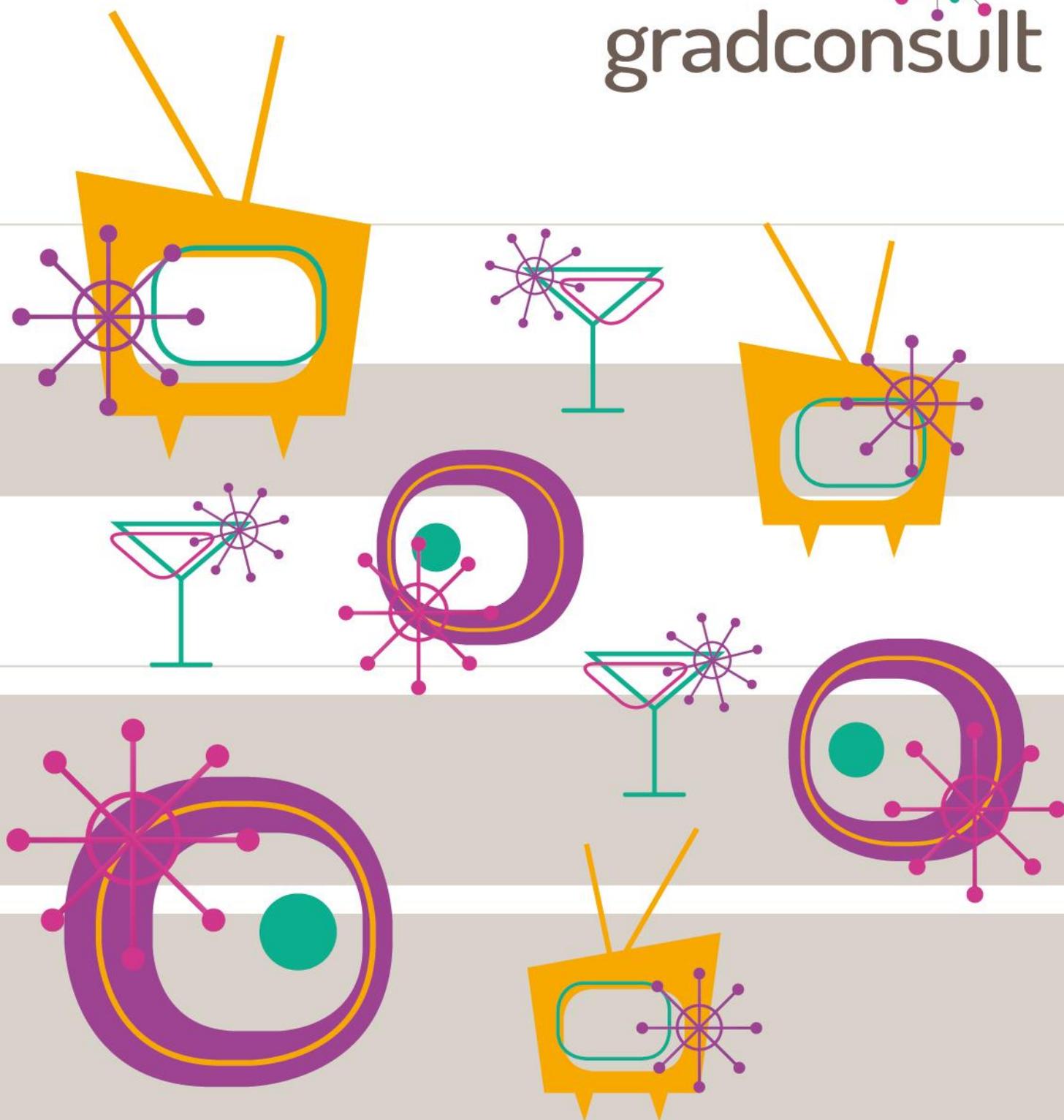


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Employer's Guide to the Apprenticeship Levy

March 2016

What is the Apprenticeship Levy?

In April 2017 the Apprenticeship Levy will come into force. Many questions remain unanswered, be wary of anyone claiming to have full knowledge of the embryonic systems and structures. If you have an annual pay bill in excess of £3 million, 0.5% of your pay bill will be collected from you as an additional tax through PAYE. The only way to recover this levy is by investing in apprentice training.

Every employer, of any size, will receive an allowance of £15,000 to offset against apprentice training. The effect of this allowance is that employers will only be charged on a pay bill in excess of £3 million and that any employer with a pay bill of less than £3 million will pay nothing.

Example Calculation:

Employer with 1000 employees, each with a gross salary of £40,000

Pay bill: $1000 \times £40,000 = £40m$

Levy sum: $0.5\% \times £40,000,000 = £200,000$

Amount to pay: $£200,000 - £15,000 = £185,000$ annual levy payment

*The government has also announced a 10% top-up. That means for every £1 you put in, you get £1.10 to spend on apprenticeship training.

On top of this, employers are able to claim more than they put in. So, if you don't draw down your levy payments other employers and competitors can claim the money to train their apprentices!

What is an apprenticeship?

A real job with training. An apprentice can be any age and existing staff can be eligible not just new recruits. There are many types and levels of apprenticeships that don't fit the traditional mold, but all types could make a big impact in your business.

Apprenticeships take between 1 and 5 years to complete and can go all the way up to degree level and beyond. Level 7 apprenticeships are Master Level qualifications. The apprenticeship training must last at least 12 months; the apprentice must spend at least 20% of their time on off-the-job training.

What is the purpose?

The Government's aim is to raise £3 billion to fund 3 million apprenticeship starts by 2020.

They aim to boost UK productivity and provide new pathways to professional careers and give employers greater control of funding.

They want apprenticeships to ultimately be employer driven, high quality and delivered within a simplified process.

Apprenticeship #FACT

A former Boots apprentice, Samuel Kirkby, discovered Ibuprofen and tested it on himself to cure a hangover; he was actually looking for a treatment for rheumatoid arthritis. His innovation is credited with saving Boots!

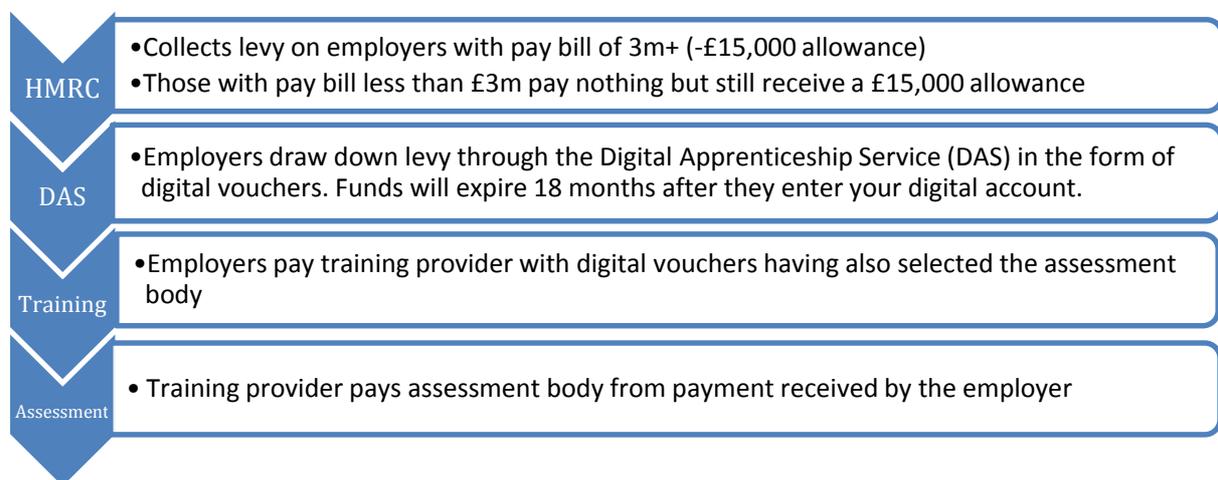
How will it work?

The government is establishing an Institute for Apprenticeships which will be an employer led independent body that will approve standards and regulate quality. The intention is that only standards and assessments approved by employers through this body will receive funding. This has not yet been established, hence a lot of questions are still unanswered.

The Institute of Apprenticeships will not be responsible for the operational functions of funding or the administration of the levy. The Apprenticeship Levy will be collected by HMRC and the allocation of funding will be operated by the Digital Apprenticeship System (DAS) using a Digital Voucher system.

You need to work with an OFSTED approved training provider, the employer can't be the trainer. The assessment body must be another separate entity such as a professional institution. You pay the training provider through a digital voucher and they then pay the assessment body; you choose both the training provider and the assessment body. The levy can't be used to pay salary.

Funding Model:



The benefits of apprenticeships?

Employers

- ✓ **Productivity:** 89% of employers say that apprenticeships increased overall productivity
- ✓ **Retention:** 80% of employers say that apprenticeships reduce staff turnover
- ✓ **Cost effective recruitment:** 75% of employers say it has helped cut recruitment costs
- ✓ **Skills:** 94% of employers believe traineeships improve employability

(Statistics from National Apprenticeship Service, February 2016)

Apprentices

- ✓ **Earning Potential:** Those completing higher apprenticeships could earn £150,000 more, on average, over their lifetime (Statistic from Skills Funding Agency, March 2016)

Government

- ✓ **Return on investment:** Apprenticeships provide a typical return of £26-28 for every £1 invested by the government (Statistic from Skills Funding Agency, March 2016)

Steps you need to take now?

Speak to your Finance Team and calculate your Levy payments

You can start by calculating your levy payments. Remember to include the salary costs of apprentices in order to get a full picture of the net cost to your business. The minimum wage is £3.30 for apprentices aged 16-18 and those 19 years or older in the first year of the apprenticeship, after that normal National Minimum Wage applies.

You also need to consider the additional costs associated with managing and developing apprentices.

Consider where apprentices could fit into your business and add value

Apprentices can be any age. This is a fantastic opportunity to widen your talent pool and target groups such as parents returning to work.

The levy payments, although large, may not justify launching apprenticeships across all areas of your business. You may find it more logistically and financially efficient to launch a scheme to target one specific area of your business facing a skills gap.

Investigate Training Providers

Training providers are facing their own challenges with the new system and resourcing demand from employers. You need to act quickly to secure the required resources to deliver your training provision.

You need to have a clear idea how you want to spend your levy payments, do not let providers dictate to you how to spend the levy.

You need to decide who you wish to act as the assessment body but your training provider can help advise you on options.

Consult with staff on how apprentices will be managed and developed

Apprentices are employees doing real work; you need to provide internal resource to manage them and support their development.

If providing apprenticeships to existing staff, you need to factor their apprenticeship training and development into their workload model.

You need to plan career pathways for apprentices and consider how this scheme will become integral to your wider talent strategy.

Top Tip

You could use Higher Level Apprenticeships as a highly effective retention tool by offering existing staff the opportunity to work towards a degree or masters level qualification.

One of your options: Degree Apprenticeships

Higher Apprenticeships are most often awarded at a graduate, post-graduate or Masters level; one version of these are Degree Apprenticeships.

Degree Apprenticeships are accredited by a professional institution with training provision split between a university and an employer.

Essentially a University would wrap academic input and assignments around a new or existing management development scheme (like a graduate scheme). This provides participants with a qualification, whilst as a business you can draw down your apprentice levy for the 'training' provided by the University.

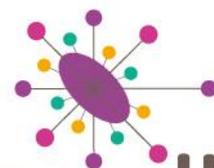
Most UK Universities are interested in developing and providing higher apprenticeships. Done well, this model can provide a *best of both worlds* solution being both practical and academic in nature!

In a nutshell:

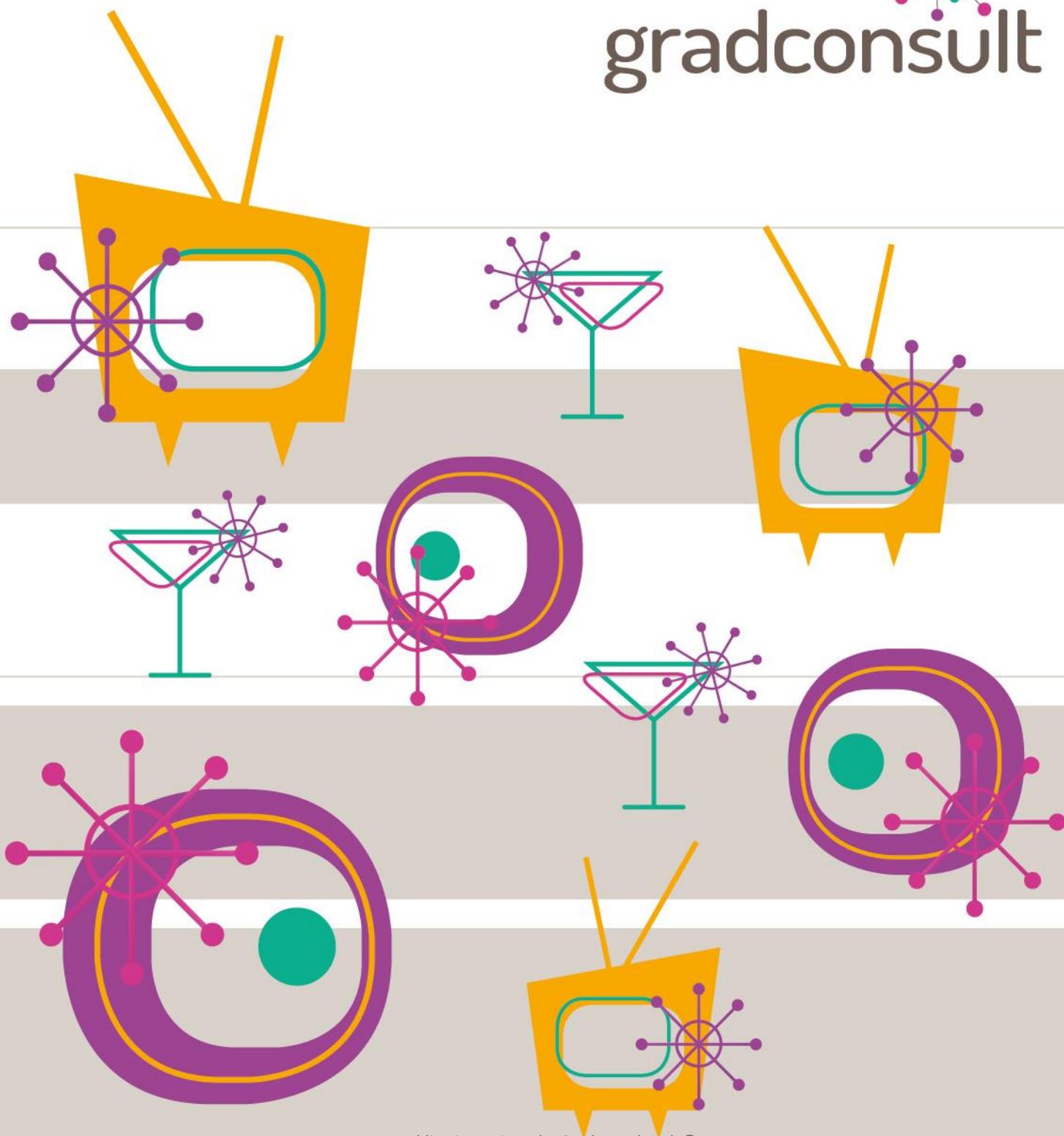
- Start planning now but be aware that it is a rapidly changing landscape
- Only you can decide how best to spend your levy funding
- Apprenticeships can become an integral part of your talent strategy
- If you don't spend your levy funding, someone else will!

The Apprenticeship Levy has the potential to revolutionise the early careers market and expand the talent pool to fill skills gaps in your business. We can help you navigate this complex and changing landscape to find solutions that will help you maximize the impact of your levy payments.

If you would like to know more or to discuss options that would fit your individual business, you can contact us at ask@gradconsult.co.uk or give us a call on 0141 221 0242.



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To find out more about the Apprenticeship Levy, please do not hesitate to get in touch:

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