

## **The Apprenticeship Levy - A briefing note for Northern Ireland employers**

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This briefing note aims to provide Northern Ireland construction employers with an update on the current status and potential implications of the new Apprenticeship Levy.

### **Background**

The Government's 2015 Spending Review and Autumn Statement on 25<sup>th</sup> Nov 2015 announced a new Apprenticeship Levy on large firms to be introduced in April 2017 with the Apprenticeship funding model expected to be rolled out to all employers by 2019.

As the detail behind the Governments proposals is being developed on an ongoing basis and is further developed in England than in Northern Ireland, Scotland or Wales it is therefore subject to change so this briefing note is accurate at the date of issue.

### **Who will pay the new apprenticeship levy?**

- All employers with a pay bill of more than £3 million will pay the Levy. The Government estimate that this equates to less than 2% of UK employers

### **How much levy will employers have to pay?**

- The rate for the levy **will be set at 0.5% of an employer's pay bill** and will be collected via the Pay As You Earn (PAYE) scheme.
- Levy will only be payable **on a pay bill in excess of £3,000,000** – employers with a pay bill less than £3,000,000 will not pay the apprenticeship levy.
- Employers will receive an allowance of £15,000 to offset against their apprenticeship levy payment.
- Employers based in **England** who pay the Apprenticeship levy will be entitled to a Top Up of 10% of their levy paid.
- Employers pay bill will be calculated based on total employee earnings; it will not include other payments such as benefits in kind and will apply to total employee earnings in respect of all employees.
- The Levy will not apply to Labour Only Sub contractors

#### **Examples:**

##### **Employer with annual pay bill of £5,000,000**

Levy sum:  $0.5\% \times £5,000,000 = £25,000$

Allowance:  $£25,000 - £15,000 = \mathbf{£10,000}$  annual levy payment

##### **Employer with annual pay bill of £2,000,000**

Levy sum:  $0.5\% \times £2,000,000 = £10,000$

Allowance:  $£10,000 - £15,000 = \mathbf{£0}$  annual levy payment

### **How will the apprenticeship levy be managed?**

- The Institute for Apprenticeships will be established in **England** to oversee the distribution of the apprenticeship levy in England via a new Digital Apprenticeship Service (DAS) account. Currently there are no arrangements for distribution of the apprenticeship levy in the devolved nations of Northern Ireland, Scotland or Wales.
- They will also be responsible for approval of apprenticeships standards and assessment plans in England and advise Government on funding allocation for each Apprenticeship standard.
- BIS have indicated that 20-25% (£600m) of apprenticeship levy funds will be used to administer the process.

### **What about the Devolved Nations?**

The levy will apply to employers across the UK, **however:**

- It has been made very clear that the levy will apply UK wide and that the Devolved Administrations have no role in tax policy matters
- The Chancellor estimates that by 2019-20 the levy will raise £3billion, £0.5billion will be made available to the Devolved Administrations.
- HM Treasury have indicated the potential funding from the levy for Northern Ireland under the Barnett formula would be £83m based on a 2.8% population share, but this could decrease to £53m.
- The funding required for NI traineeships and apprenticeships in 2014/15 was £67m.
- The Northern Ireland assembly has not yet agreed how any funding raised by the Apprenticeship Levy should be used or distributed in Northern Ireland.
- Since the Apprenticeship levy is not a hypothecated tax any funding received via Barnett would not be ring fenced for apprenticeships, so there is no guarantee that funds will be spent on apprenticeships or indeed training.
- Northern Ireland has pursued a policy of 'quality' apprenticeships typically lasting three years and leading to an NVQ Level 3, rather than the more volume based approach being taken in England.
- In the English apprenticeship model almost any job whether new job role or not, could be deemed an apprenticeship if there is 20% of "off the job" training associated with it and this practice could be perceived as up-skilling and requires substantial and sustained training lasting a minimum of 12 months.

### **What about the existing construction levy, will I have to pay two levies?**

- CITB NI will work with Government and employers to consult with employers ahead of the introduction of the apprenticeship levy on how existing Northern Ireland construction levy arrangements will be affected and whether any changes will be required.
- In GB, CITB GB are planning to mitigate the impact of the apprenticeship levy and the CITB GB levy for 12 months through enhanced grant payments related to training.
- BIS have advised that employers who do not have to pay the levy may still be liable to contribute to a co-funding element of an apprenticeship.
- Further information is expected during Summer 2016 on how employers will pay and access the levy, co-funding and top-up rates.

### **Other considerations**

- The introduction of the National Living Wage in April 2016 could contribute to apprenticeships being used as an opportunity for cheap labour.
- Public sector bodies with at least 250 employees will be required to ensure a minimum of 2.3% of their recruits each year are apprentices

- A new funding model is currently under development in NI to enable an effective methodology for funding the reformed system of apprenticeships and traineeships. It remains to be seen how two different funding models could have the compatibility to allow an organisation headquartered in England but with operations across the UK to access credits for training in NI.
- The English proposals to drop National Occupation Standards could cause difficulties with aligning and comparison of training standards across the UK. This could also have a negative impact on apprentices receiving training in one jurisdiction who wish to move to work in another jurisdiction.
- NI companies with staff payroll based in other parts of the UK are likely to operate under at least 2 systems for distribution of the apprenticeship levy funds. Those with offices registered in England will be part of the proposed “voucher” system.

### **What happens next?**

- The UK Government will be producing an Employers Guide to the Apprenticeship Levy. This is due to be published in April 2016
- The UK Government has said they will continue ongoing work with the Devolved Administrations to resolve the practical issues of implementation, funding flows and the interaction of the levy with devolved skills responsibilities to ensure the levy works for employers across the UK.
- CITB NI along with other NI bodies are raising the issue of how Apprenticeship Levy funding should be used in Northern Ireland.
- The previous NI Minister for Employment & Learning wanted NI Apprenticeship Levy funding to be made fully available and ring fenced for wider skills development, including apprenticeships. The belief was that in NI it was important that the levy funding would focus on the wider skills agenda, including: apprenticeships; youth training; up-skilling the existing workforce and further and higher education. The view of the new Ministers and Departments remains to be seen.