Apprenticeship Levy

CBI briefing note – July 2015

The government has announced plans to introduce a new UK-wide levy on large employers to fund apprenticeships –a significant shift in skills policy and funding. Experience of levy systems in the UK and internationally is mixed – with many failing to deliver the intended business benefits. To avoid this, the government must ensure that the new apprenticeship levy drives up quality, gives employers real control and delivers the higher level skills that business and the economy needs. The rate and reach of the levy must also be fair, proportionate and subject to consultation.

In his Summer Budget, the Chancellor announced the introduction of a new levy on all large UK employers to fund apprenticeships. The levy, which is likely to come into force in 2017/18, underpins the government's apprenticeship reform programme. The government is committed to delivering 3 million apprenticeships in this Parliament – a 35% increase over the 2.2 million apprenticeships delivered in the last Parliament. The levy is intended to provide the funding and incentives to help deliver this commitment.

What the Chancellor announced:

"…the government will introduce a levy on large UK employers to fund the new apprenticeships. This approach will reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014."

"The levy will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual needs. The funding will be directly controlled by employers via the digital apprenticeships voucher, and firms that are committed to training will be able to get back more than they put in. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review."

Summer Budget, July 2015, HM Treasury

The announcement is light on detail…

There is currently little detail on how the levy will work – but the government has confirmed the following:

- **The levy will apply to large employers**. The definition of "large" has not been agreed – although, as a minimum, is likely to include all businesses with 250 employees or more. It will include both private and public sector employers.

- **The levy will be UK-wide**. The levy will apply to all large firms across the UK – and the funds raised will be shared between UK government and the devolved administrations.

- **The levy will fund post-16 apprenticeships**. The UK government has said that all levy funds raised in England will go to fund post-16 apprenticeships. To date, there has been no similar commitment from the devolved administrations about how levy funds raised in Northern Ireland, Scotland or Wales will be spent.

- **The funding raised in England will go into a new apprenticeship fund**. Employers will be able to access the fund via a digital voucher scheme that is being developed as part of wider apprenticeship funding reforms. The government has said that all levy payers will have the opportunity to get back more than they put in if they train "sufficient" numbers of apprentices.

…but the direction of travel is clear

The announcement may be light on detail but the government's determination to deliver 3 million apprenticeships over the next five years is clear. The levy is intended to provide the security of funding and the system change that Ministers need to achieve the 3 million target. Given this, we are currently working to the following assumptions:

- **The levy is likely to be based on a percentage of payroll**. This is a common approach – and in line with similar levy schemes in the UK and overseas.

- The levy rate will be determined by HM Treasury – and probably set out in the Spending Review. **We are working on the assumption that the rate will be around 0.5% of payroll**. This reflects comparable schemes elsewhere and would generate the sorts of sums needed to fund the expansion of the apprenticeship programme.

- For large employers in England, **it seems likely that the levy will be expected to pay for all of the end to end training elements of apprenticeships** – with little or no contribution from government. This represents a significant shift in skills funding policy.

The government will consult business on the implementation of the levy, and this will also consider the interaction of the apprenticeship levy with existing sector levy schemes. There is, as yet, no formal commitment to consult on the scope or rate of the levy.

Exhibit 1: Potential weaknesses of levy-grant systems
Additional tax which reduces competitiveness
Red tape/administrative costs
Raises labour costs, impacting on recruitment and exerting a downward pressure on wages
Gaming
Deadweight or re-packaging effect
Insufficient focus on cross-sector or wider skills
Not all firms benefit, building resentment, opposition and undermining industry support

Sources:
A Review of National Training Funds, 2009, World Bank; Understanding Training Levies, 2012, UKCES

To be effective, the levy must drive up quality and deliver the skills that business needs. This means giving employers real control

The experience of levy systems, both here in the UK and internationally, is mixed. In short, there is no conclusive evidence that levies work (**Exhibit 1**). Our primary concern about the new apprenticeship levy is therefore one of efficacy – the levy may deliver *quantity* and help the government hit its target, but does not guarantee *quality*.

These concerns are shared by businesses. Those who have experience of levy systems have highlighted the negative impact and unintended consequences which can arise from badly designed and poorly implemented levy systems – and many more have expressed concerned about the lack of detail in the Chancellor's announcement, particularly given the potential scale and scope of the levy.

Employers will judge the success of the levy based on the quality of apprenticeships delivered and on how well these meet the needs of business and the economy. To this end, the CBI is calling for a levy system which:

- **Promotes quality**, incentivising the delivery of higher level skills and encouraging the growth of apprenticeships in key sectors and industries.
- **Gives employers real control**. If employers are to fund all or most of the cost of apprenticeships, then employers must have *real* control. Not just on funding – but over the whole system.
- **Is simple** to administer and where the fund is easy to access.
- **Is flexible,** supporting collaborative working – and not penalising those businesses and employers who want to take a sectoral approach.

The levy must be fair, proportionate and subject to proper consultation

Getting the *rate* and *reach* of the levy right will be critical – and the CBI is calling for full consultation on this. Once the rate is agreed, it must be subject to regular scrutiny and review.

The levy should support the development of vocational skills and apprenticeships in every part of the UK and exemptions from the levy must be made where mandatory sector levy schemes remain in place.

Small employers should remain exempt from the levy – but levy funding should not be used to cross-subsidise apprenticeships for small business. The approach being piloted, where the government contributes to the majority of the training costs of apprenticeships, should continue for small firms.

The "general education" elements of apprenticeship training (such as the teaching of level 2 English and Maths) should also remain outside the scope of the levy. It is the responsibility of government - not business – to fund these.

Have your say

Over the coming months the CBI will be working closely with members across the UK to develop our policy position and to shape the operation and implementation of new apprenticeship levy. If you want to be part of this – or if you have any questions – please contact **Stephen Rooney**.

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