

Recent changes to apprenticeships

Spring 2017 saw the introduction of the new Apprenticeship Levy, which requires larger UK employers to invest a percentage of their annual pay bill in apprenticeships. Although many employers will not pay the Levy, there will be significant changes to taxpayer funding of apprenticeships for all employers.

The Apprenticeship Levy

The Apprenticeship Levy was introduced from 6 April 2017 as part of a government target to encourage the creation of three million apprenticeships in England by 2020.

In principle, employers will only pay the Levy if their annual 'pay bill' is over £3 million. A pay bill means the total earnings upon which Class 1 employer national insurance contributions (NICs) are calculated. The Levy will not therefore be charged on other payments to employees, such as benefits-in-kind.

The Levy is 0.5% of the pay bill, but there is an annual allowance of £15,000. The Levy is reported and paid using the PAYE process.

However, there will only be a need to report on the Levy if the employer:

- had a pay bill of £3 million in the previous tax year, or
- considers that the pay bill will be over £3 million in the current tax year.

So, for many employers there will be no liability to pay the Levy, and no reporting requirements.

Those employers that pay the Levy will have a digital account to fund the cost of training apprentices. The level of funding will be the monthly Levy paid to HMRC, multiplied by the proportion of the employer's pay bill paid to their workforce living in England. There will be a 10% government top up on this amount.

All existing apprenticeship frameworks and standards have been placed in one of 15 funding bands, with the upper limit of those bands ranging from £1,500 to £27,000. The upper limit of each funding band caps the maximum amount of digital funds an employer who pays the levy can use towards an individual apprenticeship.

Employers can negotiate the best price for the training they require from a training provider, which can be below the maximum set by the funding band. If the employer wants to spend more than the upper limit of the funding band, they can do so, but at their own cost.

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Smaller businesses who are not required to pay the Levy or who wish to invest more in training than they have available in their digital accounts will get government funding through 'co-investment'. Under co-investment, government funding will meet 90% of the training costs, and the employer 10%.

The government funding only applies to amounts up to the funding band limit for any particular apprenticeship.

Changes to apprenticeship funding

The government implemented a new apprenticeship funding policy in England from May 2017. Any apprenticeships started from 1 May 2017 will be funded under the new policy. This will apply to all employers, including those who do not pay the Levy. There will, however, be different rules depending upon whether an employer has paid the Levy. The Levy will not affect the funding of training for apprentices who started a programme before 1 May.

Employers in other parts of the UK will be paying the Levy, but each devolved government is drawing up their own plan for the use of their share of the Levy. Scotland is changing its system of Individual Learning Accounts by refocusing them as Individual Training Accounts (ITAs). ITAs will continue to give people access to up to £200 per year for training and skills development, but each course will now provide an industry recognised qualification. Eligible learners can apply for ITA funding from October 2017.

Taking on apprentices

Employers may find that an apprenticeship scheme can help to develop their workforce and fulfil their business's needs, as part of their overall strategic planning. Apprenticeships should be sustainable and address a real business need.

Apprenticeships can last from one to four years, depending on the level of qualification the apprentice is studying for.

Apprentices can be new or current employees, aged 16 or over and combine working with studying for a work-based qualification. The government funding outlined here does not, of course, pay the salary of an apprentice. However, there is a 0% rate of NIC for employers of apprentices. This rate applies to the earnings of under 25 year-old apprentices up to £892 per week for the current tax year.

Apprentices in England aged under 19, or aged 19 or over and in the first year of apprenticeship, are entitled to receive the apprentice rate of the National Minimum Wage, which is £3.70 an hour from April 2018.



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