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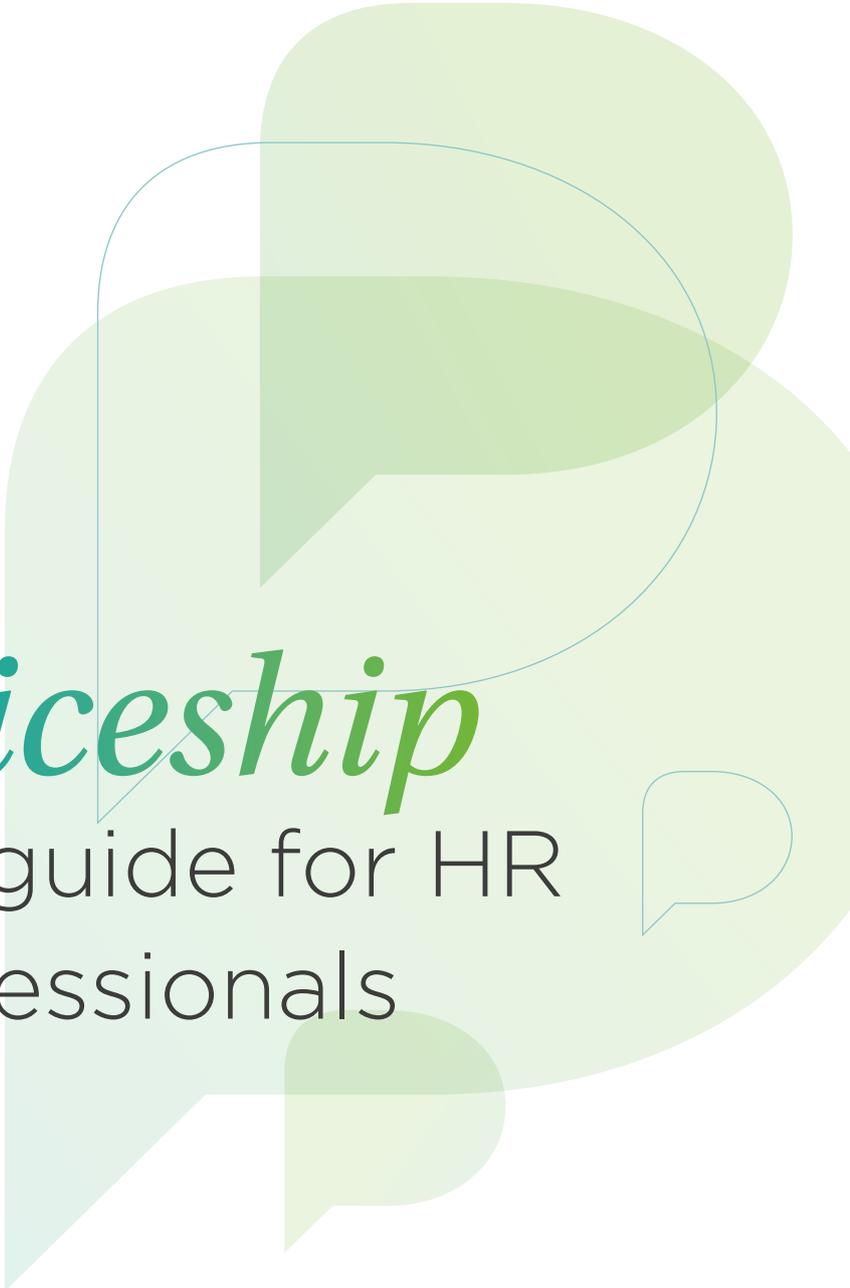
Championing better
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Guide

February 2017

The *apprenticeship*

levy: a guide for HR
and L&D professionals



The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

The apprenticeship levy: a guide for HR and L&D professionals

Guide

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Background

The Government is reforming apprenticeships and how they are funded. From 6 April 2017 all UK employers in the public and private sector with a pay bill of over £3 million will have to contribute to the apprenticeship levy (0.5% of their annual pay bill). The Government has estimated that this will affect less than 2% of employers in the UK.

By shifting more of the cost to employers, the Government hopes to inspire them to either expand existing, or introduce new, apprenticeship programmes, moving them closer to meeting its 2015 election promise of delivering 3 million apprenticeship starts by 2020.

Employers must begin to prepare for these changes now or risk losing out. With these fundamental shifts to the funding

model and the implications for how employers interact with the apprenticeship system, it is more important than ever for employers to better understand how these programmes can bring maximum benefit to the business.

The rest of this guide is set out as follows:

- Who has to pay the apprenticeship levy?
- How can you access your funds?
- Who and what can you spend your funds on?
- How much can you spend?
- What counts as an apprenticeship?
- Ten apprenticeship dos and don'ts
- Where can you go to get help?

Who has to pay the apprenticeship levy?

All **UK employers who have an annual pay bill of more than £3 million** will pay the levy: public and private sector employers are affected as well as charitable organisations and educational providers.

The annual pay bill is calculated as all payments to employees that are subject to employer Class 1 secondary National Insurance contributions (NICs), such as wages, bonuses and commissions. Although earnings below the Class 1 secondary threshold are not counted when calculating an employer's NICs, they will be included for the purpose of calculating the amount of levy an employer needs to pay. Employers will calculate, report and pay the levy through the PAYE process to HMRC.

The levy rate has been set at 0.5% of an employer's annual pay bill. Employers will receive a **£15,000 fixed annual allowance** (not a cash payment) to offset against the levy payment. Employers with multiple payrolls and connected employers will be able to claim only one allowance for the levy.

Each month you need to:

- Let HMRC know whether you need to pay the apprenticeship levy.
- Include the levy amount in your usual PAYE payment to HMRC. This should be done by the 19th day (or the 22nd day if reporting electronically) of the following month.

Any apprenticeship levy payment to HMRC will be allowed for any corporation tax purposes.

Changes for non-levy-payers

Employers who are not liable for levy payments will also experience changes in apprenticeship funding, and will be required to co-invest.

The Government will contribute 90% of the cost of training with employers paying the remaining 10%.

Check whether you are affected and how much you will need to pay

Use this levy calculator to check whether your organisation is affected and, if so, how much you will need to pay. Please note that this is only indicative.

<https://estimate-my-apprenticeship-funding.sfa.bis.gov.uk/>

Worked examples:

Company A – Annual pay bill of £3 million, you'd have a levy bill of £15,000 (at 0.5% of employer pay bill). The allowance is offset against this, so your levy payment is £0.00.

Company B – Annual pay bill of £5 million will have a levy bill of £25,000. The allowance of £15,000 is offset against this, so your levy payment is £10,000.

Connected companies or charities:

Connected companies or charities will receive only one £15,000 levy allowance. Employers that are part of a group must decide what proportion of the levy allowance each employer in the group will be entitled to at the beginning of the tax year. Each employer in the group will then calculate what they have to pay through the same processes set out above, but using only their portion of the £15,000 levy allowance.

Employers contributing to existing industry levy schemes: Employers who already pay into an existing levy scheme (or collective training arrangement) will still have to pay the apprenticeship levy.

Employers who employ mainly seasonal workers or with variable monthly pay: Some employers might pay the levy in some months but not others. The PAYE system will ensure that employers pay the correct amount of levy for the tax year.

Employers with operations across the nations of the UK:

Apprenticeships are a devolved matter. This means levy monies paid in association with employees living in any of the devolved regions of Scotland, Wales and Northern Ireland will be allocated to the relevant devolved authority and deployed according to their specific strategy/process. How this will work in each context has yet to be announced.

The Government will use data they already hold about the home address of employees to work out what proportion of the pay bill is paid to employees living in England. This assessment is scheduled to take place in early 2017. Employers can update their employees' addresses as part of their Real Time Information returns.

If you have operations in the devolved nations, you can contact your apprenticeship authority by clicking on the following links:

Scotland

Wales

Northern Ireland

Start date for the levy and payroll information

The start date for the new apprenticeship funding system will be **1 May 2017**. Any apprenticeships started from this date will be funded under the new system. This includes non-levy-payers too. The levy comes into effect on **6 May 2017**. Funds will appear in an employer's digital account after **22 May 2017** for the levy paid on April's payroll.

Manage your apprenticeships and access your funds through the Apprenticeship Service

Funds will be accessed through a new online apprenticeship service – employers will be able to register for an account from January 2017 and access funds from May 2017. The funds in your account will be the amount you have available to spend on apprenticeship training in England. The devolved administrations of Scotland, Wales and Northern Ireland have their own arrangements for supporting employers to access apprenticeships.

- **Funds will be entered into the digital accounts on a monthly basis** with a 10% top-up applied at the same time, so that for every £1, employers will have £1.10 to spend on apprenticeship training.
- The levy is payable by the eligible employers from April 2017 and employers will see their first funds in their digital accounts after 22 May 2017.
- **Funds will expire after 24 months** – payments will be taken from the funds that enter the account first to minimise expired funds.
- **By 2020, all employers** – including non-levy-payers – **will be able to use the Digital Apprenticeship Service** to pay for training and assessment for apprenticeships.
- **Non-levy-payers** – and levy-payers who have spent all of the funds in their digital accounts – **will need to make a 10% contribution to apprenticeship training** and the Government will pay the remaining 90% up to the funding band maximum.
- If you currently host apprentices that are employed by an **Apprenticeship Training Agency (ATA)**, **you must not use the funds in your digital account** to pay for training and assessment costs; these costs must be met by the ATA.
- **From 2018** the government has committed to allowing **levy-paying employers to transfer up to 10% of the annual value of funds entering their accounts** to other employers or ATAs.

Services for all employers

Through the services employers can:

- ✓ select an apprenticeship framework/standard
- ✓ choose the training provider(s) to deliver the training
- ✓ choose an assessment organisation
- ✓ advertise apprenticeship vacancies.

Services for levy-payers

Levy-payers can also use the services to:

- ✓ set the agreed price with your training provider
- ✓ pay for apprenticeship training and assessment
- ✓ stop or pause payments (for example, if your apprentice stops training or your training provider doesn't deliver on their commitments).

Who and what can you spend your funds on?

The funding can be used only towards the costs of **apprenticeship training and end-point assessments**. This must be spent with an approved training provider and assessment organisation.

- You must select a provider to deliver the apprenticeship training. Training providers must be on the **Register of Apprenticeship Training Providers**.
- Employers can decide to become an employer-provider which delivers training to their own apprentices; if you are interested in becoming an apprenticeship training provider in your own right, you can find more information [here](#).
- You must select an organisation to deliver the end-point assessment from the **Register of Apprentice Assessment Organisations (RAAO)**; only these will be eligible for funding.

You can spend your levy funds on apprentice training for either existing staff or new recruits as long as the training meets an approved standard or framework and the individual meets the apprentice eligibility criteria. **You can find detailed guidance on apprenticeship eligibility criteria [here](#).**

You CAN spend your levy money on:

- ✓ apprenticeship training
- ✓ apprenticeship end-point assessment.

The apprenticeship funding rules on GOV.UK give more information on eligible and ineligible costs.

You CAN'T spend your levy money on:

- ✗ apprentice/staff wages
- ✗ statutory licences to practise
- ✗ travel and subsidiary costs
- ✗ traineeships
- ✗ work placement programmes
- ✗ cost of setting up or running an apprenticeship programme
- ✗ managing agents and those providing a brokerage service to an employer.

How much do apprenticeships cost?

Under the new funding system the price of apprenticeship training and assessment will depend on the band that the apprenticeship is in. There are 15 funding bands, with the upper limit of those bands ranging from **£1,500 to £27,000**.

Employers are expected to negotiate a price for an apprentice's training and assessment in the knowledge that these caps set the maximum price that the Government is willing to fund.

The employer and provider are free to negotiate a price where the cost of the apprenticeship exceeds the

funding band maximum. In this case the employer must pay the difference between the funding band maximum and the total negotiated price.

It is important to ensure that the apprentice's prior learning is reflected in the negotiated price to ensure value for money.

All existing standards and frameworks have been placed on a band. You can search [here](#) to locate the band associated with any existing framework or new standard.

Additional payments:

In recognition of the additional costs associated with training younger apprentices:

- The provider will receive a payment from the Government equivalent to a **20% uplift of the funding band maximum** for the framework the apprentice is on.
- Both the employer and provider will receive an **additional payment of £1,000** for taking on a 16-18-year-old.

This additional payment also applies to 19-24-year-olds who were formerly in care or who have an Education and Health Care plan.

Additional support for small businesses:

Government will waive the co-investment requirement for employers with fewer than 50 employees if the apprentice is a 16-18-year-old or an eligible 19-24-year-old.

What counts as an apprenticeship?

The apprenticeship funding rules set out what qualifies as an apprenticeship. The main criteria are that an apprentice must:

- be paid at least the minimum apprentice wage rate (£3.40 as of October 2016; after their first year, adult apprentices are entitled to the National Minimum Wage for their age)
- be employed in a real job – they may be an existing employee or a new hire
- be working towards achieving an approved apprenticeship standard/framework
- be in training that lasts for at least 12 months, depending on the framework or standard
- need substantive new skills and spend at least 20% of their working hours on off-the-job training.

However, these are just minimum requirements. Employers looking to employ an apprentice, or set up an apprenticeship scheme, should consider the ten apprenticeship dos and don'ts listed on page 9.

For detailed advice on how to set up, run and integrate apprenticeships into your workforce development strategy, please see our updated accompanying guide – *Apprenticeships that Work: A guide for employers*.

Where can you go to get help?

The National Apprenticeship Service (NAS) is available to support employers. To get in touch, call **08000 150 600** or email **Helpdesk@manage-apprenticeships.gov.uk**

Search for apprenticeship on **GOV.UK**

Ten apprenticeship dos and don'ts

- 1 **DO invest in your apprentices; paying more pays off**, and most employers choose to pay apprentices a significantly higher wage rate. Paying above the minimum apprentice wage rate increases the likelihood an apprentice will complete their apprenticeship and stay on after completion – ensuring that you, and the apprentice, get a return on your investment.
- 2 **DON'T hire lots of apprentices all at once**. This will be harder to manage and less valuable long term. Think quality, not quantity. If you haven't employed apprentices before, pilot a scheme first before rolling it out across your organisation.
- 3 **DO think about how you integrate apprenticeships into your workforce planning before you offer a placement**. Recruiting apprentices should not be a short-term fix but a long-term way to grow your workforce. Align your apprenticeship programme with your business need and growth strategy. Target your apprenticeship at areas where you have clearly identified skills gaps and shortages or future areas of growth.
- 4 **DON'T view apprentices as cheap, short-term labour**. Apprenticeship schemes are long-term programmes to develop your employees and grow the skills your company needs.
- 5 **DO shop around for a quality training provider**. Finding the right provider to deliver the off-the-job training element is critical. You need to make sure that the training matches your organisation's needs and is both job-specific and transferrable.
- 6 **DON'T throw them in at the deep end**. Providing the right practical support and guidance to an apprentice will help them settle in well. Provide them with a mentor so that they can report on how they're getting on. Hold regular meetings to discuss how they're coping with their role.
- 7 **DO make sure that your apprenticeships offer a training route to a skilled role**. High-quality apprenticeships offer the most value to both the individual and the employer. The minimum for an apprenticeship is 12 months; however, most high-quality apprenticeships take longer to complete, sometimes up to four years.
- 8 **DON'T look to rebadge existing training provision as apprenticeships**, unless it is appropriate to do so and adds value. Apprenticeships fulfil a very specific role in developing the skills you need for your organisation.
- 9 **DO get buy-in from senior leaders and engage with the wider workforce**. To ensure success of your programme, it is crucial to get your workforce on board or else you won't be able to get the support you need for the high-quality, on-the-job training your apprentices should receive.
- 10 **DO widen the net**. Apprenticeships can help you access a wider pool of talent and contribute to business success. Plan a recruitment strategy to maximise the equality and diversity in your apprenticeship programme.



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