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EEF Policy Briefing: The Apprenticeship Levy

As expected, the Chancellor has provided the outline of the new apprenticeship levy, which was first announced in the summer budget. Alongside this, the Department for Business, Innovation and Skills has published its response to a consultation on the levy which closed in August and the Treasury has separately published further details of how the levy will operate.

The Levy

The apprenticeship levy will be introduced from April 2017 and is a new tax measure. It is forecast to raise £2.730 billion in 2017/18, £2.845 billion in 2018/19, £2.970 billion in 2019/20 and £3.095 billion in 2020/21. Whilst not specifically stated, it appears from the Treasury's figures that the levy will replace all current public funding for apprenticeships, which currently amounts to c. £1.5 billion. The levy will therefore mean that the levy fund will support apprenticeships amongst all employers, including those who do not pay the levy. The rationale for the increase in funding is the Government's apprenticeship target. Its aim is to create 3 million quality apprentices over the course of the Parliament, which averages at 11,000 apprenticeships each week. The levy fund is exclusively for the support of apprenticeships, and not other forms of training. Moreover, despite EEF and others calls for flexibility on how the levy funding can then be spent (e.g. on wider apprenticeship provision), the Government are committed to using the levy funding on apprenticeship provision only (i.e. cost of delivering the training for that apprenticeship standard).

The levy rate

The levy has been set at a rate of 0.5% of an employers' paybill. It will be collected via PAYE and will operate in a similar way to pay as You Earn and National Insurance. The indication, subject to confirmation, is that the levy will be payable upon all taxable income, but excluding benefits in kind.

All employers will receive an allowance of £15,000. The effect of the allowance is that the levy will only be payable on a pay bill in excess of £3 million, and employers with a pay bill below this threshold will pay nothing. The implication is that for employers with a pay bill below this amount, they will not be required to pay the levy and then claim the allowance – they will simply not pay the levy at all. Government consulted upon using employee headcount as a method of determining the levy paying employers, but has rejected this as it would have produced a very sharp demarcation between employers who pay he levy and those who do not. The use of the allowance has the impact of tapering the levy for employers near to the £3 million pay bill limit. The levy payable will therefore be calculated as follows,

Employer A

Pay bill of £5 million

Levy at 0.5% = £25,000

After the allowance of £15,000, the actual levy payable is £10,000, annually.

Employer B

Pay bill of £2 million

Levy at 0.5% = £10,000

After the allowance of £15,000, the actual levy payable is nil.

Employer C

Pay bill of £10 million

Levy at 0.5% = £50,000

After the allowance of £15,000, the actual levy payable is £35,000.

Currently, we do not know how at what interval the levy will be collected, but the implication of the announcement and the Government's spending plans are that it will be paid monthly, with the annual allowance of £15,000 similarly being deducted monthly. For employers with multiple payrolls, and more than more HMRC reference, only one allowance will be available.

English only apprenticeships

The levy is payable by all UK employers, but the levy fund will only be used to support English apprenticeships, which is likely to mean apprentices following an English standard. Employers in the other home nations, Scotland, Wales and Northern Ireland where skills is a devolved issue will pay the levy, but will not have direct access to the levy fund. Instead, Government will distribute a share of the levy fund to the home nations other than England. The Treasury has indicated that of the £3 billion which it expects to raise in 2019/20, £2.5 billion will be spent on English apprenticeships, with the remaining £500 to be devolved to the other 3 home nations.

Whilst skills is a devolved issue, the Department for Business, Innovation and skills recognises the advantages of alignment of the skills systems across the home nations, particularly where employers and staff operate over more than one home nation. However, they have stated that how the devolved administrations choose to operate is a matter for them to determine.

Spending the levy monies – the digital voucher

Employers who pay the levy will receive a digital voucher which they can then spend on training with an approved training provider. The vouchers, and the apprenticeship system, will be based a new digital apprenticeship service. Levy paying employers will have a digital account, in which their vouchers will sit, and with which they will be able to pay approved training providers.

Employers will have a defined period of time within which to use their voucher. Whilst Government has not committed to a decision, many of those who responded to the consultation which closed in August believed that two years was a realistic period to use the voucher. The vouchers of employers who chose not to use the funds in their digital account will be made more widely available. This could mean that they could be purchased by or transferred to another employer. Some employers have expressed an interest in being able to use the funds in their digital account to train apprentices who are not their employees, and there is an indication that Government will allow this, subject to further consultation. Subject to public confirmation we believe that the transferability of vouchers will be allowed across business units. Whether it is then expanded further is likely to be consulted upon.

Government has stated on several occasions that employers who pay the levy will be able to get back more from the levy than they put in. This will be achieved by a top-up to the digital accounts of levy paying employers. The level of the top-up will be determined by Government, however, the new Apprenticeship Institute will advise on the top-up level, which could vary according to the apprenticeship standard. We expect a private consultation on the 'top-up' rates in the coming months.

Of perhaps most importance to EEF members will be the funding rates. These will be advised by the new Institute for Apprenticeships (discussed below). Whether a company can draw down from the levy pot what they put in, or potentially more, will depending on the funding tariffs set for each standard. We expect that this level in detail will be announced in at the 2016 Autumn Statement. The Autumn Statement tends to fall in November, therefore giving employers around 5 months' between learning the funding rates and their first levy payments being taken. The funding rates are likely to be set in a similar format to the current Trailblazer funding bands. However, there are currently 5 funding caps under the Trailblazer model and we would expect that this will be increased.

A new Apprenticeship Institute

A new apprenticeship body is to be created, to be named the Apprenticeship Institute. The new institute will be employer led, and will comprise of employers and employer organisations led by an independent chair. The Institute will approve apprenticeship standards and assessment plans, within the context of the target of achieving 3 million apprenticeship starts by 2020. The Institute will also provide advice and guidance to Government but will be independent of Government.

The Institute will be established by April 2017 but it is expected that it will operate in shadow form from 2016. It will have a central role in advising on how much funding Government should make available to pay for training and assessment under each standard. The intention is that the Institute will build upon the work of the trailblazers, and that the level of funding which will be made available from the levy will be proportionate to the cost of providing the apprenticeship. The indication, therefore, is that higher quality, more costly apprenticeships, such as those seen in manufacturing, will enjoy a greater level of support than is currently available. The Institute will also advise Government upon the level of top-up which the digital voucher attracts.

The Institute will not be responsible for the operational functions associated for the funding of apprenticeships or the administration of the levy. These functions will be fulfilled by Government's agencies and operated through the new digital apprenticeship system.

The Board of the Institute for Apprenticeships will be made by public appointment and will be representatives from businesses. EEF wants to ensure that manufacturing and engineering is well represented on the Board. Appointments are likely to be made in Autumn 2016.

EEF commentary

The announcement of the levy was widely expected. EEF's response to it when it was first announced as part of the summer budget was unsupportive. We remain opposed to the principle of a levy, seeing it as a blunt tool with which to incentivise employer investment in quality apprenticeships. The Government is, however, committed to the new levy, and we will therefore work to ensure that EEF members and employers in the manufacturing sector can secure the greatest possible benefit from the new levy.

Whilst there is a very limited amount of detail currently available, EEF has worked extensively behind the scenes with both the Treasury and the Department for Business, Innovation and Skills to ensure that manufacturers' needs are incorporated into the new levy. Many members provided anonymous modelling of an apprenticeship levy, which has influenced the levy announcement. Government has indicated that it does not wish to adversely affect the high quality apprenticeships which EEF members offer and EEF as a training provider supports. EEF already has a seat on an Apprenticeship Stakeholder Board, and has received a detailed letter from the skills Minister outlining the new Institute for Apprenticeships. It is well placed to engage with this important new body. The extensive modelling provided by EEF members has demonstrated that apprenticeships in our sector are considerably more costly than others to provide, and the early indications are that EEF members will benefit from the new funding levels which will align funding to the cost of provision and the value of the apprenticeship supported by the employer.

EEF members had extensively modelled a 0.5% levy against their current apprenticeship intake, and many had calculated that in order to regain the value of the levy they would need to double the number of apprentices. The Treasury in particular took note of our modelling and are concerned that EEF members would, on this basis, be unfairly penalised, when we are a sector which is recognised by Ministers as proving the highest quality apprenticeships and already demonstrate a commitment to training. The intention therefore is that the future model will be designed in such a way as to avoid this outcome, and that a small increase in apprenticeship numbers will be sufficient to ensure that manufacturers get back from the levy more than they put in.

Some EEF members already pay into sector specific levies, such as those in the construction sector. Government has stated that there will be no exemptions from the new apprenticeship levy, but has not announced what should happen to the existing sector specific levies

Looking ahead, the Treasury and Department for Business, Innovation and Skills were, both before and after the announcement on 25th November, seeking the views of EEF on how the new levy should be formed. Before the end of 2015, there will be a further announcement, setting out the steps which will be taken by Government to introduce the levy, and a timetable. The levy will require primary legislation, which will be in the form of a Finance Bill in March or at the latest April 2016. The draft Bill will be published in quarter 1 of 2016, and will contain the detail of how a pay bill will be calculated, and how employers who are part of larger groups will be treated for levy purposes. We will continue this process to ensure that we can ensure that our members can extract the greatest level of support from the levy.

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