



Apprenticeship Levy Update

LWBLA Briefing Paper

November 2015

1. What is the new Apprenticeship Levy & how significant will it become?

- The new apprentice Levy is a mandatory tax on all UK businesses based on a percentage of the total payroll including all payments such as salary and bonuses.
- The Levy will be administered by HMRC.
- The Levy is expected to raise close to £3bn. annually starting in April 2017.
- The system has not yet been commissioned or built but is expected to be operational in just 16 months.
- For the individual employer if the payroll is under £3m. there is no charge.
- Employers divide in two camps; either as a levy payer representing 2% of UK businesses or not: the remaining 98%.
- If you are Tesco this could hit £40m. annually before a penny of profit has been earned.
- All public services are included and will additionally have volume targets set by Government.
- The Government has stated the apprenticeship tax can only be spent on apprenticeships.
- The Levy paying employer funds 100% of the cost of the apprenticeship.
- An employer exempt from the Levy typically SME's (under £3m payroll) is assumed to pay on a 1:2 ratio so this requires a budget from DfE and BIS to fund two thirds of the cost of the apprenticeships.
- Employers from April 2017 will be free to set the price of training up to the cap.
- The combined Levy and public funds to pay for apprenticeships will be more than double the current 2015/16 budget circa £1.5bn. From April 2017 onwards this will be over £3bn.+ annually.



2. Key issues for Government in managing strategic risk over the next 18 months:

- Will a 16-18 year old remain fully funded by Government or not? This creates different options for employers depending on whether they are levy payers or not.
- The Government has not yet reached agreement with the Scottish Parliament, Welsh and Northern Ireland Assembly so we don't know if the funding model and operating system will be the same or not.
- If no agreement is reached then a 'worse case' scenario is that there are 16 different funding options covering 16-18 and 19+ for levy and non levy paying employers in 4 devolved nations..
- Setting out the regulatory framework and detailed operation of the Levy for employers and providers.
- Given the very low take up of trailblazer apprenticeships it is not known if the funding model will survive by April 2017.
- DfE and BIS will look to reduce the level of public expenditure to reflect the impact of the Levy.

3. Key Issues for providers to consider:

- Will the current system of annual funding agreements be maintained or abandoned with the introduction of the E-Voucher, and does a variable payment structure enhance or undermine your cash flow?
- Will the new term 'approved providers' mean prime/sub-contracting relationships remains in place or are abolished effectively allowing all providers a direct relationship to the Levy fund and access to public funding?
- Can employers establish their own internal training arm and become an approved provider to deliver apprenticeship training?
- The Government will establish a new Institute of Apprenticeships to quality assure the drive for 3m apprenticeship starts. Will this include or replace the role of Ofsted?
- How will the new digital apprenticeship vacancy service operate?
- Will the introduction of VAT be cash neutral or result in a leakage of funds back to Government ?



4. How will the Levy paying employer respond?

- As a levy payer the choice is simple either accept the levy as lost income and move on, or try to recoup as much of this income. Here are headline options:
- Recruit or rebadge an internal team of trainers and cost centre the delivery. This may prove to be particularly relevant in public services where targets are to be set and control is paramount.
- Acquire an apprenticeship provider. This will be a £3bn. market with additional public funds expanding into professional training and career progression: so be part of it.
- Get your 'talent pipeline specialists' primarily recruitment agencies/companies to combine vacancy recruitment with training for a price.
- Expand the supply chain by cherry picking providers you want because you already have a long term commitment to the industry as witnessed by businesses such as BAE, engineering and in many of the large utility companies.
- Be flexible and follow the Governments advice by working with lead apprenticeship providers so that as the market matures either your supply chain or in-house provision grows.

5. Overview & Challenges

- The long-term challenge for Government is that it will rely on business sentiment and the economic cycle to drive this policy. When the next recession hits how will business respond?
- The fundamental shift will be how far we move from a state regulated sector to a customer led price sensitive market. Will the price of training always define the quality of outcomes?
- The apprenticeship tax is a game changer. As to whether this helps solve the 'productivity paradox' in the UK economy this will no doubt be examined by academics and Government itself.

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