

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO PERSONNEL COMMITTEE

Agenda Item No.

meeting date: WEDNESDAY, 31 AUGUST 2016  
title: APPRENTICESHIP LEVY  
submitted by: JANE PEARSON – DIRECTOR OF RESOURCES  
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## 1. PURPOSE

1.1 To update members of changes and requirements surrounding Apprenticeships.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – the provision of good quality Apprenticeships will help support the development of young people to become active members of the borough's employment market and thereby have a positive impact on the local economy.
- Corporate Priorities - A well-managed council needs to develop the skills and qualifications of its employee's so as to build a well trained workforce for both the future within the Council and for Local Government as a whole.
- Other Considerations - None.

## 2 BACKGROUND

2.1 The Government has committed to creating three million new apprenticeships in this Parliament with two primary measures to achieve this ambition. The proposed changes include:

- a) a Levy, payable by all employers with an annual paybill of more than £3 million, equivalent to 0.5% of the paybill minus £15,000; and
- b) a target for numbers of apprentices Public Sector bodies must employ, as a percentage of the overall workforce.

## 3 ISSUES

### 3.1 An Apprenticeship Levy

3.1.1 An Apprenticeship Levy will pay for the three million new apprenticeships. Taking effect from **April 2017**, it is expected to raise £3 billion by 2019/20 across the UK. All public and private employers with a pay bill of over £3 million, including local authorities, will be subject to the Levy, contributing 0.5 percent of their payroll. It is estimated that the Levy will cost local authorities over £200 million per year. Contributing employers will receive an allowance of £15,000 to offset their levy.

3.1.2 The definition of pay bill states that the calculation will be based on the total amount of earnings subject to Class 1 secondary National Insurance Contributions (NICs). Although earnings below the secondary threshold are not counted when calculating an employer's NICs, they will be included for the purposes of calculating the amount of levy the employer needs to pay.

Earnings include any remuneration or profit coming from employment, such as wages, bonuses, commissions, and pension contributions that we pay NICs on.

To pay the levy an employer will calculate, report and pay their levy to HMRC, through the Pay as You Earn (PAYE) process alongside tax and National Insurance Contributions (NICs).

If an employer has calculated that they will have to pay the apprenticeship levy, they will need to declare this and include it in their usual PAYE payment to HMRC by the 19th (or 22nd if reported electronically) of the following month.

### 3.1.3 Implications for RVBC

Gross paybill 2015/16	0.5% Levy	Minus allowance of £15,000
£5.014m	£25,000	£10,000

Based on 2015/16 figures and for illustrative purposes.

### 3.1.4 Public sector apprenticeship targets

- i) There has been a consultation around targets which closed on 4 March 2016 and we now await final details of the measures. These form part of the Enterprise Bill which is currently making its way through Parliament. If enacted, the Enterprise Bill will give Ministers the power to set public sector organisations, including local authorities, with 250 staff or more an apprenticeship recruitment target of “a minimum 2.3% starts each year based on the headcount”. The Council’s ONS (Office of National Statistics) Q1 headcount figure was 258, so 2.3% would equate to 6 apprentices.
- ii) According to the Government’s figures, 40% of the new apprentice starts would come from local authorities – the largest proportion. The NHS follows with 32%.
- iii) The LGA (Local Government Association) has called for the 2.3% target to be based on FTE (full time equivalent figures) rather than headcount and is also pushing for the target to be geared towards local economic need, and to address skills gaps and shortages.
- iv) This proposed measure includes:
  - a duty on all prescribed public bodies which are set a target to have regard to that target; and
  - a duty to publish information annually on progress towards meeting the target and send this information to the Secretary of State.
- v) The target is likely to be based on apprenticeship starts each year, rather than the number of apprentices working for a body on a given day; and presented as a proportion of headcount at the start of the year in question (our own financial year). We will be asked to provide headcounts (both at the start and end of each reporting year) when reporting against the duty. The proposal is that this information will include:

- the number of employees whose employment began in the reporting period in question (figure A);
  - the number of apprentices who began to work for the body in that period and whose apprenticeship agreements also began in that period (figure B);
  - Figure B expressed as a percentage of figure A;
  - the number of employees at the end of that period (figure C);
  - the number of apprentices employed at the end of that period (figure D);
  - Figure D expressed as percentage of figure C. (This will indicate whether the target is being met); and
  - if that reporting period is the first reporting period in the target period, the number of apprentices who worked for the body immediately before that period.
- vi) We will also be required to send other information to the Secretary of State which is not likely to be published, including:
- information about action taken to meet the apprenticeship target;
  - if we have failed to meet the apprenticeship target, an explanation;
  - information about action that we propose to take to meet an apprenticeship target set for a future target period;
  - if we consider that a future target is not likely to be met, an explanation of why that is so.
- vii) As the regulations have to be debated following passage of the Bill, it is unlikely that the duty will come into force before September 2016, therefore proposed target periods for the duty are as follows:
- Date duty comes into force until 31 March 2017;
  - 1 April 2017 to 31 March 2018;
  - 1 April 2018 to 31 March 2019;
  - 1 April 2019 to 31 March 2020.

### 3.1.5 Implications for the Council as an employer

- i) Based on our latest employee numbers, and the approach chosen (headcount or FTE), we may be required to take on around 6 apprentices each year. The *Levy* rules allow existing employees to be converted to apprentices if they meet the Apprenticeship criteria and are doing the relevant training, but we do not know if we will be able to use this for the purposes of meeting our targets. Basing the target on full-time equivalents and including existing staff as opposed to new starts would allow more flexibility and reduce the additional funding burden this will create.
- ii) The minimum hourly rate for apprentices from 1 October 2016 will be £3.40. This rate only applies for the first year of the apprenticeship if the apprentice reaches 19 or over, they would then be paid the relevant National Minimum Wage (NMW).

	<b>National Living Wage (25+)</b>	<b>NMW 21 and over</b>	<b>NMW 18 to 20</b>	<b>NMW Under 18</b>	<b>Apprentice (16-18, or 19 or over in 1<sup>st</sup> year)</b>
<b>Rates from Oct 2016</b>	<b>£7.20</b>	<b>£6.95</b>	<b>£5.55</b>	<b>£4.00</b>	<b>£3.40</b>
Annual salary	£13,852.80	£13,371.80	£10,678.20	£7,696	£6,541.60

The above rates will apply on 1 October 2016 but are expected to be reviewed each April, so may increase again in April 2017. The latest increases range from 3% to 4.7%.

Apprentices would be eligible to join the pension scheme (current employer contribution rate 28%) although most would not require the Council, as the employer, to pay NI contributions.

### 3.1.6 Training costs – current rules

- i) The amount of training funded by the government varies depending on whether the candidate is:
- aged 16 to 18 – we can get all of their course costs covered up to advanced level apprenticeship qualifications, eg higher diplomas or A-levels;
  - aged 19 to 23 - half of their course costs;
  - 24 years and older - may only get a contribution.

### 3.1.7 How apprenticeships will work in future

- i. Individual employers' funding for apprenticeship training in England will be made available to them via a new Digital Apprenticeship Service (DAS) account. Employers will be able to use this to pay for training for apprentices. The plan is that the service will also support employers to identify a training provider, choose an apprenticeship training course and find a candidate. The main functions of this service should be in place by April 2017.
- ii) Employers will be able to use their funding (up to a cap which will depend upon the standard or framework that is being trained against) to cover the costs of an apprentice's training, assessment and certification. Employers will not be able to spend an unlimited amount of money on a single apprentice. Funding caps will be set which limit the amount of levy funds an employer can spend on training for an individual apprentice. The cap will vary according to the level and type of apprenticeship (for example, more expensive, higher quality training is likely to have a higher cap).
- iii) The government will apply a 10% top-up to monthly funds entering levy paying employers digital accounts, for apprenticeship training in England, from April 2017. All funds entering a levy payer's account will be increased, so every £1 will be increased to £1.10 in value.
- iv) Employers can spend their levy funds on training their apprentice against an approved standard or framework. This includes either existing staff or new recruits as long as the training meets an approved standard or framework and the individual meets the

apprentice eligibility criteria. (This criteria has traditionally been ever-changing and dependent on the training provider, so hopefully the new arrangements will make this clearer.)

- v) Employers will not be able to use levy funds to cover all the costs associated with taking on an apprentice. For example, overheads, supervision costs and apprentices' wages will not be funded by the levy, this will have to be funded out of our budgets.
- vi) Employers can only spend their levy funds on apprenticeship training delivered by an approved provider. This could be through buying in training from an approved provider or delivering the training themselves. To deliver training the employer would need to register as an approved provider and be subject to Skills Funding Agency (SFA) quality arrangements and Ofsted inspection. Historically, all our off-the-job training has been provided by an external training provider e.g Training 2000, Blackburn College
- vii) Levy funds will expire 18 months after they enter the digital account unless they are spent on apprenticeship training i.e if you don't use them, you lose them. This will also apply to any top-ups in our digital account. For example, funds entering an account in September 2017 will expire in March 2019. Money is spent when it leaves a digital account as a payment to a training provider.  
  
The account will work on a first-in, first-out basis. Whenever a payment is taken from a digital account it will automatically use the funds that entered the account first.
- viii) New employer designed apprenticeship standards are being developed to replace the current apprenticeship frameworks. Work has already begun on this through the government's Apprenticeship Trailblazer programme, which has published 194 standards, of which 60 are either higher or degree apprenticeships. In April 2017, when the Levy commences, the government will establish an Institute for Apprenticeships, where employers or groups can submit apprenticeship standards and assessment plans. In the interim, the government will stagger the withdrawal of funding for new starters on old, framework apprenticeships.
- ix) One of the key roles of the Institute for Apprenticeships will be to oversee quality, and apprenticeships will need to last a minimum of 12 months and involve at least 20 per cent off-the-job training.
- x) There are over 200 different types of apprenticeships currently available in England, through existing apprenticeship frameworks. Apprentices can receive qualifications ranging from those equivalent to 5 GCSE passes to those equivalent to a degree.

### **3.1.8 Apprenticeship training started before April 2017**

- i) Apprentices who have been accepted on to an apprenticeship programme before April 2017 will be funded for the full duration of the apprenticeship under the terms and conditions that were in place at the time the apprenticeship started.
- ii) If an employer pays the apprenticeship levy they will not be able to use the funds in their digital account to pay for these apprenticeships.

We currently have one Apprentice that these rules will apply to.

### 3.1.9 Current Minimum Standards for Apprenticeships

- **A minimum length of 12 months:** The minimum apprenticeship length is 12 months. Some apprentices aged over 19 may complete an apprenticeship in six months, if they demonstrate prior attainment of certain relevant qualifications.
- **280 hours guided learning:** Guided learning is the time spent developing technical skills, knowledge of theoretical concepts and practical skills on the job whilst being guided. Apprentices must spend at least 280 hours in 'guided learning' in their first year. 100 hours or 30% (whichever is greater) of all guided learning must be delivered off-the-job. Clear and verifiable evidence must be provided of all learning undertaken.

**Employed for 30 hours a week:** Apprentices must be employed for a minimum of 30 hours per week, including time training away from the workplace. Any Council Apprentices would be expected to work normal full time hours i.e 37hrs per week. If an apprentice's personal circumstances or if the nature of employment in a given sector make it impossible to work these hours, then an absolute minimum of 16 hours a week must be worked. In these exceptional cases, the total duration of the apprenticeship is extended accordingly.

- **Training to level 2 in Maths and English:** Apprenticeships must offer training to Level 2 in English and Maths or Functional Skills, if the apprentice does not already have these or equivalent qualifications. A Level 2 is the equivalent of a GCSE pass at grade A\*-C.
- Degree Apprenticeships (levels 6-7) are part of the Higher Apprenticeship programme but differ from Higher Apprenticeships (levels 4-7) in that they entitle apprentices to achieve a full bachelor's or master's degree. Higher Apprenticeships allow apprentices to study to degree level (NVQ level 4 and above or a foundation degree) but do not incorporate a university degree.
- Course fees and training costs are funded by the Government (two thirds) and employer (one third) so that apprentices can earn a university degree without paying tuition fees.

### 3.1.10 Employers that don't pay the levy

If an employer doesn't meet the criteria for the levy they will negotiate and agree a price with the training provider they have chosen from the approved register. This price will cover the delivery of apprenticeship training towards a specific standard or framework, and the cost of assessing the apprentice at the end of their apprenticeship. The employer will pay for this through co-investment with the government. Co-investment means that the employer and the government each pay some of the money to the provider. There will be a rate set each year, for the proportion of the money that an employer needs to pay and the proportion the government will pay.

### 3.1.11 Guidance

On 12 August details of the Apprenticeship Levy guidelines were published, with some of the key headlines being that:

- non Levy payers will have to contribute 10 per cent to the cost of an apprenticeship from April 2017;
- a £2,000 incentive to help 16-to 18-year-olds, young care leavers and young people with an Education and Health Care (EHC) plan, make their first step into the world of work – split £1,000 to employers and £1,000 to training providers;
- employers with fewer than 50 employees will not have to pay anything towards the cost of training a 16-to 18-year-old apprentice, young care leaver or young person with an EHC plan;
- levy paying employers, those with annual payroll bills over £3m, will receive a 10 per cent monthly top-up. However, if their levy account is insufficient then like smaller employers, 90 per cent of their additional apprenticeship training costs will be subsidised;
- to help employers see how the levy and funding system would work for them, the government has launched a new online calculator;
- a new register of apprenticeship training providers will be introduced from April 2017, details of which can be found in the current consultation;
- all apprenticeship framework and standard starts from April 2017 will be funded from one of 15 bands, each with an upper limit ranging from £1,500 to £27,000. It will then be up to employers to negotiate prices with providers.

Further guidance is scheduled for later in the year:

In October 2016 there will be information about:

- the final levels of funding, government support, 16 to 18 payments, and English and Maths payments for apprentices starting from April 2017;
- full, draft funding and eligibility rules.

In December 2016 there will be information about:

- final detailed funding and eligibility rules;
- further employer guidance from HM Revenue and Customs (HMRC) on how to calculate and pay the apprenticeship levy.

### 3.1.12 Considerations

The Council will need to consider how to meet the requirements of the new Apprenticeships and specifically how to meet any Apprenticeship target.

## 4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – There will be budget implications arising from the Levy and the target.
- Technical, Environmental and Legal – Legislation has been introduced to create the apprenticeship levy and public sector targets through the Finance and Enterprise Bills.
- Political – No political implications identified.
- Reputation – If the Council does not meet its Levy requirement or Apprenticeship target, it could result in adverse publicity and would not fit in with the overarching status of Local Government as an exemplar Public Sector employer.
- Equality & Diversity – No Equality & Diversity implications identified.

## 5 CONCLUSION

5.1 Officers will continue to monitor developments in respect of the new Apprenticeship system and will keep members informed of implications for the Council.

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BACKGROUND PAPERS  
[www.gov.uk/government/apprenticeship-changes](http://www.gov.uk/government/apprenticeship-changes)

For further information please ask for Michelle Smith, extension 4402.