



# Employer Guide: Apprenticeship Levy Key Facts

## October 2016 Update

The Apprenticeship Levy will be introduced in April 2017. Understand the key facts and how your business can prepare in advance to maximise the opportunity.



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# Introduction

UK businesses have until April next year to prepare for the introduction of the Apprenticeship Levy. Our guide is designed to help you understand the key facts so far and how you can begin to prepare in advance.

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The Chancellor's October 2015 Autumn Statement outlined some notable changes to the way apprenticeships in England are funded.

These changes are part of the bid to increase the number of apprenticeships to meet pledges made in the Conservative manifesto.

In particular, the introduction of a levy on all employers with a UK PAYE in excess of £3 million per annum, regardless of whether they employ apprentices or not, was announced. These payments will be ring-fenced as employer contributions to supplement existing government funding for apprenticeship training. It is expected to raise close to £3 billion annually over the next five years.

What exactly is the new levy? Why is it being introduced? What effect will it have on your business and what steps can you take to benefit?

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# How does the new levy impact your business?

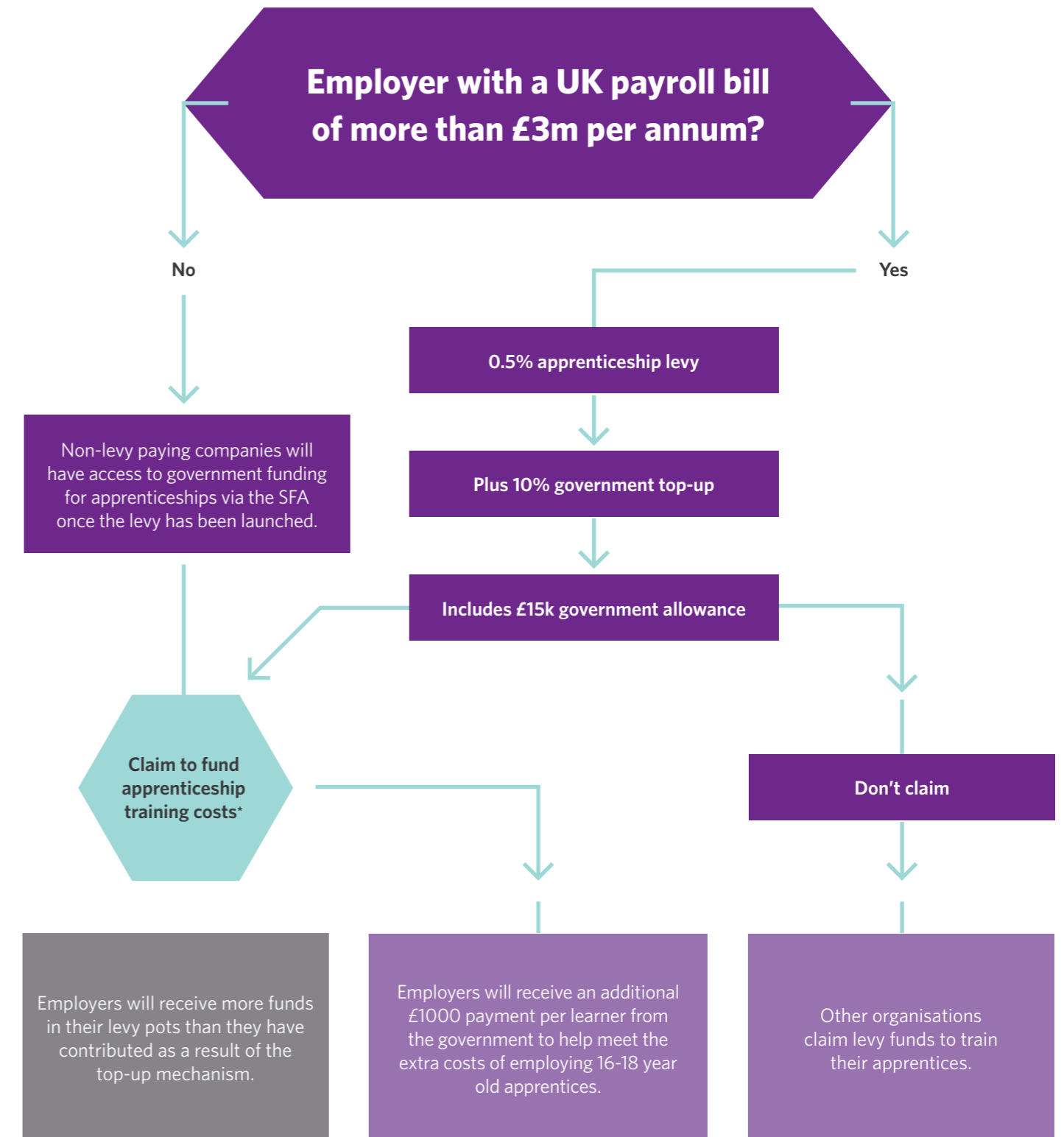
The levy will put control of apprenticeship funding in the hands of employers and will encourage employers to invest in their apprentices and take on more. Here are the key facts:

- From 05 April 2017, employers with a paybill over £3m will be charged a levy of 0.5% of their paybill.
- "Paybill" will be based on total employee earnings subject to Class 1 secondary NICs.
- The 0.5% levy is on your full UK payroll bill, not just the amount over £3m.
- The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.
- Payment will be taken monthly, in real time, meaning as your paybill changes each month, the levy amount taken will be reflected.
- HMRC will work closely with employers and providers of payroll services to minimise the burden of implementing these changes.
- Although the levy is calculated based on your full UK paybill, employers will only be able to only spend their English proportion on English apprenticeship training.
- The levy payment will then be ring-fenced in the form of an electronic voucher that can be used to purchase training from recognised providers, from May 1st 2017 onwards. Un-used vouchers will expire after 24 months.
- Employers in England who pay the levy and are committed to apprenticeship training will be able to get more out than they pay into the levy. The government will apply a 10% top-up to monthly funds i.e. all funds entering a levy payer's account will be increased, so every £1 will be increased to £1.10 in value.
- All employers with paybills of over £3m will be required to pay the levy, regardless of whether they subsequently re-claim voucher funds to purchase apprenticeship training.
- Based on proposed funding rules, the levy can be claimed back and spent on apprenticeship training for all employees at all levels and ages, including graduates who may be eligible for Level 6 or 7 apprenticeship programmes.
- Based on proposed funding rules, the levy can be used to fund existing employee development as long as they meet the criteria set out.
- Employers who pay into the levy may find that, over the course of an apprenticeship, the funds in their digital account aren't enough to cover the full cost of the apprenticeship training and assessment they would like to buy. When this happens the government will support and help employers meet 90% of the additional costs. Employers will be asked to make a 10% contribution to the extra cost of training and to pay this directly to the government or chosen provider, however this will be payable over the lifetime of the assisted apprenticeship.
- It is estimated 3-5% of an employers workforce will need to be an apprentice to utilise the levy.
- Apprenticeships are a devolved policy, which means that authorities in each of the UK nations manage their own apprenticeship programmes, including how funding is spent on apprenticeship training. The digital apprenticeship service will support the English apprenticeship system. Scotland, Wales and Northern Ireland have their own arrangements for supporting employers to access apprenticeships. To calculate how much you will have to spend through the English system, the government plan to use data that they already hold about the home address of your employees. They'll use this data to work out what proportion of your pay bill is paid to employees living in England. They'll make this assessment in early 2017 and will announce the exact date in advance.





# Paying the levy



\*Minus a % of your levy payment equal to the % of Devolved Nation based employees on your payroll for levy paying employers.

# Why is the levy being introduced?

The government's agenda is to increase apprenticeship starts to three million by 2020 – the levy is the 'logical solution' to funding that increase.

## Driven by their productivity agenda, the government is committed to pressing ahead with the introduction of more rigorous apprenticeship standards (The Trailblazer Initiative).

Financing this commitment to a step change in the quality and standards of apprenticeship training would have been challenging enough by itself. However, it also comes coupled with a high-profile Conservative manifesto commitment to provide three million apprenticeships over the five-year term of government – which if achieved will be 30% more than was achieved in the previous five years. As Alison Wolf has pointed out in an environment of static budgets, the sums just do not add up and employers must accept that they too must make a larger contribution. The Apprenticeship Levy is, she argues, the logical solution, and the Chancellor, as confirmed in his Autumn Statement, agrees.

## Get more out than you put in

At this point, many firms are concerned about the financial implications the levy will have for their business. However, those who pay in and are committed to creating high quality training schemes within their organisation will benefit, and will be able to claim back more than they contribute.

## Raising quality

An Ofsted report into apprenticeships in October 2015 stated that the government's ambition to boost the number of apprenticeships is commendable and has the potential to raise the profile and position apprenticeships as a direct route to greater business productivity. However, the report concluded, recent growth in numbers has not focused enough on the priorities that benefit employers or the economy.

## Increasing apprentices aged 16-18

Official statistics show that about six in ten apprenticeships started since 2009 have been at intermediate level 2, with typically about a third at advanced level 3 and under 3% at higher level. Ofsted believe, rightly, that there are still far too few 16 - 18 year olds starting an apprenticeship, and that secondary schools are still not doing enough to promote apprenticeships to young people.



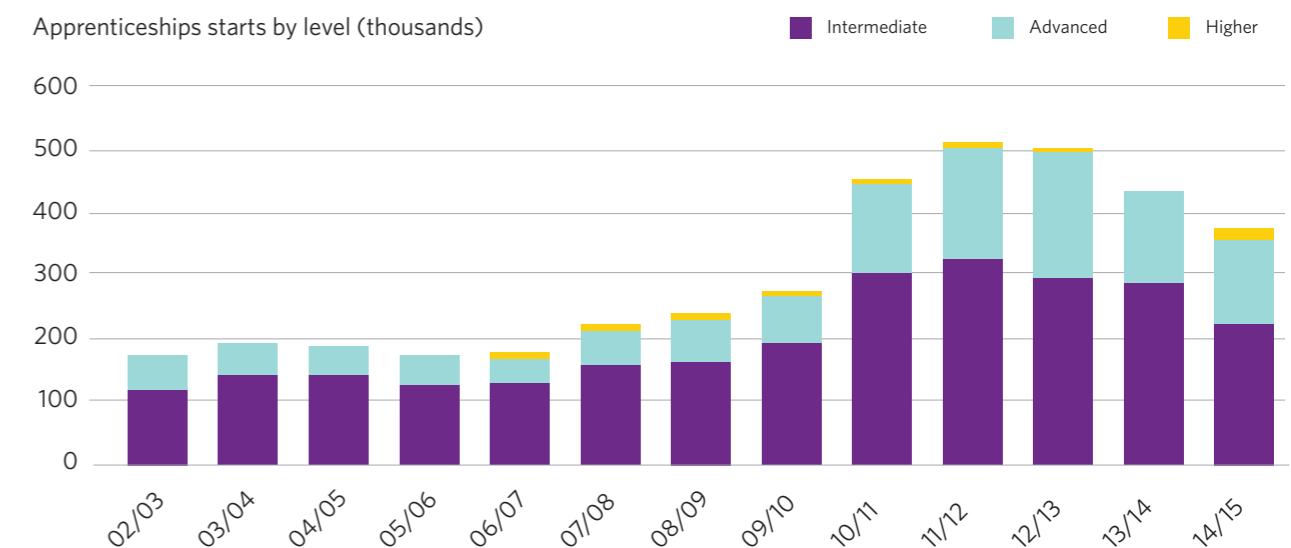
## Funding the increase

The levy is being introduced to fund a step change in apprenticeship numbers and quality – delivering on the commitment that there will be three million additional apprenticeship starts by 2020. The rate of 0.5% has been set to deliver the increase in quality that business have been asking for while ensuring it does not place an unreasonable burden on employers. This will put the funding of high-quality apprenticeship training on a sustainable footing. Unlike normal taxation, employers can get back the funds that are levied by investing in a sufficient amount of apprenticeship training.

## Combined with additional reforms

Additional reforms are already underway to improve Apprenticeship quality and quantity. Apprenticeships have been given equal legal treatment to degrees, and from April 2016 businesses are no longer required to pay National Insurance Contributions for apprentices aged under 25. Apprenticeship targets of 2.3% of headcount have also been set for public sector bodies. The public sector will be able to draw down levy funding like any other employer.

Apprenticeships starts by level (thousands)



\*Data for 14/15 is provisional

# How will the levy work?

## Levy paying employer



Employer control and simplicity

## Training provider



## Government



# Key dates



## Autumn 2016

On 25th October the Government released an update regarding the Apprenticeship Levy - the link to the content can be found [here](#).

From May 2017 15 new funding bands will be introduced, ranging from £1.5k to £27k, covering apprenticeships from Levels 1 and 2, up to Degree and Masters Level Apprenticeships at Levels 6 and 7. These funding bands will be the same whatever the age of the learner, however incentives will also be given to both employers and tuition providers if an apprenticeship programme is offered to a 16-18 year old. Additional Government support was also confirmed for non levy paying employers and for levy paying employers who use up all of their levy generated funds.

## By end 2016

### Transition

Information provided about:

- Final detailed funding and eligibility rules
- Further employer guidance from HMRC on how to calculate and pay the apprenticeship levy

## By April 2017

### Operation

- Digital Apprenticeship Service (DAS operational)
- New funding model live
- Institute For Apprenticeships (IFA) in place
- New ITB levy orders in effect

# Will the levy achieve its goals? Our viewpoint

At BPP we believe that the levy will dramatically change the apprenticeship landscape.

**Most importantly, greater employer ownership of apprenticeships which has so long been the goal of government, should be easier to achieve once the levy is in place. As a national training partner for many large corporate companies and public sector organisations, this is something we welcome.**

There are so many benefits to employing apprentices on high-quality programmes. A 2013 report, compiled by the Centre for Economics and Business Research (Cebr), found that apprentices offer UK businesses a significant return on their investment, with economic output often exceeding average wage and training costs. On average, individual organisations saw a bottom line boost of around £2,000 per apprentice. The recent increase in apprenticeship numbers has in part resulted from government legislation opening up the apprenticeship route to cover qualifications at degree level and above. It is imperative that the focus of the new levy is centred on raising quality levels. This will ensure employers and young people benefit, and change perceptions in order for apprenticeships to be regarded as a viable alternative to traditional full-time university rather than a second choice for academic under-achievers.

While the apprenticeship levy will undoubtedly play a part in increasing apprenticeship recruitment, BPP Professional Apprenticeship's viewpoint is that the biggest challenge will still be to increase the volume of high-level jobs available for apprentices. We encourage businesses to consider the benefits of taking on apprentices to create more employment opportunities for young people across the country.

Employers want an apprenticeship system that doesn't trade off quality for quantity. The government hopes that the implementation of an apprenticeship levy will meet employers' ambitions for improvement in training quality, while growing numbers of apprentices.

The government are also establishing a new independent regulatory body for Apprenticeships. Known as the Institute for Apprenticeships. This will be led by employers, and will support the work of DfE in setting funding caps on the level of government funding available for each apprenticeship standard.



The Treasury's productivity plan promises to put control of the funding raised by the levy squarely in the hands of employers. Now we know more around the detail of the levy, this still poses some big questions:

- Will employers be willing to work to the government's productivity agenda and distribute funding accordingly?
- Will the large firms contributing to the levy turn out to be the main beneficiaries at the expense of smaller firms?
- Has the levy been set at a level sufficient to bridge the estimated £2bn gap between the government's contribution and the cost of apprenticeship training?

Employers are looking for a solution which takes account of the Devolved Administrations, not just England. The government plan to give employers the same proportion of their levy payment to spend in England as the proportion of their pay bill paid to employees living in England. The Government plan to use data that HMRC already hold about the home address of employees. HMRC will use this data to work out what proportion of each employer's pay bill is paid to employees living in England. Employers are encouraged to develop arrangements with the relevant devolved administration if they are planning to deliver apprenticeships to individuals who do not spend at least 50% of their working hours in England over the duration of their apprenticeship in England, including time spent on off-the-job training.

The government acknowledges that some employers will want to use funds in their digital account to pay for apprenticeship training of other employer's apprentices, for example, someone in their supply chain. From 2018 the government intend to allow levy-paying employers to be able to transfer up to 10% of the annual value of funds entering their digital accounts to other employers on the digital system.

When an employer takes on an apprentice who is between 16 and 18 years old at the start of their apprenticeship, they will receive an additional payment of £1000 to help meet the extra costs of employing them. This will be paid to employers through their training provider. From June 2017 onwards an individual can be funded to undertake an apprenticeship at the same or lower level than a qualification they already hold, if the apprenticeship will allow the individual to acquire substantive new skills and the content of the training is materially different from any prior training or a previous apprenticeship.

The government have published a new Levy information page that will be updated regularly when further announcements are made.

# Next steps

HMRC will issue guidance on how to calculate and pay the Apprenticeship Levy in December 2016. However, there is already a wealth of information available for employers to start planning for the change, we have recommended some next steps below.



## 1. Calculate your levy payments

You will need to model the estimated cost of the levy based on your UK payroll bill. Remember you will only receive the English proportion of your payments back to spend on training.

To estimate the net cost to your organisation, you will need to take into account:

- 10% top-up levy funds
- The £1000 incentive to offer apprenticeships to 16-18 year olds
- National Insurance savings that came into effect in April 2016 (no NI payments for apprentices under the age of 25)

Using this information you can start to profile the apprenticeship model aligned to your workforce planning needs within your business that maximises the value of your levy pot. BPP can help with your modelling and planning process with advice tailored specifically to your business.



## 4. Update your Payroll software

If you haven't already done so, we would recommend you update your Payroll software as from April 6th 2016 organisations are no longer required to pay National Insurance Contributions for apprentices aged under 25.



## 2. Start planning

Using this information you can start to profile the apprenticeship model aligned to your workforce planning needs within your business that maximises the value of your levy pot. Currently the private sector employs 2.3% of their workforce as apprentices with the public sector employing 1.7%<sup>[1]</sup> - so employing 3% of your staff as apprentices is, in our opinion, a realistic target to aim for. If you would like a levy calculation tailored specifically to your business then please get in touch.



## 3. Research

Understand how apprenticeship programmes have changed and now span across Accountancy, Financial Services, Law and Business, attracting talented, high calibre school leavers to benefit your business. New apprenticeship Standards, created by employer groups know as 'Trailblazers' are now being introduced. There are now over 350 Apprenticeship Standards being developed and delivered. Understand the current and future funding models and plan ahead now to be ready in 2017 to utilise your levy fund and the government contributions that will be available to train apprentices.

<sup>[1]</sup>Source: <http://fewee.co.uk/2015/11/16/ten-point-plan-for-apprenticeship-success-laid-out-by-government-official-jennifer-coupland/>

# Support from BPP

BPP is perfectly positioned to work with employers as they work through this changing landscape.

**Unique in being aligned with recognised professional qualifications, all our programmes offer clear progression paths to further qualifications and career progression. BPP is working collaboratively with employers to create apprenticeship and school leaver programmes tailored to individual business needs with structured development to recruit and build future talent from within.**

BPP's expert consultants will be able to offer further information and advice, reviewing your

businesses current Professional Qualification, Graduate, Apprentice and Internal Training programmes to ensure you maximise the value of your levy.

We share the government's view that for the majority of businesses the levy does not mean having to make a choice between apprenticeships and other forms of workforce training they value. BPP will work with you to enable apprenticeships to become an integral part of a wider workforce development package.



“ By encouraging businesses to think more laterally about how they could incorporate apprenticeships, possibly alongside their existing graduate programmes, then this levy could be exactly what is needed.

**Professor Carl Lygo**  
Chief Executive, BPP Holdings Limited  
and Vice-Chancellor, BPP University



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For more information on  
both the levy and how  
apprentices can benefit  
your business contact:

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