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Funding Focus – The apprenticeship levy from April 2017

3 November 2016

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

Introduction

On 25 October the DfE confirmed the rules around [how the UK apprenticeship levy will work](#) when it is introduced from April 2017, to pay for apprenticeship training in England from May 2017. The only change made to the original levy proposals is that the expiry period for levy funds is now 24 months (up from 18). Funds in digital accounts, including top-ups, will expire after 24 months unless they are spent on apprenticeship training. This summary is an update to the Funding Focus published on 1 September which looked at the levy rules. It:

- Explains how the levy will work, and
- Provides information about further summaries that will shortly be available, and links to key official funding documents.

The document is organised as follows:

Section 1 The apprenticeship levy

- Paying the apprenticeship levy
- Funds from the levy, and how they will be accessed
- Expiry of funds in digital accounts
- Transferring and pooling funds in a digital account
- Buying apprenticeship training
- Spending apprenticeship funding
- Paying the levy, levy funds, and buying apprenticeship provision, for employers who operate in England and in other parts of the UK

Section 2 Further summaries available

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Paying the apprenticeship levy

The apprenticeship levy will be introduced on 6 April 2017 and requires all employers with a pay bill over £3 million each year in the UK, to invest in apprenticeships. It will pay for levy-paying employers' apprentices in England who start an apprenticeship programme after 1 May 2017. For further details on the calculation and payment of the apprenticeship levy, see the [HMRC draft legislation](#).

Levy rate and allowance

- Employers with an annual pay bill of more than £3 million in the UK will need to spend 0.5% of their total pay bill on the apprenticeship levy.
- However, a levy allowance of £15,000 per year is in place which means that the total amount employers will spend is 0.5% of the pay bill, minus £15,000.

Which employers will pay the levy, and how much will they pay

- The pay bill is made up of the total amount of employees' earnings subject to [Class 1 National Insurance contributions](#). Employees' earnings include any money they make from employment, such as wages, bonuses, commissions, and pension contributions. The levy will not be charged on other payments to employees, such as [benefits in kind](#). The levy will be charged at 0.5% of this amount, minus the £15,000 allowance.
- Employers can use the [indicative online tool](#) to estimate their levy contribution, begin to plan training requirements, and estimate financial spending.

Some simple examples:

Example 1: An employer who would pay the levy	Example 2: An employer who would not pay the levy
<ul style="list-style-type: none"> • Annual pay bill: £6,000,000 • Levy sum: 0.5% x £6,000,000 = £30,000 • Annual levy payment: £15,000 (i.e. subtract levy allowance from levy sum: £30,000 - £15,000) 	<ul style="list-style-type: none"> • Annual pay bill: £1,500,000 • Levy sum: 0.5% x £1,500,000 = £7,500 • Annual levy payment: £0 (i.e. subtract levy allowance from levy sum: £7,500 - £15,000)

How the levy will be paid

- Employers will start paying the levy in May 2017.
- Each month an employer will let HMRC know whether they need to pay the apprenticeship levy, and include the levy that needs to be paid in the usual PAYE payment to HMRC. This should be done by 19 (or 22 if reported electronically) of the following month.
- Any apprenticeship levy payment to HMRC will be allowable for [Corporation Tax](#).

The levy and connected companies or charities

- Where several employers are connected as a group, they will only be able to use one £15,000 levy allowance. The definition of connected companies and charities is based on the [definition in the Employment Allowance](#).



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- Employers who are part of a connected group must decide what proportion of the levy allowance each employer in the group will be entitled to and make this decision at the beginning of the tax year.
- Each employer in the group will then calculate what they have to pay using their portion of the £15,000 levy allowance.

Funds from the levy, and how they will be accessed

The Digital Apprenticeship Service (DAS)

- Once an employer has declared the levy to HMRC, they will be able to access funding for apprenticeships in England through a new digital account. Employers will be able to register for an account from January 2017.
- Through the DAS all employers will be able to: select an apprenticeship, choose a training provider or providers to deliver the training, choose an assessment organisation, and post apprenticeship vacancies.
- Levy-paying employers (only) will also be able to use a digital account to set the price agreed with a training provider, pay for apprenticeship training and assessment, tell DfE to stop or pause payments if necessary.
- By 2020, all employers will be able to use the digital apprenticeship service to pay for training and assessment for apprenticeships.

Top-ups to the digital account

- The DfE will apply a 10% top-up to the funds in the digital account for spending on apprenticeship training in England at the same time the funds enter an account. That means for every £1 that enters a digital account to spend in England on apprenticeship training, an employer gets £1.10.

Calculating the funds that will enter digital accounts

- The amount of government subsidy that an employer paying the levy will be able to access is linked to the value of an employer's contributions, the proportion of employees working in England and a government top-up.
- DfE will calculate how much each employer will have to use through the English system using data that HMRC hold about the home address of their employees. HMRC will work out what proportion of each employer's pay bill is paid to employees living in England for each PAYE scheme. This proportion will be available to view through the digital apprenticeship service from March 2017.
- The calculation will first be run in February 2017 and subsequently run quarterly in July, October, January and April each year.
- Employers receive a 10% top up to the monthly funds entering an account.
- The level of funding that will enter an employer's account each month will be calculated as:

Monthly levy paid to HMRC x proportion of pay bill paid to workforce living in England + 10% government top-up
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Expiry of funds in digital accounts

- The expiry period has been extended to 24 months (up from 18). Funds in digital accounts, including top-ups, will expire after 24 months unless they are spent on apprenticeship training.



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- Whenever a payment is taken from the digital account, the service automatically uses the funds that entered the account first.
- The digital account will alert employers when any funds are due to expire.

Transferring and pooling funds in a digital account

Transferring funds in a digital account to another employer or to Apprenticeship Training Agencies (ATAs)

- From 2018 the DfE will allow levy-paying employers to transfer up to 10% of the annual value of funds entering their digital accounts to other employers or ATAs.
- A new employer working group has been created to help the DfE further develop proposals for a transfers system that works for employers.
- Alongside detailed research into the needs of employers of all sizes, this group will help 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.

Pooling funds in a digital account with other employers in a group structure

- Groups of companies connected for the purposes of paying the levy will be able to collect funds together into one digital account by registering to have PAYE schemes attached to a single digital account.
- Employers can only use funds in your digital account to pay for apprenticeship training for their own employees so employers that are not connected will not be able to pool funds.

Buying apprenticeship training and assessment

Buying apprenticeship training

- Once an employer decides to buy apprenticeship training through the DAS funds will be taken from the digital account each month to pay the training provider.
- Employers can only spend funds in the digital account on apprenticeship [framework](#) or [standard](#) training from an [approved training provider](#). Employers can become training providers and further information can be found on page 6.
- Frameworks will be phased out between now and 2020, and all apprentices will eventually be on standards.
- Once the apprenticeship training has started, monthly payments will be automatically taken from the digital account and sent to the provider.
- Employers will need to have enough funds in an account to cover the monthly cost of each apprenticeship, and will see funds entering and leaving the account each month.
- Employers will be able to spread the costs over the lifetime of the apprenticeship and agree a payment schedule with the provider.
- Further information on the funding rules can be found on page 6. Employers wishing to become training providers

Buying apprenticeship assessment

- Employers can only spend funds in the digital account to pay for approved assessment organisations that are listed on the [register of apprenticeship assessment organisations](#).



Buying training and assessment where there aren't sufficient funds in the digital account

- Employers that don't have enough in their accounts in a particular month will have to make a contribution to the extra cost of training and pay this directly to the provider.
- This will be set at the same co-investment rate as for employers who do not pay the levy, with government paying 90% towards the extra cost of training and assessment and employers paying the remaining 10%.
- Further information on the funding rules, and Pearson summaries on this, can be found on page 6.

Spending apprenticeship funding

- Funds in the DAS (and funding provided by the government through co-investment), can only be used towards the costs of apprenticeship training and end point assessment with an approved training provider and assessment organisation.
- It can't be used on other costs associated with apprentices or wider training effort. For example wages, statutory licences to practise, travel and subsidiary costs, managerial costs, traineeships, work placement programmes or the costs of setting up an apprenticeship programme.
- Links to the full apprenticeship funding and performance management rules 2017 to 2018 can be found on page 6.

Paying the levy, levy funds, and buying apprenticeship provision, for employers who operate in England and in other parts of the UK

- The levy will be **paid** on employee across the UK.
- The **levy funds** available to spend on apprenticeship training will be calculated according to employees living in England.
- The levy funds can **buy** apprenticeship training for employees working in England.
- Apprenticeships are a devolved policy, which means that authorities in each of the UK nations manage their own apprenticeship programmes, including how funding is spent on apprenticeships.

	Employees in:	
	England	Scotland, Wales and NI
Paying levy fund, i.e. Which employees' payroll will the levy apply to?	✓	✓
Levy funds i.e. What part of the levy that levy-paying employers pay, will go into the DAS to spend on apprenticeships?	✓ <i>Living in</i>	✗
Spending levy funds i.e. Which employees can levy-paying employers spend the DAS funds on?	✓ <i>Working in</i>	✗



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Section 2 Further summaries available

Further summaries from Pearson are available on the [Pearson Funding News](#) website:

- [Apprenticeship funding from May 2017](#)
- [Allocation of frameworks and standards to new funding bands from May 2017](#)
- [Comparing existing apprenticeship funding with new apprenticeship funding from May 2017](#)
- [The register of apprenticeship training providers and guidance for employers wanting to become apprenticeship providers from May 2017](#)

Section 3 Links to key official funding documents

Overview

- Justine Greening's [written ministerial statement](#) on supporting apprenticeships.
- [Press release](#): New apprenticeship funding to transform investment in skills.

Funding, and the levy

- [Apprenticeship funding from May 2017](#): How apprenticeship funding will work, including details of funding bands and the apprenticeship levy.
- [Apprenticeship funding: how it will work \(the levy\)](#): Details on the levy for employers.
- [Revised apprenticeship funding calculator](#): To help employers understand what levy they will pay.
- [Apprenticeship funding and performance management rules 2017 to 2018](#).

Register of apprenticeship training providers (RoATP)

- [Working with the SFA as an apprenticeship training provider](#): Information for all providers who wish to offer apprenticeship training in England from May 2017 including existing providers as well as organisations that might wish to enter the apprenticeship training market.
- [Register of apprenticeship training providers](#): This series brings together guidance on how to apply to the register of apprenticeship training providers (RoATP).
- SFA presentations on YouTube: [register of apprenticeship training providers](#), and [invitation to tender: apprenticeship training delivery for employers without a digital account](#).

Guidance on the register of apprentice assessment organisations, and new programme to tackle the shortage of end-point assessors

- [Register of apprentice assessment organisations, overview](#): information on the new register of apprentice assessment organisations for employers seeking an independent end-point assessment (EPA) organisation, and for potential applicants to the register.
- [New programme to tackle shortage of end-point assessors](#): funded by the DfE and commissioned by the ETF, with the aim of improving capacity to deliver independent EPAs in apprenticeships.

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Information is correct at the time of writing and offered in good faith. No liability is accepted for decisions made on the basis of information given.