

## ► Briefing

### ► Apprenticeship Levy: What is it and how will it affect London boroughs?

#### **What is the Apprenticeship Levy?**

The Apprenticeship Levy is a charge being introduced by the government to help fund their plans to deliver a step change in apprenticeship numbers and their quality. The levy is designed to put apprenticeship funding in the hands of employers and encourage them to invest in and create apprenticeships. Employers in England who pay the levy and are committed to apprenticeships training will be able to get out more than they pay in through a top-up of additional funding to their digital accounts.

#### **How will the Levy Work?**

The levy will apply to all employers across all sectors in the UK, including local authorities. The rate will be set at 0.5% of an employers' pay bill, collected monthly via Pay As You Earn (PAYE). All employers will have an allowance of £15,000, which means that the levy is applicable on pay bills over the first £3 million. All London boroughs qualify to pay the levy.

All employers will have access to the Digital Apprenticeship Service whether they have paid the levy or not and will be able to use it to manage the government funding available to them to pay for apprenticeship training.

All Levy-paying employers will receive a 10% top-up to their digital accounts funded by government. The top-ups will be calculated by multiplying the monthly levy an employer pays to HMRC with the proportion of that employer's pay bill that is paid to their workforce living in England. The 10% top-up will then be applied on this amount. All employers with a digital account will have 24 months to spend their funds, including top-ups, before they expire.

The levy will come into force from April 2017.

#### **What can the Levy be Spent on?**

The government has been very specific about what levy funds can and cannot be spent on. Funds can be used for:

- Apprenticeship training and assessment (with an approved training provider and assessment organisation up to its funding band maximum).

Funds cannot be used for:

- Wages
- Statutory licenses to practice
- Travel and subsidiary costs
- Managerial costs
- Traineeships
- Work placement programmes
- The costs of setting up an apprenticeship programme.

## What does the Government's final funding policy say?

The new funding system will come into effect on 1 May 2017. It will have 15 new funding bands, with the upper limit of these bands ranging from £1,500 to £27,000. There will be no lower limits. All existing and new apprenticeship frameworks and standards will be placed within one of these funding bands. The upper limit of each funding band will cap the maximum amount of digital funds an employer who pays the levy can use towards an individual apprenticeship as well as the maximum price the government will "co-invest" where an employer does not pay the levy or has insufficient digital funds and is eligible for extra support.

Each apprenticeship framework pathway will be allocated to a single funding band regardless of the age of the learner or the geographic location. While this will bring frameworks into line with the funding system for standards, it will also see the removal of the Area Cost Adjustment for London and the South East. The Area Cost Adjustment (ACA) had previously applied across all adult skills provision, including 16-18 and 19+ apprenticeships to reflect that the cost of delivering an apprenticeship in London is higher than in other parts of the UK.

Following feedback in the consultation period, the government has revised its proposal to remove the disadvantage uplift. They will retain a simplified version of the current system and are committed to providing at least the same level of funding to support those from disadvantaged areas as in the current system. Providers will receive an additional £600 for training for an apprentice who lives in the top 10% of deprived areas (as per the Index of Multiple Deprivation), £300 for apprentices who live in the next 10% most deprived areas (the 10% - 20% range) and £200 for those in the next 7% (the 20-27% range). These payments will come direct from the government and will not be deducted from an employer's digital account.

However, this system will only be in place for one year while the government conducts a fuller review into the best way to support individuals from all backgrounds into an apprenticeship. This review will look at the role of employers, as well as training providers, and the differences in approach that may be needed in different parts of the country.

The government has recognised that employers of apprentices undertaking STEM (Science, Technology, Engineering and Mathematics) frameworks are disproportionately likely to be paying extra to providers on top of the funding provided by government. The funding bands for STEM framework pathways will thus be adjusted in thirteen sector subject areas. The current government-funded adult rate will be increased by 40% at Level 2 and 80% at Level 3 and above. These framework pathways will then be allocated to the nearest funding band.

Those employers who do not pay the levy, or who pay the levy and do not have sufficient funds available in their digital account to cover the training and assessment costs in a particular month will be required to co-invest 10% of the costs, with government paying the remaining 90%. Smaller employers (those with 50 employees or fewer) will not have to contribute towards the cost of training 16-18 year old apprentices. The government will also pay 100% of the apprenticeship training costs for small employers where the apprentice is a 19-24 year old care leaver or is 19-24 years of age and has a Local Authority Education, Health and Care plan. Additional payments from government will also be available to help with the extra costs associated with supporting younger apprentices, young care leavers and young adults with additional learning needs - £1,000 for employers and £1,000 for the training provider.

In their final funding policy the government also announced that in addition to the price that the employer and provider agree for training 16-18 year olds on a framework, the provider will also receive a payment from government equivalent to 20% of the funding band maximum for that framework. For frameworks in Band 1, for example, where the upper limit is £1,500, the provider would receive an additional payment of £300. This is intended as a transitional measure and will be kept under review.

Training providers will be able to claim a flat-rate £471 from the government to deliver each English and maths qualifications. Providers will also be paid £150 a month by government to support apprentices requiring additional learning support as a result of conditions including dyslexia, learning difficulties or disabilities.

The government will pay providers monthly, with 80% of the total negotiated price being paid this way, spread evenly across the period of the apprenticeship. The remaining 20% will be paid at the end of the apprenticeship. This is similar to the arrangements that have been in place for frameworks where 20% is retained to be paid on successful completion by the apprentice and will now be extended to cover apprenticeship standards.

Employers will be able to use funds to allow an individual to undertake a qualification at a higher level than they already hold or at the same or lower level if the apprenticeship will allow the individual to acquire substantive new skills and the content of the training is materially different from any prior training or previous apprenticeship.

In response to lobbying from local government, the government has confirmed that it will allow employers to transfer up to 10% of the annual value of funds in their digital accounts to another employer from 2018. This is particularly important for London boroughs who want to continue developing apprenticeship opportunities as part of their supply chains or that use Apprenticeship Training Agencies (ATAs). The government has also created a new employer working group to help them develop proposals further for a transfers system that works for employers. This group will help the government design how transfers should work, the level of funds that could be transferred and what controls are needed to protect the integrity of the apprenticeship system.

## **What is the Register of Apprenticeship Training Providers?**

When the Digital Apprenticeship Service (DAS) is introduced in May 2017, levy paying employers will purchase their apprenticeship training directly from providers through the DAS. As non-levy paying

employers will be unable to use the DAS until at least 2018, the SFA will run a separate procurement process during this transitional period and award contracts to successful providers.

All training providers that want to deliver apprenticeships to any employer from May 2017 onwards will have to join a new Register of Apprenticeship Training Providers (RoATP), which will open for applications from October 2016. RoATP will open every three months for a month at a time, with an updated list of registered providers accessible via the gov.uk website. Each provider must reapply every 12 months to retain their registration.

This is a change from the current system, where sub-contractors delivering less than £100,000 of SFA funded provision per year do not need to apply. Organisations that do not deliver any apprenticeship training and act as the umbrella organisation for other providers will be ineligible to apply to RoATP.

The RoATP will be separate from the Register of Training Organisations (RoTO), which will continue to operate for the Adult Education Budget and Advanced Learner Loans. Organisations currently on the RoTO to deliver apprenticeships will need to apply to the new register if they wish to continue to deliver apprenticeships. There is no automatic transfer.

The majority of organisations will apply to join RoATP through the main application route, though there will be a separate process introduced for employers wanting to train their own employees. The government is also consulting on a third application route covering providers that do not have the capacity and capability to deliver a full apprenticeship, but can add value to the delivery of apprenticeships. The application process itself will include three broad tests that each applicant will have to pass to be included on the RoATP: a due diligence test, a financial health test and a quality, capacity and capability test.

## **What will the Institute for Apprenticeships and Technical Education do?**

The Institute for Apprenticeships is a new independent body that will regulate the quality of apprenticeships, support DfE in setting funding caps and, following the recommendations in the Sainsbury Review, take over responsibility for technical education from 2018. Its remit will include developing a coherent strategy for technical education and placing employers in the lead on designing the standards.

The Institute will have responsibility for deciding the specifics of the process for developing apprenticeship standards and assessment plans and how best to ensure alignment with college-based learning. Employers will continue to lead on the design of standards and assessment plans themselves.

## **Where does the Apprenticeship Target for Public Bodies fit in?**

The Enterprise Act 2016 permits the Secretary of State to set targets for prescribed public bodies in relation to the number of apprentices working for them in England. The government wants the public sector to improve from its current position of delivering comparatively fewer apprenticeships than the private sector.

The new duty will apply to public bodies that have 250 or more employees in England. Each one will be required to deliver apprenticeship numbers equivalent to 2.3% of their headcount of employees each year. Since 2009, London boroughs have created 4,834 apprenticeships via direct recruitment. Under

the government's current proposals for the target, London boroughs would have to deliver 4,674 apprenticeships per year – an increase of 577%. During this period a further 3,215 apprentices have been recruited directly via London boroughs supply chains and 1,008 through Apprenticeship Training Academies.

London Councils has lobbied government to allow local authorities to include apprenticeships created in their supply chains in their contribution to meeting the target; for Full Time Equivalent figures to be used in calculating the target, not a straight headcount; and for schools to be grouped separately and responsible for meeting their own target.

Boroughs will need to be aware of the duty upon them to increase the numbers of apprenticeship starts as they consider how to spend their share of the Apprenticeship Levy.

## Are Apprenticeship Frameworks being replaced by Standards?

There are currently two types of apprenticeship qualifications – frameworks and standards. As part of the apprenticeship reforms, no new apprenticeship frameworks have been developed or issued since 31 August 2014. New apprenticeship standards are being developed by employers through Trailblazers and the government believes that they will offer employers and apprentices a more robust and relevant training experience.

Over the course of the parliament, the government will phase out the current apprenticeship frameworks so that all new apprentices undertake standards. Standards are higher quality and more rigorous so are more expensive to deliver. As a result many have been allocated to higher funding bands in the new system compared to frameworks, where this was appropriate.

## What are the key issues for London boroughs to consider?

**If London boroughs don't spend their share of the Levy it will be recycled elsewhere** – all boroughs will be eligible to pay the Levy from April 2017. London Councils has estimated that the Levy would have cost the boroughs £38m in 2014/15, inclusive of schools. Any unspent funds will be recycled elsewhere in the system, so this could represent a sizeable redistribution of funds away from London local government if boroughs don't use their share of the Levy.

**There may be a wider impact on resources** – Boroughs will have to consider what additional administrative burden the Levy may place on them, for example in administering the DAS account, liaising and negotiating with training providers directly, managing and monitoring a potentially increased number of apprentices.

**Boroughs need to think about their existing Workforce Development Strategy** – Does your current strategy focus on the right areas? Are there opportunities where the apprenticeship levy might help deliver your objectives?

**Opportunities to fill skills gaps** – Boroughs should identify what skills gaps they have within their organisation and determine whether they can use the Levy to fund new apprenticeships in these areas.

**Opportunities to up-skill your existing workforce** - Are there areas within your workforce where you are struggling to retain staff? Boroughs will be able to spend Levy funds on existing employees who

want to undertake a qualification at a higher level than one they already hold. They will also be able to spend Levy funds on an employee to undertake a qualification at the same or a lower level than they already hold if it will allow the individual to acquire substantive new skills and the content of the training is materially different from any prior training. This could potentially help boroughs upskill staff members, aiding their personal development, or help staff member gain a different skill set, developing a wider pool of skills within the authority – potentially important with restructuring taking place in many boroughs.

**Are existing apprenticeship standards the right ones?** – There are some areas, such as planning and social work where the appropriate apprenticeship standards either do not yet exist or are not professionally accredited. In others, frameworks will need to be replaced by standards as they are phased out. Some local authorities are mapping all council roles against apprenticeship standards, so there may be opportunities for information sharing to enable boroughs to collectively identify where there are potential gaps in apprenticeship standards.

**Using vacancies to boost apprenticeship numbers** – Recruiting managers could work with their HR teams when vacancies come up and consider whether there is an opportunity to convert a vacancy into an apprenticeship.

**Supply Chains** – Many boroughs have excellent track records of recruiting more apprentices in their supply chain, but this could be restricted through the Apprenticeship Levy as boroughs will only be able to transfer up to 10% of their levy funds to another employer, and none at all in the first year. Boroughs need to think carefully how this will affect their apprenticeship recruitment processes and whether changes are needed to get the most out of the levy. There will still be opportunities to encourage companies in a borough's supply chain to spend their own levy funds on staff training, ensuring the money is spent on improving skills in London and not recycled elsewhere.

**Apprenticeship Training Academies** - A number of London boroughs employ a large number of their apprentices via an ATA. If boroughs are only able to redirect 10% of their levy funds to an ATA from 2018, and no funds at all in the first year of the levy, then these boroughs will struggle to sustain their current intake of apprentices. This may demand a fundamental rethink in the apprenticeship recruitment strategy of these boroughs.

**Working with other businesses in your borough** – This is an opportunity not only to encourage local businesses to spend the levy, but also to explore joint purchasing apprenticeship training, negotiating better deals with providers through economies of scale (as the employer is responsible for negotiating training costs directly with providers) and making the case for new apprenticeship standards if appropriate.

**Working with other London boroughs (possibly via London Councils)** – This is an opportunity to explore where boroughs can work together across the city on developing new standards, delivering economies of scale, identifying where there are common skills gaps that could be filled by apprentices or jointly procuring training for more specialist roles across boroughs.

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