've agreed with your training provider;
- Pay for apprenticeship training and assessment;
- Choose an assessment organization;
- Post apprenticeship vacancies.

You'll be able to register for your Digital Apprenticeship Service account from January 2017, giving you a few months to familiarise yourself with the system before you start using it to manage your levy.

What happens after I have paid the levy?

We're still waiting on some of the finer detail (due later in 2016), but the key points are now becoming clearer.

We know that:

- Employers will be able to get out more than they put in. Government announced in the March budget that they will top up your levy by 10%. This top-up will be applied to monthly funds deposited into your digital account. So if your overall levy, like employer A above, is £35,000 per annum, government will top this up by £3,500, giving you £38,500 in total to spend through the Digital Apprenticeship Service.
- You won't actually touch the money again, once you've paid your levy. When you choose which approved training provider(s) you want to work with, the Digital Apprenticeship Service will send the funding direct to them. If you're in a position to deliver high quality training in house, there will also be the option for you to become an approved training provider yourselves.
- You will be able to negotiate a rate for an apprenticeship with your training provider, up to a maximum cap. The cap will vary depending on the occupation and level of the apprenticeship - we'll get more of a sense of what those caps will be in June 2016.
- If you operate in Scotland, Wales and / or Northern Ireland, you'll also need to be aware that those nations have slightly different policies regarding apprenticeships.

Your levy payment will be split between the nations based on the number of your employees who live in each of the four nations.

- Smaller employers, who don't have to pay the levy, will remain outside this system for the next couple of years until 2018/19. You'll be able to access apprenticeships under the current system of government funding via training providers - although in some cases government will also require you to pay a contribution to your training provider.

What can the levy be spent on?

The levy can be used to cover the direct costs associated with apprenticeship training. We now

know the key principles of what will be eligible spend - although government are still to publish the detailed rules.

Eligible spend will include:

- Spend on training that supports learners in fulfilling the requirements of their apprenticeship.
- Spend on formal assessment associated with learners' apprenticeship.
- The following spend will be ineligible:
- Apprentices' wages, whilst fulfilling their mainstream duties and / or whilst undertaking off-the-job training linked to their apprenticeship.
- The wages of apprentices' line managers and colleagues supporting them through their apprenticeship.
- Training that is specific to your business and not linked to the requirements of the apprenticeship, e.g. corporate induction, health and safety.
- Training for employees who are not apprentices.
- Training costs for apprentices who started their apprenticeship before 6th April 2017.

Who can I spend my levy with?

One of the great things about the levy is that you can choose who you want to work with to deliver your apprenticeship programme. You will be able to choose from a list of approved providers through the Digital Apprenticeship Service.

Is there a limit on how many apprentices I can train?

No.

Once you have fully utilised your levy, along with the government top-up, you will still be able to offer further apprenticeships. You will need to make a separate contribution to the cost of this training and government will pay the rest, up to the maximum amount of funding available for each apprenticeship. Further details on what the proposed rate of government support will be in this scenario, will be published later in June 2016 and confirmed in October 2016.

You may also want to top up your levy to deliver the programme that's right for you in terms of the breadth of activities you want to include in your programme, over and above what's required to fulfil the apprenticeship rules. There will be nothing to stop you doing this and paying training providers directly for this.

How long do I have to spend the levy?

The levy comes into effect from 6th April 2017. You will be given 18 months to spend your levy before you 'lose' it and can't get out everything that you've paid. As you start to think about the levy, it's worth considering the lead times involved in building a substantial apprenticeship programme, in terms of:

- The time it might take to design the programme that will really work for your business;
- Get buy in from across your business;
- Mobilise to deliver with whichever training provider(s) you choose;
- Recruit the right individuals.

So you might want to get a wriggle on if you want to spend all of your 2017 levy!

So what are my options?

If you are an employer subject to the levy, you have a number of options:

- Start employing apprentices or increase the number of apprentices you employ.
- Don't do anything and just pay the levy as a tax.

- You might be able to work with other businesses, including those in your supply chain, to spend your levy in astute ways. Whilst government has ruled this out in the first year they have said they will review this decision, which suggests it may be on the cards in the future.
- If you're an employer not subject to the levy, you could just carry on pretty much as you are! You won't have to engage with the Digital Apprenticeship Service until at least 2018. In the meantime, government will continue to contribute to training your apprentices - while also expecting you to pay a contribution to your training provider in some cases.

You might think that all of these changes warrant some reconsideration of your approach to apprenticeships, though, because it creates new opportunities to work with other businesses in your sector, location or supply chain – or because it just sounds a bit simpler and better than it used to!

Though there's lots that we don't know yet, we do know the really key points about how much the levy will cost individual businesses, how you'll be able to spend your levy contributions and on what. We'd encourage you to start thinking now about how you're going to respond to the levy. Will you simply pay the levy as a tax? Recruit apprentices for the first time? Expand your existing apprenticeship programme by moving into new occupational areas and business units? Maybe you've already cracked it and the levy won't make much difference to you! Whatever position you're in, we hope you've found the information useful. We'd be thrilled to talk to you, and help you shape your response to the levy.

If you drop us a line we'd be more than happy to chat to you and whichever colleagues in your organisation you think would be interested in the levy.

The latest Guidance from the Department for Business Innovation & Skills can be found [here](#).