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Funding Focus – Apprenticeship funding – A brief update

10 May 2016

Funding Focus provides quick summaries of recent funding developments, or particular aspects of the funding system.

Introduction

The government ambition is to have 3 million new apprenticeship starts in England between 2015 and 2020. To support this ambition apprenticeship funding in England is changing as part of the wider apprenticeship reforms (more on the wider reforms can be found in the [Pearson Handy Guide to Apprenticeship Reform](#).) To support increased investment a UK apprenticeship levy is being introduced from 6 April 2017 which will be paid by 2% of UK employers. The plan is that the levy will raise over £3 billion a year by 2019-20 in the UK, £2.5 billion of which will be available for apprenticeships in England. It means that by 2019-20 spending on apprenticeships (including the levy) will be double that of 2010-11. This Funding Focus provides a brief update on the changes to apprenticeship funding, what we know so far, and information we are still waiting for. It covers:

- Overview of changes to apprenticeship funding including:
 - the digital apprenticeship system (DAS)
 - frameworks and standards
- Who will pay the levy and how
- Information we are still waiting for and when it will be available
- Links to further information
- Changes to apprenticeship funding – summary table

Overview of changes to apprenticeship funding

A number of changes have been, and are being, made to the way apprenticeships are funded and the future of apprenticeship funding is still not set in stone as details continue to emerge. The table on page 4 summarises the current funding arrangements and what we know so far about the new arrangements.

- **Currently** there are two funding models in place as new apprenticeship standards, developed by employer trailblazer groups, are funded using a different funding model to apprenticeship frameworks.
- **From April 2017** further changes to the funding model will be introduced (for both frameworks and standards). The full details of the funding models has not yet been announced but we know that an apprenticeship levy will be introduced which will be paid by larger employers, and pay for apprenticeships in large employers, and a new funding model will be introduced for smaller employers not paying the levy.

The digital apprenticeship service (DAS)

Changes to apprenticeship funding are also affected by the introduction of the digital apprenticeship service (DAS). Government are creating what will be known as the digital apprenticeship service (DAS) which will open for registration for **all employers** from January 2017 to enable them to: select an apprenticeship training course, choose the training provider or providers they want to deliver the training, choose an assessment organisation, and post apprenticeship vacancies.



From April 2017 the DAS will also provide a 'bank account' for employers paying the levy which will allow them to see funds available to spend in England, set a price agreed with training provider, and pay for training and assessment.

Employers paying the levy will see their levy funding in their own DAS account and use this to pay colleges and training providers. Currently all government contributions are paid direct to college and training via funding contracts with the Skills Funding Agency (SFA), and employers also pay their contributions direct to the college or training provider. With the introduction of the digital apprenticeship service these employers will be in direct control of the funding and choose the colleges and providers they want to use to provide their apprenticeship training and assessment (and employers can also set themselves up as training providers). The original plan was that **all funding** (levy funding for larger employers, and non-levy funding for smaller employers) would be channeled via a DAS account. However, the arrangements for smaller, non-levy paying, employers to access the 'bank account' part of DAS has been delayed and this won't now be available for smaller employers until 2018 at the earliest and 2020 at the latest. All employers will use DAS to pay for training and assessment by 2020 at the latest.

This means that once the funding changes are introduced, larger, levy-paying, employers will be using a different payment system than smaller, non-levy paying employers, until at least 2018.

Frameworks and standards

Changes to apprenticeship funding are also affected by the move from frameworks to standards. The original plan was that apprenticeship frameworks would be switched off in 2017/18 and that from 2018/19 only apprenticeship standards would be available. The decision was made to give employers longer to consider which occupations they will require apprenticeships for, and to allow migration from frameworks to standards over the course of Parliament. Government now aim for as much migration as possible from frameworks to standards to take place by 2017/18, and 2020 is now the end date for a complete switch. In March 2016 the SFA announced the first in a series of batches of frameworks to be removed: 7 frameworks have been closed to new starts from 1 June 2016 which had had no starts in both 2014/15 and 2015/16.

From April 2017 every apprenticeship standard and framework will be placed in a funding band. The funding band will set the maximum amount of funding that can be used towards training and assessment costs, over the length of each apprenticeship.

This means that once the funding changes are introduced the same funding bands will apply to all employers paying for apprenticeship training, and to both apprenticeship frameworks and apprenticeship standards.

Who will pay the levy and how

The latest details on the levy can be found in the latest BIS update: the [Apprenticeship levy: how it will work](#). It provides the latest information on paying the apprenticeship levy, accessing money paid under the apprenticeship levy, buying apprenticeship training, what you can spend apprenticeship funding on – all employers, eligibility for training, and when further information will be available

Paying the levy: The levy will be introduced from April 2017 and will be charged at a rate of 0.5% of an employers' annual pay bill. There is an allowance of £15,000 per year which means that it will only be paid by those with a pay bill of over £3 million a year. It will be paid by employers to HMRC through Pay as You Earn (PAYE).



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Levy funds, allowance and top-ups: Employers will see funds appear in their DAS monthly and a few days after they have confirmed their pay bill and levy contribution to HRMC. The first time employers will see funds in their account will be late May 2017. Unspent funds will expire after 18 months on a first-in, first-out basis. The levy allowance operates on a monthly basis and accumulates throughout year. £1,250 per month will be paid into an employer's account and unused allowance will be carried from one month to next. Government will top-up levy funds by 10% and these will also be applied monthly.

Employers with multiple PAYE schemes and connected employers: Employers with multiple PAYE schemes who do not use the full £15,000 allowance will be able to offset the unused amount against another scheme once the tax year has ended. Connected employers will be able to collect their funds together into one digital account by registering multiple PAYE schemes to a single account. Groups of employers will only be able to use one £15,000 allowance and will need to decide what proportion of the allowance each employer in the group will be entitled to at the beginning of the tax year. Each employer will then calculate what they have to pay using their portion of the £15,000 allowance. Employers that are not connected will not be able to pool funds in a digital account.

Spending levy funds: In the first year of the levy employers will only be able to use their funds to pay for training and assessment for their own employees. Government is assessing whether to allow employers to use funds to pay for apprenticeship training of other employers' apprentices, and to pay for training of apprentices employed by an ATA. Further information will available in June.

The levy and the devolved nations: The levy applies to employers across the UK but apprenticeships are a devolved policy. Levy funds will be used to support apprenticeships in England but Scotland, Wales and NI will all have their own arrangements for supporting employers to access apprenticeships. To calculate how much levy payers have to spend in England government will use data held on the home address of employees to work out the percentage of the pay bill paid of employees living in England. This assessment will be made in early 2017 and the exact date will be announced in advance.

Information we are still waiting for and when it will be available

- **June 2016:** provisional funding bands showing the maximum of funding available for each apprenticeship, provisional level of government support available towards the cost of apprenticeship training for smaller, non-levy paying, employers, provisional level of extra payments for 16-18s, provisional amount paid for English and maths, eligibility rules, and more information on who can provide apprenticeship training and how employers can set themselves up to deliver apprenticeship training.
- **October 2016:** final levels of government support, 16-18 payments, and English and maths payments from April 2017, and full, draft funding and eligibility rules.
- In **December 2016:** final detailed funding and eligibility rules, and further employer guidance from HMRC on how to calculate and pay the apprenticeship levy.

Further information

- The latest from BIS on the [Apprenticeship levy: how it will work](#)
- SFA's [Funding rules for frameworks, and standards, 2016/17](#)
- Pearson's [New apprenticeship standards](#)
- Pearson's [Handy Guide to Apprenticeship Reform](#)
- Pearson's [Funding website](#)
- [Sign up](#) for weekly funding updates and links to new Funding Focus documents

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Changes to apprenticeship funding – summary table

	Up until levy introduced April 2017		After levy introduced April 2017	
	Frameworks	Standards	Levy payers	Non-levy payers
Financial contributions	50% employer (expected), 50% government	33% employer (mandated), 66% government	91% employer (levy), 9% government, plus £15,000 allowance (<i>Employers pay levy and government tops this up by 10%, once levy spent, employers use same model as non-levy payers</i>)	Small % employer, large % government (<i>Will government contribution be taken from leftover levy?, % of government contribution unknown but will be 'large', proposals June, confirmation October</i>)
How funding channeled	Employer contribution paid to provider according to agreed schedule, government contribution to provider paid via SFA contract		Employer and government contribution into DAS, paid by employer to provider via DAS	Employer contribution paid to provider according to agreed schedule, government contribution to provider paid via SFA contract (<i>DAS introduced for non-levy payers by 2018 earliest, 2020 latest</i>)
Who funding can be spent on	Employers' apprenticeships		Levy payers' apprenticeships only for first year	Employers' apprenticeships
Cap on overall demand	Funding allocations to providers subject to caps on growth		Limited to levy payments.	Unknown (<i>Likely that funding allocations to providers will continue to be subject caps on growth, once DAS introduced likely to be other caps on growth</i>)
Funding rates	Rates assigned to qualifications within framework, extra funding to recognise costs of apprenticeship added to competency qualification	Each standard allocated to one of six funding caps, cap sets maximum core government contribution	Every apprenticeship standard and framework will be placed in a funding band. The same funding bands will apply to all employers paying for apprenticeship training. Details unknown. (<i>Proposals June, confirmation October</i>)	
Government contribution for 16-18s	Fully funded	Government contribution on funding cap (£600-£5,400)	Government contribution direct to providers but details unknown (<i>Proposals June, confirmation October</i>)	
Government contribution for English and maths	Government fully funds level 1 and 2 English and maths required		Government fully funds level 1 and 2 English and maths required and paid direct to providers but details unknown (<i>Proposals June, confirmation October</i>)	