

The Apprenticeship Levy

Overview for employers

In June 2015, the government announced that it would create 3 million apprenticeships starts by 2020 to widen employment opportunities for young people and address skills gaps in the labour market. The government then announced the introduction of a UK-wide Apprenticeship Levy in the 2015 Autumn Statement, which will generate £3 billion by 2020 and cover half the cost of creating the 3 million apprenticeships. The levy will be introduced on **6th April 2017**.

Skills is a devolved policy area, so although employers in Scotland, Wales and Northern Ireland will also be paying the levy, the way that they will receive their share of the levy and how much this will be worth is still being discussed and will be confirmed soon.

How much is the levy?

The levy is set at a fixed rate of 0.5% of an employer's total UK wage bill. However, the levy does not apply to the first £3 million of a wage bill, therefore **if your wage bill is £3 million or less, you do not need to pay the levy**. Employers who pay the levy will receive a £15,000 allowance to offset against their payment. However, employers who operate multiple payrolls will only be able to claim one allowance for the levy.

How much will my business need to pay?

You can calculate how much you will pay using this formula:

$$(\text{Total wage bill} \times 0.005) - \text{£15,000 allowance}$$

For example, if you have **150 employees** with a wage bill of £4 million:

$\text{£4,000,000} \times 0.005 = \text{£20,000}$. Then deduct the £15,000 allowance, and your levy rate will be £5,000.

If you have **200,000 employees** with a wage bill of £4 billion:

$\text{£4,000,000,000} \times 0.005 = \text{£20,000,000}$. Then deduct the £15,000 allowance, and your levy rate will be £19,985,000.

You can also use the [Skills Funding Agency's calculator tool](#) to find out an indicative amount.

How will the levy be paid?

Automatically through your Pay As You Earn systems. Your wage bill will be based on your total employee earnings subject to Class 1 secondary National Insurance Contributions.

What does my business get in return for paying the levy?

Employers who pay the levy in England **will receive the same amount back in digital vouchers** in the form of a **discount code** to deduct from the fees employers pay to training providers to deliver training to their apprentices. This discount code will be available through an employer's Digital Apprenticeship Service account. Employers will be able to browse different registered training providers, and book and pay for training with their discount applied through this platform.

In the Spring Budget 2016, the Chancellor announced that employers will receive a **10% top up** to their accounts each month, meaning that they will end up with 110% of their monthly levy cost to deduct from apprenticeship training fees. This discount **can only be spent on apprenticeship training** and not apprentices' salaries, which employers need to cover themselves, or other non-apprenticeship training.

There is a separate, lower National Minimum Wage for apprentices in their first year of training, and/or aged 16 to 18. For full details, [see the government's guidance here](#). Also, from April 2016, employers no longer need to pay National Insurance contributions for apprentices under 25.

Employers will have 18 months to use their discount balance on a rolling basis, and then any unused voucher credit will be put back into a national pot for other employers, including smaller employers who do not pay the levy.

How much does it cost to train an apprentice, and is this fully funded?

The maximum funding the government will provide to cover the cost of training for apprenticeship Standard* will be capped, based on the relative cost of training. There are 15 proposed bandings for these caps, ranging from £3000 up to £27,000 depending on training requirements - for example, an Advanced Standard in engineering will cost more to deliver than an Intermediate office-based Standard. Therefore, if the cost of training exceeds this cap, an employer will have to pay the difference.

If an employer has spent all their available funding and top up, the government is proposing to cover 90% of any additional training costs, and employers will cover the outstanding 10%. Final details on funding will be confirmed in October 2016.

**a Standard is the officially approved course of training for each apprenticeship route. These are being developed by groups of employers, and 100s of routes in different occupational areas are planned.*

We're a small employer so we won't pay the levy, can we still get funding for apprenticeships?

Yes, the government is proposing to cover 90% of training costs for all non-Levy paying companies, 100% of training costs for apprentices aged 16 – 18, and 100% of the apprenticeship training costs for small employers where the apprentice is a 19-24 year old care leaver or is 19-24 years of age and has a Local Authority Education, Health and Care plan. Final details on funding will be confirmed in October 2016.

If the funding available doesn't cover apprentices' salaries and I might have to pay part of the training costs as well, how can I offset the cost of the levy?

Even though the funding available does not cover all the costs of hiring an apprentice and will not directly offset the cost of the levy, employers can make huge long-term financial savings by developing strong apprenticeship schemes as a core part of their talent pipeline and central workforce development strategy.

Successful apprenticeship schemes generate significant savings through reduced recruitment and training costs as they provide a consistent source of high-skilled candidates moving up through the organisation as well as boosting productivity, increasing retention and bringing new expertise in an organisation.

Employers can also opt to convert existing employees or roles into apprenticeships, thus avoiding additional salary costs. However, this is only a viable option where a specific workforce training need can be identified as part of an employer's on-going business planning; using apprentices as a source of cheap labour instead of a genuine training opportunity to develop skills that will add value to the business will cause an apprenticeship programme to fail.

However, converting existing junior roles into apprenticeship routes where possible is an excellent way to create accessible routes into the business for young people, who will bring fresh skills and ideas with them.

How will the government ensure that the 3 million apprenticeships are good quality?

The government is establishing the new independent employer-led Institute for Apprenticeships to approve apprenticeship standards and ensure quality. This body will also set the funding levels for different apprenticeships. The government will also start to publish average apprenticeship pay by sector.

The word 'apprenticeship' is also going to gain a legal definition through the Enterprise Act, limiting its use to opportunities aligned to an approved standard. Employers who wish to deliver their own training in-house rather than through a training provider will need to register with Ofsted.

When is further information on the Levy due to be released?

October 2016

- the final levels of funding, from April 2017
- full, draft funding and eligibility rules

December 2016

- final detailed funding and eligibility rules
- further employer guidance from HMRC on how to calculate and pay the apprenticeship levy

Next steps

- Read the government's [guidance on the Apprenticeship Levy here](#).
- For more practical guidance about how to employ apprentices and information on the changes to the apprenticeship system, visit the [Vocational Routes](#) section of our Future Proof website. This includes our [Guide to Hiring Apprentices](#).