

The Apprenticeship Levy – Questions and Answers

Background

In the budget of July 2015, the Chancellor announced that the government would introduce an Apprentice Levy for large employers to fund the Apprenticeship programme in the UK. They did not provide any detail on the scheme, so this paper sets out some of the key questions that need to be considered as part of the implementation of any such scheme.

What is an Apprenticeship Levy?

The Levy would be a charge on large employers. The money collected from this charge would be allocated to the funding of Apprenticeships. This charge is to all intent and purposes a tax on business but the difference is that the money raised would be ringfenced to pay for Apprenticeships. This is what is called a ‘hypothecated tax’ and is different to taxes such as national insurance or road tax. These taxes are collected for a particular reason but the money goes into the national treasury pot. The spend on the NHS and roads do not relate to the money raised by those taxes. It is not clear how the government will ringfence the funds or whether they will invest other government funds in Apprenticeships. Currently, the spend is around £1.4 billion with promises made in the general election and manifesto to spend more on growing the programme.

Have we had a Levy before?

There have previously been training levies across a wide range of sectors but mainly engineering. The general history of levies for training is not very positive although some believe they worked well. The overall view is that the levies were bureaucratic and did not drive the commitment to training that they were meant to support.

There is one sector levy that remains in place today in the construction sector which has a long history. A description of the construction levy can be found here: <http://bit.ly/1VItUpd>. We assume that the new levy will replace the current construction levy. The creative industry sector also has a voluntary levy to fund training and is described here: <http://bit.ly/1I4blma>.

Who will the levy apply to?

The announcements talked about large employers paying the levy. There is no standard definition of large employer. Recently the Treasury has used a definition of having 250 employees. 250 employees has been used for other initiatives but it is often not clear whether this is full time employees, full time equivalents or any employees. Clearly this would have to be defined as this would be a statutory tax. The government does retain lists and definitions of employers and they would have to inform employers that they are liable to pay the charge.

The government has said that the levy will be UK wide even though there are different Apprenticeship programmes in each of the devolved nations. Funding is different and the eligibility is different so we assume that the levy will be collected for the UK and each nation

will be allocated the appropriate funds. Each nation is likely to spend the funds in different ways.

When will the levy be introduced?

The government has not announced when it wants to start the levy but the majority of the new standards will be in place by the year 2017/18. We think this may be the target date for introduction. AELP believes that this will be too early and we should ensure we take sufficient time to implement this effectively. We are also at the start of a challenging growth programme. We believe we should build the capacity of the system over the next three or four years before the levy is introduced.

What will the levy be based on?

We are assuming that the charge will be based on a % of payroll costs. This could be for all employed staff although the construction levy also includes a % of contracted staff which is a big issue in the construction industry. We believe it will be an annual charge so this may be an average payroll cost or a payroll cost at a particular date. The rate of the charge will depend on how much money the government wants to raise.

How much money needs to be raised?

It is not yet clear whether the government wants to raise the whole cost of the Apprenticeship programme from the levy, the cost of the programme for large employers or just the cost of the employer contributions. The current programme requires a government subsidy of circa £750m for 16-19 year olds and £750m for 19+ apprentices. If we assume that employers also contribute 30% of the 19+ programme, that would be an extra £225m, giving a total costs of £1.725bn. Our view is that the government will want to save a major part of its £1.5bn investment in the system although it might retain the investment in the programme for 16-19 year olds. However the levy explicitly is meant to cover all apprentices from 16+.

How will the levy work?

The government will be consulting stakeholders over the summer so it is not yet clear how it will work. The government statement says that if employers employ apprentices then they can 'get more back than they put in'. It is not clear if that means more cash or more benefit. Clearly there will be some employers that pay the charge but do not engage in apprenticeships and their funds will be used elsewhere in the system.

One option would be for employers to retain their own contributions as a notional account which they can then spend on Apprenticeships. It is difficult to see how that can be managed as many employers would want to take on many more apprentices than could be funded by their individual levy. It may be that the levy charge will go into a central fund which all employers are entitled to draw down. Unless there is a first come first served approach, there would have to be a commitment from Treasury to 'top up' this fund if the demand is high.

Will all large employers have to pay the charge?

Yes, this is a tax by any other name so all large employers will pay. The estimate is that only 50% of large employers are engaged in Apprenticeships but we think this could be a little higher. In any event, there are a lot of large employers that would be expected to pay significant amounts of money to pay for a scheme they are not involved in. Some of these employers run apprenticeship programmes but do not claim from government. These organisations will now be able to claim that money back. Those employers that have chosen not to be part of the programme will now feel there is a different driver to get involved. Any employer that pays into this type of fund will want to get their money back, so we could expect a rise in demand from large employers.

We also assume that all public employers will have to pay the charge. This will clearly be a circular payment from public organisations to the Treasury and then claiming it back once they employ an apprentice. That sounds like a lot of work to circulate money. The charge will also apply to local authorities. The level of employment of apprentices is currently weighted towards the private sector, but as more public sector employees are based in large organisations the levy will shift this balance.

Are there any risks in more employers getting involved?

There are risks in any major policy change. Employers who are doing internal training but which does not meet the standards required of an Apprenticeship programme may be tempted to re-badge their own provision to get their funding back. Where they do not have any structured internal training they will also be encouraged to get involved in Apprenticeships. Many employers will not understand that the payment for the training is only a small part of the commitment to apprentices. The focus will all be on this element of the cost i.e. the cost of the levy and how to get that money back into the company. It will be more important than ever to manage the quality of the programme.

Non cash contributions by employers

The current Apprenticeship system depends on employers making a huge contribution to the cost of the programme. They contribute to the cost of recruitment, induction, on the job training, providing facilities for training, training materials as well as the salary and on costs. The current government contribution is a fraction of the full cost of employing and training an apprentice. There is a real danger that once employers have to pay a levy charge, they will question whether they are able to afford these other contributions which are often not tracked internally.

Creating a levy charge will mean that the finance directors of large employers will take a much closer interest in the cost of the programmes. This could be seen as a positive step forward but there will certainly be questions over employers contributing these essential non cash contributions.

How will quality be managed?

The quality of the Apprenticeship programme is managed through contracts with the SFA and the requirement to be externally inspected by Ofsted. With a levy, there may be an incentive for employers to want to deliver the training 'in house'. Currently the funding to do this is managed by the government through a supplier management quality control system and through contracted training providers who are subject to Ofsted inspection. It will be very important to maintain strong controls over this contracting process whilst giving employers control over the decision of who the employer uses to deliver the training.

Who will decide how the money is spent?

We are assuming that the government will still have to set out the rules against which employers will claim their subsidy. The system for funding the apprentices will, we believe, be based on the current model of funding the trailblazers i.e. each standard will have a maximum funding and the employer will draw down its funding for each apprentice in line with the price agreed with their provider. However it may be easier for the government to strike a fixed contribution for each apprentice (possibly dependent on age and standard in line with a simple matrix). AELP has recommended this approach from the start as it will be fairer, easier to manage and much clearer for employers. Employers would be able to select their chosen provider who would be able to draw down the funds on their behalf in line with the voucher system.

As large employers will be the main contributors to the Apprenticeship fund, they may well demand much more say in how the money is spent and setting the rates. This would be a risk unless all employers and other stakeholders are involved in those discussions.

How will SMEs be funded?

The government has said nothing about how they will fund SMEs. It is not clear whether the government plans to raise enough funds from large employers to subsidise SMEs. It is also not clear whether the government will retain the requirement for SMEs to make contributions to the programme. We have always supported more employer contributions but we do not believe that should be managed through mandatory cash contributions. We have already said that the employer meets the vast majority of the cost of the programme already through salaries and other training costs, so we believe the government should set out the rate at which it is prepared to subsidise the full cost of Apprenticeships by age and standard. The employer would select their provider to manage the programme and draw down that subsidy. We believe that the government should fully fund the training of 16 -19 year olds and any apprentice recruited directly from unemployment.

Does AELP support the levy?

As you can see from these questions, there are many details to be agreed and therefore it is impossible to judge if the levy will work and improve the current programme. Our main policy recommendations are based on a principle that we should maximise the choice for learners and employers. Although the levy may be a route to raise money in these difficult economic times, there are dangers that in the long term we will create a focus on the financial aspects of the programme and we will not be able to control the quality of a programme where many employers would not have chosen to be involved.

This is a cultural shift and we should not rush the introduction of the programme. AELP has recommended that we should build the programme over the next 3 or 4 years whilst we carefully introduce a levy based system. This would give us the time to ensure implementation does not become a barrier to creating an even more successful programme.

27 July 2015 | Enquiries: enquiries@aelp.org.uk Web: www.aelp.org.uk

Twitter: @AELPUK | LinkedIn: AELP |