

THE APPRENTICESHIP LEVY AND THE ORGANISING OPPORTUNITY – PART 1

Introduction

The UK government has declared its intention to fund three million new apprenticeships by 2020, and 20,000 of those will be within the railways.

But alongside that declaration is the introduction of the Apprenticeship Levy which in England will herald a new way of funding apprenticeships from April 2017.

The situation in the other nations of the UK is different because although the Levy will apply there, there are detail differences that have occurred because of issues associated with devolved government funding formulas, differing economic situations and decisions not to take up the digital voucher system regarded as inefficient by employers and employer groups

For these reasons, there isn't enough space in this Bulletin to go into the different arrangements in the devolved nations but reps may like to look at the further information on the situation addressed in these links:

- Scotland - <https://www.apprenticeships.scot>

[t/take-on-an-apprentice/apprenticeship-levy/](https://www.businesswales.gov.wales/skillsgateway/sites/dfes/files/documents/apprenticeship_levy_employer_qa.pdf)

- Wales – https://businesswales.gov.wales/skillsgateway/sites/dfes/files/documents/apprenticeship_levy_employer_qa.pdf
- Northern Ireland – <https://www.nidirect.gov.uk/articles/apprenticeships-explained>

(Note: there does not appear to be any clear information on the indirect website at the time of writing this Bulletin)

A central message from this Bulletin is to encourage TSSA reps to use the Apprenticeship Levy as an opportunity to organise. As such, we have split the material so that this month we will be looking at the Levy and next month the opportunity it offers, especially in relation to existing staff.

What's changing in 2017?

The Apprenticeship Levy will be imposed on all employers in the UK with a pay bill of more than £3 million per annum and will take effect from 6th April 2017.

The government says that less than 2% of UK employers will have to pay the levy but the size of the sum that activates levy payment means that it will apply to all of the companies that TSSA is recognised by.

Fears have been expressed that many employers will not get out of the levy what they pay in but we believe, in common with some HR commentators,ⁱ that if they take the time now to look at their learning and development needs and ascertain what could fall within the structure of an apprenticeship there is actually an opportunity to get out more than they pay in, something that would benefit existing employees. This is particularly important to TSSA because in a telephone survey conducted in the Summer of 2015, only 37% of members said they had received any training intended to advance or improve their career at a time when 71% hoped to make the industry their career. This issue will be the subject of a Part 2 Bulletin next month.

How much Levy would a train operating company have to pay?

As an example, in its accounts for the year ending 31st March 2016, Virgin West Coast appears to have spent £166,678,000 on wages, salaries and pensions. Using the levy calculation below, the company would have to pay at least £818,390 from April 2017 which is extra expenditure that it would have to find.

How is the levy calculated?

As stated above, the levy is payable by employers with an annual pay bill of more than £3 million and requires

those firms in this category to spend 0.5% of their total pay bill on the apprenticeship levy.

The government has, however, introduced a 'levy allowance' of £15,000 per year.

To calculate how much levy it has to pay, the employer needs to:

- Work out what their total pay bill is based on for all employee earnings subject to Class 1 National Insurance contributions (such as wages, bonuses, commissions and pension contributions);
- Work out what 0.5% of the total pay bill is;
- Subtract the £15,000 allowance.

In its advice to employers,ⁱⁱ the government has produced the following example:

An employer with an annual pay bill of £5,000,000 will need to spend £10,000 on the levy:

- levy sum: $0.5\% \times £5,000,000 = £25,000$
- subtracting levy allowance: $£25,000 - £15,000 = £10,000$ annual levy payment

The UK government has also produced an indicative on line tool for employers at <https://estimate-my-apprenticeship-funding.sfa.bis.gov.uk/> which union organisers and reps may find useful in conjunction with a visit to Company's Houseⁱⁱⁱ to obtain the latest Full Accounts the organisation has declared and which contains pay bill expenditure (eg, wages and salaries,

pension contributions). This information could enable an estimate of the company's levy contribution to be made and give an idea of what the employer could spend in this area.

NOTE: in circumstances where a company is connected with another company (eg, a Group that owns three subsidiaries) the £15,000 allowance is only payable to one of the four constituent employers. The single allowance can also be shared, something that must be declared to HMRC.

How do apprenticeships work under the levy?

Once an employer has declared the levy to HMRC, from 1st May 2017 they will be able to access funding for apprenticeships through a digital apprenticeship service account that will enable them to:

- select an apprenticeship framework or standard.^{iv} (Note: the levy can only be claimed to cover approved standards that are on the apprenticeships standard list);
- choose the training provider or providers they want to deliver the training;
- negotiate the price with the provider against the appropriate band - 15 in total for the different apprenticeship standards
- choose the organisation that will assess their apprentices;
- post apprenticeship vacancies.

Further details can be found in the Department for Education's "Apprenticeship funding: how it will work" guidance document.^v The same note also explains what happens with employers not required to pay the levy and how their apprenticeship schemes are affected from 1st May 2017.

NOTE: The levy will not affect current funding arrangements for training for apprentices who started an apprenticeship programme before 1 May 2017.

What can funds from the digital apprenticeship be used for?

According to advice in a Skills Funding Agency (SFA) document,^{vi} "Funds from the company's digital account or government-employer co-investment can only be used for activity directly related to the apprenticeship." What is excluded from this are, for example, wages, travel and subsidiary costs, managerial costs, traineeships, work placement programmes or the costs of setting up an apprenticeship programme.^{vii} The details of what this means in practice appear at paragraphs 50 and 51 in the SFA document and should help organisers and reps negotiate and monitor what and how employers operate their apprenticeship schemes. It can't be used on other costs associated with the apprentices or wider training effort.

Is there a time limit on funds in the company's digital account?

Whilst the digital account has been set up to automatically use funds submitted in date order (oldest first), any that are not used 24 months after they enter the digital account will be

regarded as expired unless they are spent on apprenticeship training with a training provider. This is potentially an incentive for employers to make sure that they use the levy funds that they have paid.

Who provides the training?

Apprenticeship training has to be provided by an approved training provider. Some employers already carry out their own apprenticeship training and the government foresee that this may mean that some of them will expand to provide training for apprentices from other companies as well as their own. An independent assessor from the approved list (not the provider) is required – to help ensure objectivity around apprentices achieving the required competencies.

How is an apprenticeship defined?

The government has produced a set of rules defining what an apprenticeship is. Amongst these are:^{viii}

- that the apprentice's physical workplace, where they spend the majority of their working time, is in England – cross border residency is irrelevant currently
- that an apprenticeship is a job with an accompanying skills development programme;
- the apprentice must be employed in a real job. Apprentices cannot be employed solely to deliver an apprenticeship and there must be a genuine job available after they have completed their apprenticeship (NOTE: The only

exception to this is where an apprentice is employed through a recognised ATA because the job is with a third party);^{ix}

- the individual may be an existing employee or a new hire;
- apprentices gain the technical knowledge, practical experience and wider skills they need for their immediate job and future career.
- the apprentice must work towards achieving an approved apprenticeship standard or apprenticeship framework;
- the apprenticeship training must last at least 12 months;
- the apprentice must spend at least 20% of their time on off-the-job training

Further details can be found in the SFA's "Apprenticeship funding: rules and guidance for levy-paying employers May 2017 to March 2018."^x

NOTE: Providers will get extra funding from Government for those apprentices coming from the top 27% of deprived areas in England and that the providers will get a further £1k for apprentices 16-18 and those who are 19-24 who were in care or who have a Local Authority Education, Health & Care Plan.

Are existing employees covered?

Apprenticeships funded by the Levy can be offered to existing employees but further information will feature in Part 2, next month.

Additional resources: delivering high quality apprenticeships

The trade unions have a part to play in delivering high quality apprenticeships and to assist in this the TUC has produced an updated version of its excellent “Apprenticeships Toolkit,” a loose leaf folder that gives a lot of detail about:

- Negotiating and Bargaining on apprenticeships
- The apprentice levy and other developments
- Pay for apprentices
- Health and Safety and working time
- High quality training
- Widening access to underrepresented groups
- Mentoring

- English, Maths and Functional Skills in apprenticeships
- Frameworks and standards
- Professional registration and apprenticeships
- Government minimum standards for apprenticeships
- TUC Apprenticeships Charter

The tool kit can either be ordered in hard copy or viewed interactively on line at:

<https://www.unionlearn.org.uk/publications/apprenticeships-toolkit>

Acknowledgements and further reading

The material in this Bulletin is based on that appearing in the notes below.

ⁱ Matthew Lewis writing in Personnel Today “How will the apprenticeship levy affect employers?” at: <http://www.personneltoday.com/hr/how-will-the-apprenticeship-levy-affect-employers/>

ⁱⁱ

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

ⁱⁱⁱ <https://www.gov.uk/get-information-about-a-company>

^{iv} Details of Apprenticeship Standards can be found at:

<https://www.gov.uk/government/collections/apprenticeship-standards#customer-service-standards>

^v

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

^{vi} “Apprenticeship funding: rules and guidance for levy-paying employers” available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562442/Apprenticeship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf

[eship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562442/Apprenticeship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf)

^{vii}

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

^{viii} See:

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work> and paragraph 23 (page 7) of:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562442/Apprenticeship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf

^{ix} See Paragraph 44, page 11 of:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562442/Apprenticeship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf

^x See page 7 onwards at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562442/Apprenticeship_funding_rules_May_2017_to_March_2018_EMPLOYER_DOC.pdf

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