



HART L&D

GUIDE TO THE APPRENTICESHIP LEVY

NOVEMBER 2016



Introduction

Welcome to the Hart Learning & Development guide to the new apprenticeship levy.

Over the next two or three years the apprenticeship landscape will change beyond recognition. From May 2017 the levy will transform the way in which apprenticeships are funded and the basis on which businesses work with training providers, whilst so-called trailblazer reforms are already starting to change the way in which apprenticeships are designed, delivered and assessed.

Whatever your view on the levy - it's happening and you'll need to be prepared.

There are lots of reasons to be excited about the opportunities the levy creates - to tackle issues such as skills gaps in the workforce, competition for the best talent, retaining good people or addressing an ageing workforce. Apprenticeships are going to be for all, available for a huge range of roles and levels, and with fewer restrictions around who is eligible. If you're a levy payer, you can think of the apprenticeship levy as your (compulsory!) workforce development budget.

At Hart L&D we're passionate about the relationship between businesses and their future workforce. We exist to help businesses invest in emerging talent and secure the maximum return on that investment. Apprenticeships are our first love. They have a

unique power to transform the lives of young people – enabling them to build a career and realise their full potential in the occupation they care about most. They're equally powerful for businesses – boosting productivity, staff retention and bottom line business performance.

We've also learnt, though, that the best apprenticeship programmes form part of a wider, considered approach to business engagement with emerging talent. In our experience, the programmes that work best are preceded by meaningful business engagement with young people in schools and colleges and followed by structured career development pathways.

So whenever we talk to businesses about apprenticeships we like to do two really important things. First, we want to build our understanding of your business, your goals and challenges – so we can put ourselves in your shoes and make sure that our advice is right for your business. Second, we encourage you to think about your engagement with emerging talent in the round – so we can make sure we do something that joins the dots and adds real value.

The levy is coming. We're really excited about the new opportunities it brings – and we'd love to talk to you about it!



“ At Hart L&D we're passionate about the relationship between businesses and their future workforce. We exist to help businesses invest in emerging talent, and secure the maximum return on that investment.



Lucy Hann Managing Director, Hart L&D



Matt Hamnett Group CEO, Hart Learning Group



The Levy

EXPLAINED

What is the apprenticeship levy?

In July 2015 the Government announced the introduction of an apprenticeship levy. Businesses will start paying the levy in May 2017.

The levy is designed to encourage employers to embrace apprenticeships as a way of meeting their current and future skills needs. It will fund Government's ambition to support 3 million high quality apprenticeships over the life of the current Parliament, i.e. 2015 to 2020.

Who will pay the levy?

All employers in the UK with a payroll bill greater than £3m per year will have to pay the levy.

The levy will apply to employers in all sectors – including those already covered by statutory levy arrangements (e.g. construction and engineering construction).

If you already pay a levy, your industry training board (ITB) will consult with you on potential changes to your existing levy arrangements.

How much will I have to pay?

The levy will be charged at 0.5% of payroll.

All employers will receive an allowance of £15,000 to offset against payment of the levy. So only employers with payroll bills greater than £3m will have to pay the levy.

There will be a 'connected persons' rule, so if you operate multiple companies or payrolls, you will only be able to claim one allowance. You will be able to choose how to divide the allowance between the different connected companies.

For the purposes of the levy, payroll will include all wages, bonuses, commissions and pension contributions on which NICs are due. In technical terms, payroll means the total earnings upon which Class 1 secondary NICs are paid. It will not include other payments such as benefits in kind.

Worked examples

Employer A has a payroll of £10m per annum

- Levy charge = $0.5\% \times £10m = £50,000$
- Less allowance of £15,000
- Overall levy = £35,000 per annum

Employer B has a payroll of £25m per annum

- Levy charge = $0.5\% \times £25m = £125,000$
- Less allowance of £15,000
- Overall levy = £110,000 per annum

How will the levy be collected?

The levy will be collected monthly through Pay As You Earn (PAYE) alongside Income Tax and National Insurance.

Your £15,000 levy allowance will be translated into a monthly allowance of £1,250. If your levy liability in a given month is less than £1,250, you won't have to make a levy payment that month. Any unused allowance will be carried forward into the following month(s) until you've used it.

If the reverse is true, and you find that you have made levy payments, but not used all of your allowance you will be given a credit that you can offset against other PAYE liabilities.

At the end of the tax year HRMC will operate a rebate system to make sure that you pay the right amount of levy.

How will I be able access my levy?

You will be able to manage your levy through an account with the new Digital Apprenticeship Service. Once it's up and running, the Digital Apprenticeship Service will enable you to:

- See the levy funds you have available to spend in England;
- Select apprenticeship frameworks and / or standards you want to use;
- Confirm the training provider(s) you want to use to deliver your apprentices' training;
- Confirm the price you've agreed with your training provider;
- Pay for apprenticeship training and assessment;
- Choose an assessment organisation;
- Post apprenticeship vacancies.

You'll be able to register for your Digital Apprenticeship Service account from January 2017, giving you a few months to familiarise yourself with the system before you start using it to manage your levy.

What happens after I have paid the levy?

- Employers will be able to get out more than they put in. Government will top up your levy by 10%. This top-up will be applied to monthly funds deposited into your digital account. So if your overall levy, like employer A above, is £35,000 per annum, government will top this up by £3,500, giving you £38,500 in total to spend through the Digital Apprenticeship Service.
- You won't actually touch the money again, once you've paid your levy. When you choose which approved training provider(s) you want to work with, the Digital Apprenticeship Service will send the funding direct to them. If you're in a position to deliver high quality training in-house, there will also be the option for you to become an approved training provider yourselves.
- You will be able to negotiate a rate for an apprenticeship with your training provider, up to a maximum cap.
- If you operate in Scotland, Wales and / or Northern Ireland, you'll also need to be aware that those nations have slightly different policies regarding apprenticeships. Your levy payment will be split between the nations based on the number of your employees who live in each of the four nations.

What can the levy be spent on?

The levy can be used to cover the direct costs associated with apprenticeship training. We now know the key principles of what will be eligible spend - although government are still to publish the detailed rules.

Eligible spend will include:

- Spend on training that supports learners in fulfilling the requirements of their apprenticeship.
- Spend on formal assessment associated with learners' apprenticeship.

The following spend will be ineligible:

- Apprentices' wages, whilst fulfilling their mainstream duties and / or whilst undertaking off-the-job training linked to their apprenticeship.
- The wages of apprentices' line managers and colleagues supporting them through their apprenticeship.

- Training that is specific to your business and not linked to the requirements of the apprenticeship, e.g. corporate induction, health and safety.
- Training for employees who are not apprentices.
- Training costs for apprentices who started their apprenticeship before May 2017.

Who can I spend my levy with?

One of the great things about the levy is that you can choose who you want to work with to deliver your apprenticeship programme. You will be able to choose from a list of approved providers through the Digital Apprenticeship Service.

You can choose to work with different suppliers for different specialisms - or let one partner handle everything for you. You'll know that suppliers on the DAS have met certain quality checks, although you'll probably want to check them out for yourself as well.

If you're deeply immersed in the apprenticeship world there's the option of becoming a training provider yourself and training your apprentices via an internal training function. There are quality and audit requirements that you'll have to meet so this isn't a roundabout route to getting out of paying the levy - but if you're confident you've the right expertise in house then it's worth considering.

Is there a limit on how many apprentices I can train?

No.

Once you have fully utilised your levy, along with the government top-up, you will still be able to offer further apprenticeships provided you make a financial contribution. Government are promising to fund 90% of training costs (up to a maximum cap) if you pay 10%. Given the range of training available through apprenticeships, this could be a very attractive way of developing your workforce.

You may also want to top up your levy to deliver the programme that's right for you in terms of the breadth of activities you want to include in your programme, over and above what's required to fulfil the apprenticeship rules. There will be nothing to stop you doing this and paying training providers directly for this.

THE LEVY EXPLAINED



How long do I have to spend the levy?

The levy comes into effect from May 2017.

You will be given 24 months to spend your levy before you 'lose' it and can't get out everything that you've paid.

As you start to think about the levy, it's worth considering the lead times involved in building a substantial apprenticeship programme, in terms of:

- The time it might take to design the programme that will really work for your business;
- Getting buy-in from across your business;
- Mobilising to deliver with whichever training provider(s) you choose;
- Recruiting the right individuals.

So you might want to get a wriggle on if you want to spend all of your 2017 levy!

So what are my options?

If you are an employer subject to the levy, you have a number of options:

- Start employing apprentices or increase the number of apprentices you employ.
- Don't do anything and just pay the levy as a tax.
- From 2018 you'll also have the option to transfer up to 10% of your levy funds to

another employer. This may open up interesting opportunities for you to work together with other businesses, including in your supply chain.

What if my business is too small to pay the levy?

If you're not a levy payer, it's your choice whether to pay to train apprentices - but if you do, there are some pretty substantial government subsidies on offer. You'll pay just 10% of the cost of training and government will pay 90% (or 100% if you have fewer than 50 employees and take on a 16-18 year old).

You won't have to use the Digital Apprenticeship Service until at least 2018 - although you might want to use it to help you find a training provider.



Intro to APPRENTICESHIPS

Who can be an apprentice?

If you're thinking that apprenticeships

What is an apprenticeship?

An apprenticeship is a work-based training programme which includes a combination of on and off the job training. Apprenticeships:

- Are real jobs. Apprentices must be employed for at least 30 hours per week.
- Include formal and informal, on and off the job training.
- Contain nationally recognised qualifications relevant to the occupation.
- Typically last for 1-2 years, but can last longer in more technical areas, and / or at higher levels.

Are there apprenticeships suitable for my sector?

Apprenticeships are available in a huge range of occupations, and at different levels.

There are now apprenticeships available for over 1,500 job roles, in occupations ranging from construction and engineering to accountancy and management consulting – and at levels ranging from the equivalent of five good GCSEs to master's degree level.

More apprenticeships are in development all the time. And if you can't find an apprenticeship that works for your business, you can now work with other willing businesses in your field to develop one that does, through the 'trailblazer' process. We can explain that to you in more detail if you're interested.

about school leavers, think again. While apprenticeships for young people are really important, they can be used to support people of all ages to develop their skills and build a career in a new occupation. Apprenticeships can be how you develop your managers, give your staff professional qualifications or train skilled technicians - and you can pay for them all from your apprenticeship levy. Government are loosening eligibility rules so you'll be able to use your levy funds to pay for more or less any apprenticeship for anyone, as long as they're not simply repeating what they've previously studied - so no problem if they already have qualifications, or even a degree.

It'll take a bit of getting used to for you and your staff, but apprenticeships are about to become the route to workforce development for everyone.

Are apprentices employees?

Apprentices are employees, with the same rights as any other employee. They must be employed for at least 30 hours per week to be an apprentice.

Government are desperately trying to make it easier and more attractive for you to employ apprentices so, from April 2016, you won't have to pay National Insurance contributions for apprentices under the age of 25.

There is also an extra incentive payment of £1000 if you employ a 16-18 year old apprentice.

You can employ apprentices on fixed term contracts coterminous with the duration of their apprenticeship programme if you wish. Equally you can employ them on permanent contracts like most of your other employees. It's your decision.

How much should I pay my apprentices?

There is an apprenticeship minimum wage of £3.30 per hour for all apprentices aged 16-18 and apprentices aged 19+ in the first year of their apprenticeship. All other apprentices are entitled to the national minimum wage (NMW) for their age.

There's nothing to stop you from paying your apprentices more than the NMW, though. We encourage our clients to think about how and when apprentices should progress to join the mainstream pay scale for their job role, often via a distinct apprenticeship pay policy.

What do I need to do as an apprentice employer?

As an apprentice employer there is a small number of things that you're required to do:

- Employ your apprentices for at least 30 hours a week and give them real work to do.
- Pay them at least the apprenticeship minimum wage.
- Allow them time away from their mainstream duties to complete their off the job training and assessment.

Beyond those requirements, there are lots of things that you can do to make your apprenticeship programme work well and really stand out in the marketplace. You might think about how you create unique learning experiences for your apprentices through buddying arrangements, group projects, shadowing senior managers or working in the local community. We'd always encourage you to think about what you're doing in other areas that could easily form part of your apprenticeship offer.

How much time will they spend off the job?

Your apprentice will need time allocated off for the job learning. Government says that in the future, apprentices should spend 20% of their time off on the job learning. What this looks like will depend on the apprentice's role and level but it doesn't have to be a fixed one day a week away from the workplace unless that's what suits you best.

You can work with your training provider to develop a schedule and model that works for you - which might include group classes, one to ones, self directed study or e-learning. If you have fantastic, relevant internal learning and development products they can also be incorporated into an apprenticeship model.

Our approach

“ The best and most effective apprenticeship programmes form part of a wider, considered and structured, approach to engaging with and investing in emerging talent.

The introduction of the levy will encourage lots of businesses to think about apprenticeships for the first time. It will also cause many businesses that are already engaged to reflect on how they might further develop and grow their apprenticeship programmes; half a per cent of a big number is a very big apprenticeship programme!

We'd encourage you to start by thinking slightly more broadly than just apprenticeships. We believe passionately that the best and most effective apprenticeship programmes are those

which form part of a wider, considered and structured, approach to engaging with and investing in emerging talent and workforce development.

We like to think about three distinct phases through which employers can engage with emerging talent – and we use the image below to illustrate our thinking.



1

Engaging

The engaging phase is about developing a relationship with your future workforce. It's about working with young people to help inform and inspire them about careers in your sector, making sure that their education is preparing them for the realities of the world of work in your sector – and giving them their first experience of the workplace.

The sorts of things you might do in this phase include:

- Offering work experience placements to school and college students.
- Your staff talking to students in schools and colleges about their career paths.
- Attending careers fairs to talk to students about your sector and business.
- Working with schools and colleges to shape the substance of full time programmes.

We find that many businesses are already doing a great deal in this phase under a community engagement or social responsibility banner. The simple but powerful trick is often to make sure that these activities are connected to your subsequent efforts to attract candidates to job and apprenticeship vacancies.

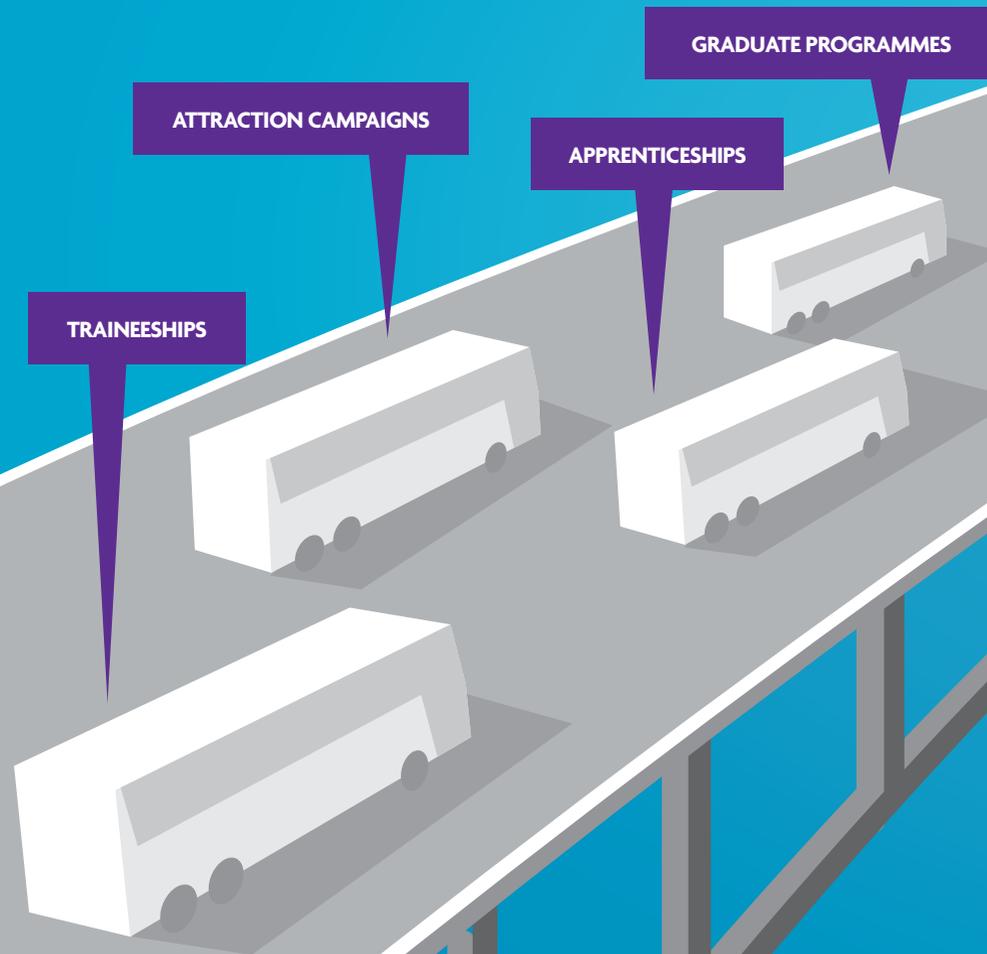
Our relationship with North Hertfordshire College and the Hart Schools Trust gives us fantastic, practical insights to how businesses can realise huge impact from what is often quite a tightly defined programme of engagement activity.

CAREERS TALKS

OUTREACH ACTIVITIES

WORK EXPERIENCE

CURRICULUM INPUT



Training

The training phase is about how you attract and then train young people when they first join your business, particularly given the advent of the levy that could very well be through an apprenticeship. It could also be a graduate programme, or bespoke initiative, that meets the particular needs of your business. The better and more joined up your work in the engagement phase, the easier you'll find it to attract and retain the best candidates from a broad, diverse, talent pool to fill your apprenticeship vacancies.

The sorts of things you might do in this phase include:

- Providing work experience placements for young people on a traineeship programme, often with the prospect of an apprenticeship, if you think the young person is a good fit for your business.
- Running campaigns to attract young people to your organisation; this might include targeted efforts to attract candidates from different communities and talent pools.
- Your apprenticeship programme(s) – looking across the full range of business units and occupations in your organisation; many businesses have fantastic apprenticeship programmes in one part of their organisation, but have not yet touched others.
- Your graduate programme; as your engagement with apprenticeships grows, the relationship between your apprenticeship and graduate programmes will become increasingly important.

3

Progressing

The progressing phase is about what happens next. If you're going to retain your best young talent in a vibrant labour market, you need to offer clear development and progression opportunities beyond the initial apprenticeship or graduate training programme. If you're going to maximise your return on investment in emerging talent, you need young people to realise their full potential and progress as far as their talent will take them in your business.

The sorts of things you might do in this phase include:

- Clearly defined career progression pathways so that apprentices can understand their next step in the organisation.
- Higher level and professional apprenticeships offering onward training as apprentices take up management, leadership or more demanding technical roles.
- Programmes to identify and support future leaders to progress through your organisation.

“We're realistic people in Hart L&D. We know that you're busy and that every hour you and your people spend away from their day job costs you money that might otherwise drop to the bottom line. We don't advise or insist that our clients do everything we've described. We do help you think about what you're already doing and how you could join the dots. We help you think about what would work best for your business and how you can get the maximum return on your investment in emerging talent.”

PROGRESSION PATHWAYS

HIGHER LEVEL APPRENTICESHIPS

FUTURE LEADERS' INITIATIVES



ILLUSTRATIVE *examples*

SCENARIO 1:

A professional services firm

HartAdvice LLP is a professional services firm with 1100 partners and staff in the UK. Its levy cost will be £0.5m per annum. HartAdvice has historically had little or no engagement with apprenticeships – although some longer-serving staff can recall a time when non-university based entry routes were more common.

It decides to pilot an apprenticeship entry route, using higher level apprenticeships. It hopes to use this route to recruit from a broader cohort, and so address issues around workforce diversity and bring new ideas into the business. Recognising that simply recruiting at apprenticeship level alone may not achieve these objectives, it also launches a programme of engagement and attraction activities in communities near its larger offices, aiming to encourage young people who might not otherwise consider careers in professional services to apply. It also encourages support functions to consider how they could be using apprenticeships to fill vacancies and bring in new talent – getting a particularly positive response from its procurement and facilities functions.

In total, HartAdvice takes on 40 apprentices in its first year – whose training absorbs some, but not all, of its levy costs. It plans to increase volumes further if the first cohorts prove a success, and also enters into discussions with its supply chain about options for them to access apprenticeship training using its levy contributions.

“ Apprenticeships are powerful for businesses – boosting productivity, staff retention and bottom line business performance.

SCENARIO 2:

A digital company

HartWeb Ltd is a digital content company with a turnover of £50m and a payroll of £25m per annum. Its levy cost will be £110k per annum. HartWeb aims to promote itself as a young and vibrant employment brand and currently invests heavily in graduate recruitment.

HartWeb decides to pilot higher level and degree apprenticeships (with an initial cohort

of 10 apprentices in technical roles) with a view to moving to a mixed apprentice and graduate recruitment model in future if the pilot is successful. It also – with the help of its training provider – plans to get involved in careers events at schools and colleges near its main offices, in order to raise awareness of its apprenticeship programme and encourage more young people to consider digital careers.



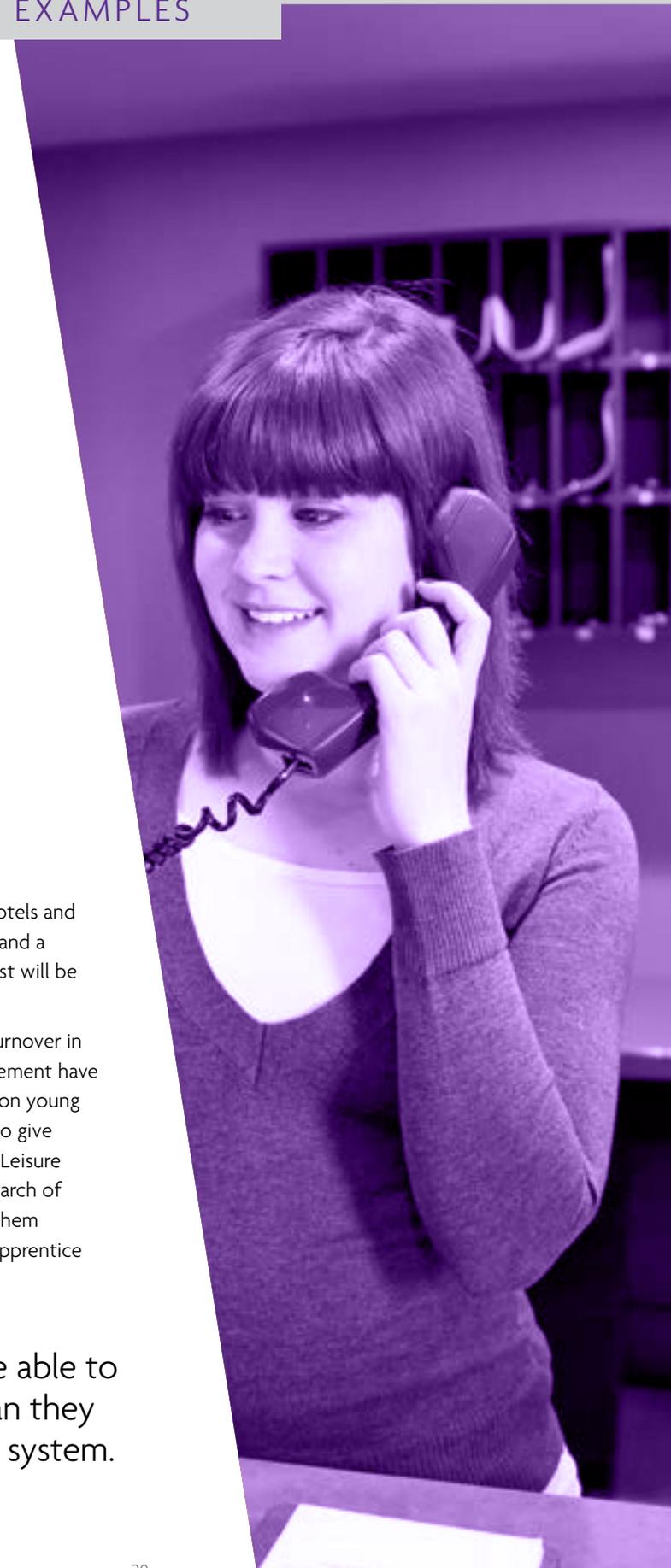
SCENARIO 3:

A small hotel chain

HartLeisure Ltd is a small chain of 5 hotels and restaurants. It has a turnover of £11m and a payroll of £4m per annum. Its levy cost will be £5k per annum.

HartLeisure's main issue is with high turnover in its front of house staff. While management have historically been unsure about taking on young people into these roles, they decide to give it a try. A training provider helps HartLeisure to source a few college students in search of work experience – and when one of them really impresses, they are offered an apprentice receptionist position.

“ Employers will be able to get out more than they pay into the levy system.



SCENARIO 4:

Large retail chain

HartShop PLC is a FTSE 100 retailer. It has a payroll of £900m per annum. Its levy cost will be £4.5m per annum.

HartShop already has a significant apprenticeship programme, numbering several hundred apprentices, alongside wide-ranging staff development and CSR programmes.

It decides to increase the numbers of apprentices that it takes on, including rolling out the programme to its back office functions, as well as increasing the number of retail apprenticeship positions on offer. It plans to use higher level apprenticeships to recruit to and/or progress existing staff into management and professional roles. In total it aims to increase its apprenticeship posts to around 800 per annum in two years' time.

HartShop takes the opportunity to review its CSR programmes to increase its involvement in employability programmes focused on NEETs – which in turn feed into its apprenticeship programmes. It is also able to re-focus staff development activities to address other longstanding skills issues in the workforce.



“ Apprenticeships have a unique power to transform the lives of young people – enabling them to build a career and realise their full potential in the occupation they care about most.

SCENARIO 5:

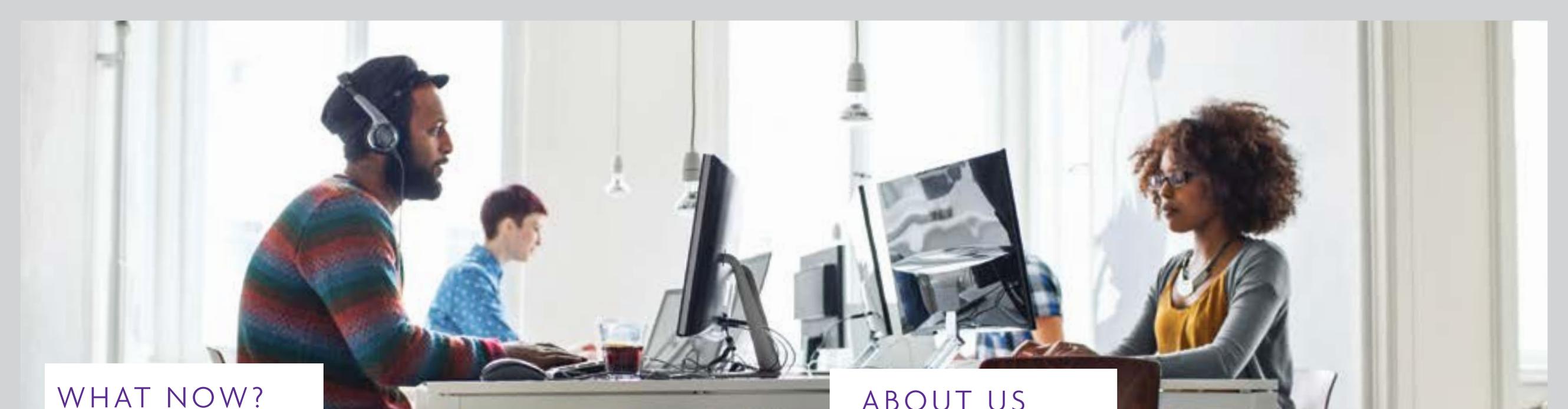
A general hospital

Hart Town General Hospital NHS Trust has 1500 FTE employees and a payroll of £55m per annum. Its levy cost will be £260k per annum. Further, it is subject to the public sector apprenticeship targets and so must have at least 2.3% of its workforce (35 FTE) as apprentices. The hospital has in the past employed apprentices, but not sufficient to meet these targets.

The hospital management review their options and decide that this represents an opportunity to tackle their issues regarding staff retention and turnover – and also gives them an opportunity to contribute to training their own nursing workforce in light of changes in that profession.

They decide to launch a structured apprenticeship programme across front line staff (health care assistants and trainee nurses following the new apprenticeship path to nursing) and support roles (including finance, administration and facilities), taking on around 40 apprentices per annum into substantive roles.

The hospital is able to pay for the costs of training from its Digital Apprenticeship Service account. In addition it benefits from lower costs to hire and retain staff in the vacancies converted to apprenticeships.



WHAT NOW?

The levy is coming!

There's not long to go now until May 2017. If you're going to make the most of the new rules now is the time to be getting really into the details of your plans. Do you know where your training needs - met or unmet- are and how apprenticeships can fill them? Have you reviewed your attraction strategies and career paths to see how you can bring in the best people and keep them with you after their initial apprenticeship? Have you factored impacts on your training budgets into your financial planning? Have you piloted apprenticeship programmes so that you know what works before you launch in a big way? Doing these things now will mean that when May rolls around, you'll be well prepared.

Whatever position you're in, we hope you've found this guide useful. We'd be thrilled to talk to you, and help you shape your response to the levy. If you drop us a line we'd be more than happy to chat to you and whichever colleagues in your organisation you think would be interested in the levy.

You can also follow us on social media. We're a pretty noisy bunch so you'll see lots of content from us about the different ways in which we think businesses can engage with emerging talent, and how we think you might be able to make the levy your friend.

Contact us

hartld.co.uk

[@hart_ld](https://twitter.com/hart_ld)

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ABOUT US

Hart Learning & Development is a progressive learning and development business which supports businesses to engage with and invest in emerging talent. We help businesses of all sizes to attract and retain the talent they need - whether that's working to engage young people about the world of work, recruiting and training the right talent, or providing opportunities for onward career progression.

We're really fortunate to be part of the Hart Learning Group, a charitable organisation with a mission to create social and economic value through learning. The Group also includes North Hertfordshire College (a further education college with campuses in Stevenage, Hitchin and Letchworth) and the Hart Schools Trust.

We believe that six things make Hart L&D unique in our market:

- A unique perspective: We think about engagement with emerging talent in the round - crossing the traditional boundaries between school, college and the workplace. That ability to help our clients across the board makes us, pretty much, unique.
- Relationship with and insight into young people: We can help businesses find the best new recruits from our talent pool and beyond. We understand what employer expect from new recruits. We're experts in engaging with young people and preparing them for the reality of the world of work.
- Solutions that start with business: We focus on solutions that work for businesses - supporting their goals and addressing their challenges. We help our clients access public funding to support the costs of training - but we don't let that distract us from meeting their needs.
- Breadth and depth of expertise: We can access a huge pool of expertise of colleagues right across the Hart Learning Group to deliver for almost any level or occupation.
- Progressives with a passion for innovation: We're constantly thinking about what the future looks like for our clients. The apprenticeship landscape is changing rapidly and we help our clients seize the opportunity to maximise their return on investment.
- A values-driven business: As a not for profit organisation, we reinvest every penny into improving our delivery. Everything we do is about delivering an exceptional, relevant experience for our clients and our learners, which delivers real results for both.



HART

LEARNING + DEVELOPMENT