

Schools Forum

6 December 2016

Apprenticeship Levy Update

Purpose of report

To update Schools Forum as to the Council's position in respect to the Apprenticeship Levy which is due to come in from April 2017.

Recommendations

- Note the contents of the report
- To nominate a Schools Forum representative to the Council's Apprenticeship Levy working group who are charged to investigate the best utilisation of the Apprenticeship Levy and the resource (operational/financial) implications of any proposed option.

Background

Apprenticeship Levy

On the 6th April 2017 the Government will introduce a new Apprenticeship Levy requiring all employers with a pay bill in excess of £3million per year to invest in apprenticeships. The Levy rate has been set at 0.5% of an employer's total pay bill which is calculated as the total earnings that are subject to class 1 National Insurance (NI) contributions. Employers will report and pay the levy to HMRC automatically through the PAYE process. The levy is applied per PAYE reference and not per registered company.

The Apprenticeship Levy rate will also be introduced alongside a levy allowance of £15,000 per year. This means that the total amount of levy to be paid equates to 0.5% of the employers total pay bill minus £15,000.

There will also be changes coming into effect regarding the way all new apprenticeships are funded from 1st May 2017. The levy will not affect the way employers fund training for apprenticeships that started an apprenticeship programme before 1st May 2017. Existing funding arrangements will remain in place for those apprenticeships that started before 1st May 2017.

Accessing the funds paid under the Apprenticeship Levy

Levy funds that have been paid by the employer will then be accessible to the employer to fund apprenticeship training through a new digital apprenticeship service account. Employers will be able to register for their digital account from January 2017 and access funds in the

account from the end of May 2017 for new apprenticeships starting after the 1st May 2017. The service will also enable employers to choose training providers and assessors, select the apprenticeship frameworks or standards required, set the prices agreed with the providers, pay for the training and assessments (including stopping or pausing payments) and post apprenticeship vacancies.

Employers will receive a 10% top up from the government which will be credited to their digital account on a monthly basis so for every £10 the employer pays into the account (by way of the levy), they will be able to spend £11 on apprenticeship training.

Funds in the digital account will expire 24 months after they enter the account if they are not spent on training with a government approved training provider, this also applies to any top ups.

Employers will see funds enter their digital account each month as the apprenticeship Levy is paid. Then any costs for apprenticeship training purchased will automatically be taken out of the account each month and sent to the training provider. Employers will be able to spread the contribution over the lifetime of the apprenticeship and agree a payment schedule with the provider. If employers do not have enough in their digital accounts in a particular month, they will be required to make a contribution to the extra cost of training and pay this directly to the provider. This contribution will be set at a 'co-investment' rate where government will pay 90% (up to the maximum amount of funding available for that apprenticeship) towards the extra cost and employers 10%.

Apprenticeship Funding

The government have recently published the draft funding rules (October 2016) and are aiming to finalise these by December 2016. The draft funding rules stipulate the following, in order to access the funding in the digital account and any government-employer 'co-investment funding';

- The funding can only be used to fund the cost of apprenticeship training provided through an approved training provider.
- The funding can only be used to fund end point assessments provided through an approved assessment organisation.
- Those undertaking an apprenticeship must be employed in a real job (they could be existing employees or new hires).
- Where existing employees are completing an apprenticeship the training provided must demonstrate the provision of a qualification at a higher level than one they already hold or if at the same or lower level, must allow the apprentice to acquire significant new skills/knowledge and the content of the training must be materially different from any prior training or previous apprenticeship.
- There must be a genuine job available after the apprenticeship is completed, employers cannot employ apprentices solely to deliver an apprenticeship.
- The apprentice must be working towards achieving an approved apprenticeship standard or framework.
- The apprenticeship training must last 12 months.

- The apprentice must be in learning for a minimum of 42 days between the learning start date and planned end date.
- The apprentice must spend at least 20% of their time on off-the-job training.
- Apprenticeship agreements must be used to formalise the arrangement with the apprentice.
- Commitment statements must be used and signed by the employer, the apprentice and the provider.
- Apprentices must be paid at least the minimum wage consistent with the law, see section 3.4 of this report, for the time they are in work and in off-the-job training.

The funding must be spent on external apprenticeship training provided by an approved training provider. It cannot be spent on any other associated costs such as, internal training, apprentice salaries, managerial costs or administering an apprenticeship programme. In addition funding cannot be used for any part of any apprentice's programme that duplicates provision they have already received from another source. When agreeing prices with providers, any reduction in length or content of the apprenticeship (to remove duplication of skills already obtained) must be reflected in the negotiated price to ensure the funds are not used for any training duplication.

Only employers can confirm the spending of funds from their digital account, this function cannot be delegated to the provider and they must not take on this responsibility.

During the first year of the levy, employers will only be able to access funds in their digital account to pay for apprenticeship training and assessment for their own employees. However the government have declared a commitment to introduce the transfer of up to 10% of the annual value of funds to other employers or apprenticeship training agencies (ATAs) by 2018.

Apprenticeship rates of pay

The current National Minimum wage rate for apprentices is £3.40 per hour; this applies to those aged 16-18 and those aged 19 or over who are in the first year of apprenticeship. Apprentices aged 19 and over who have completed the first year but be paid at least the National Minimum wage rate for their age (£5.55 for those aged 19-20, £6.95 for those aged 21-24 and £7.20 for those aged 25 and over). The Council's annual application of the living wage does not apply to apprentices.

Apprenticeship provision

Employers will need to choose the training they would like their apprentice to receive throughout their apprenticeship. Currently there are two different types of apprenticeship scheme;

- Standards – new programme of apprenticeship standards developed by employers and covering job/sector specific roles
- Frameworks – work related professional and vocational qualifications expected to be phased out by 2020

Apprenticeship standards and frameworks will be funded in the same way. Each standard or framework will be allocated by Government to a funding band within the apprenticeship funding system. The funding system will be made up of 15 bands, with the upper limit of those bands ranging from £1,500 to £27,000. Employers will be required to negotiate a price for their apprentice's training and assessment with the training providers and assessment organisations. The upper limit of each funding band caps the maximum amount of digital funds that an employer who pays the levy can use towards an individual apprenticeship. The upper limit of the funding bands will also cap the maximum price that government will 'co-invest', where an employer does not pay the levy or has insufficient funds in their digital account. Employers can negotiate the best price for the training required which can be below the maximum set by the funding band. However if employers want to spend more than the upper limit of the funding band, they will only be able to access funds in the digital account up to the maximum funding band limit and will have to fund the additional difference themselves.

Additional payments for employers

The government recognises that when employers take on certain apprentices, such as young people or those who are disadvantaged through particular circumstances there may be higher costs associated with their apprenticeship training. In order to fully support these apprentices in the workplace (e.g. increased supervision and pastoral care) additional payments are made to employers as follows;

- £1,000 per apprentice who is aged 16-18
- £1,000 per apprentice who is aged 19-24 and have previously been in care or who have a Local Authority Education, Health and Care plan

Providers will also receive the same additional £1,000 payment as employers for supporting those apprentices who fall into the above two categories.

Additional transitional payments are also being made to providers supporting apprentices on frameworks only, who meet the following criteria;

- 20% of the funding band maximum for that framework when supporting apprentices aged 16-18
- £600 when supporting an apprentice who lives in the top 10% of deprived areas (as per the index of multiple deprivation)
- £300 when supporting an apprentice who lives in the next 10% of deprived areas (10-20% range as per the index of multiple deprivation)
- £200 when supporting an apprentice who lives in the next 7% of deprived areas (20-27% range as per the index of multiple deprivation)

These provider payments are considered transitional and will be reviewed.

The government will also make funding available to the provider at a flat rate of £471 per qualification to deliver basic English and maths training where the apprentice requires such training to meet minimum standards at level 1 and if possible level 2. Providers can also

access additional funding for any extra support required by apprentices who have learning or other disabilities.

Current position

At present Walsall Council do not operate a co-ordinated apprenticeship scheme. There are a small number of apprentices (approx 12) currently within different areas of the organisation and these are managed locally by the individual service areas.

The Enterprise Bill which has now received Royal Assent provides the Secretary of State with the power to set targets for public sector bodies in relation to the number of apprentices who work for them. To date no such target has been set, however a figure of 2.3% of headcount has been previously mentioned. Based on Walsall Council's approximate headcount figure of 3,500 (excluding schools) 80 apprentices would be required.

Working group

It has been identified that a cross directorate working group be set up to investigate further the implications and requirements of proposals including working with the business to identify need, develop an action plan based on business requirements and consider the resource implications of each. Such work to include determining how schools are affected and could access the levy.

A more detailed options paper would then need to be considered by CMT (February 2017) once the final funding requirements are published (December 2016). A further update report to Schools Forum would also then be due.

Any co-ordinated Council approach to deliver an apprenticeship scheme will require additional resource capacity not currently allocated, although the extent of this will depend on the size/scale of the preferred option. Further clarity of ongoing resources required will form part of the considerations of the working group.

Proposal

To nominate a schools forum representative to the Apprenticeship Levy Working Group.

Financial implications/Value for Money

Legislation will be introduced in the Finance Bill 2016 and will provide for a levy to be charged on employers pay bills at a rate of 0.5%. The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance (NI). To keep the process as simple as possible "pay bill" will be based on total employee earnings subject to Class 1 secondary NICs.

There is a proposed 'allowance' of £15k per year for all employers; this is equal to £3m x 0.5%, which is offset against the levy that they are required to pay. The levy allowance of £15k will be calculated on a month by month basis which means in effect the authority will

have an allowance of £1,250 each month; any unused allowance can be offset as 'credit' against other PAYE liabilities.

Based on the financial year ending March 2016:-

The total employee earnings subject to Class 1 secondary NICs is £100,037,437

Apprenticeship Levy would be £500,188 (@0.5%)

Less £15,000 credit = £485,188 per annum / £40,433 per month

Corporate funding has been set aside for council (non schools) services. The above figure includes employees based at schools who share the same PAYE reference as the Council.

The Walsall's Scheme for Financing Schools (based on the legislative provisions in sections 45-53 of The School Standards and Framework Act 1998) sets out at paragraph 6.1.1 that the authority is required to charge the salaries (which would include on costs and associated employer costs) of school based staff to school budget shares. As such as the Apprenticeship Levy is to be paid by PAYE at 0.5% of an employee's earnings then this cost will need to be covered by the delegated budget for each school (similar to the position for costs of historic superannuation costs that are charged to schools).

In addition to the costs of the Levy, there would be further associated costs for setting up and administering (either internally or through an external training provided) an apprenticeship scheme, as per option 2, 3, 4 or 5. The costs of each would be dependent on the proposals and further investigation is required to provide any further level of detail. There is no corporate provision for this.

Legal Implications

The Apprenticeship Levy was announced at Summer Budget 2015, and in the Autumn Statement 2015 it was announced that it would come into effect in April 2017.

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In the Autumn Statement 2014, the government announced it would abolish employer Class 1 NI Contributions for apprentices aged under 25 on earnings up to the weekly limit of £827 from 2016/2017.

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