



Apprenticeship

Funding Reforms

Are you ready?

**An
Information
Guide**



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Introduction

“Change is the law of life and those who look only to the past or present are certain to miss the future”

The quotation above, from John F. Kennedy perfectly sums up the mind-set employers should consider adopting in relation to the government’s proposed apprenticeship funding reforms.

The aim of these reforms from a government perspective is to create: A high quality employer led apprenticeship system, underpinned by a high quality, flexible and responsive provider base.

Implementation of these reforms is planned for May 2017 and if they are not given the focus they deserve there is a risk that the benefits to employers, individuals and the economy, that apprenticeships bring may be negatively impacted.

The current reforms have been developed in response to 892 instances of employer and provider feedback, as well as direct engagement with hundreds of employers and providers on the original proposals that were released on 12th August 2016.

Ask yourself the following two questions:

- 1. Are you an employer with less than 50 employees?
- 2. Do you wish to only employ apprentices aged between 16 and 18?

Unless you answered YES to both of those questions then from May 2017, under these reforms, as an employer you will need to pay towards your apprenticeship training and assessment.

This Information Guide is to provide an overview of the reforms, including worked examples in an attempt to increase awareness of these changes.

The guide takes information from a number of sources, amongst others, Professional Body webinars, government guidance and Awarding Organisation (AO) briefing sessions, it is laid out in a structured & simplified format covering a number of areas and can be used as a quick reference guide.

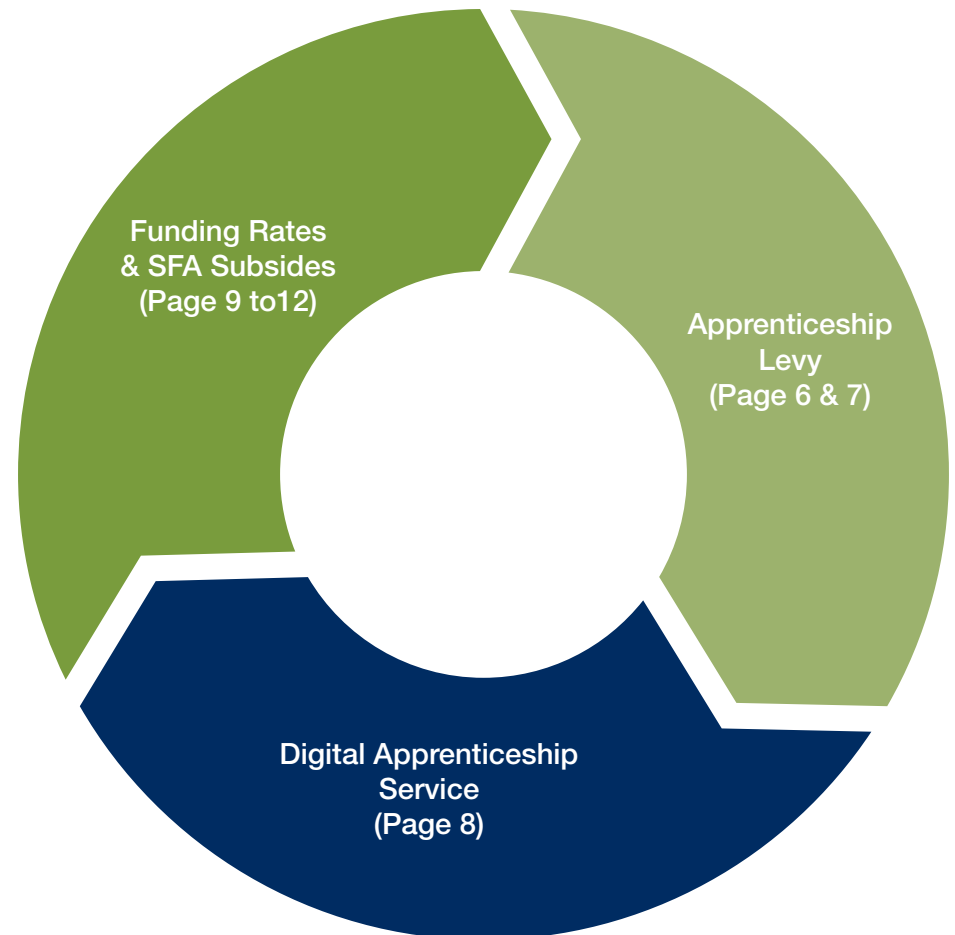
**For any further information please contact TDR Training using:
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0191 4911505**

Three is the key

There are **THREE** main elements to the funding reforms, they are as follows:

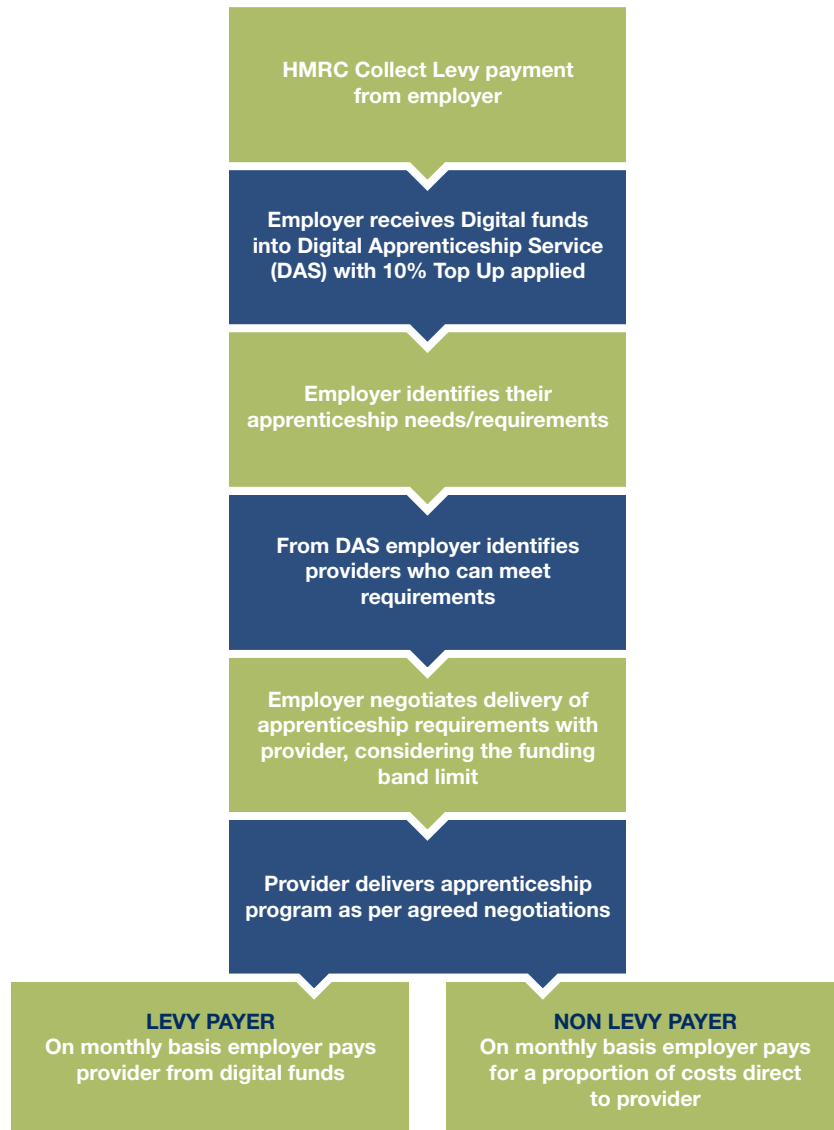
- 1. Apprenticeship Levy**
- 2. Digital Apprenticeship Service**
- 3. Funding Rates & SFA Subsidies**

...the remainder of the information guide covers the three elements in more detail.



Funding Process Flowchart

The Flowchart below provides a simplified overview of the funding process, with more detail to be found within the information guide.



Apprenticeship Levy Overview

A levy can be defined as...

“An amount of money, such as a tax, that you have to pay to a government or organisation”

The Apprenticeship Levy is a monetary amount that eligible employers will pay the government from April 2017, these levy payments will form the basis of the way the government funds apprenticeships.

Only employers with a pay bill of **over £3,000,000** will pay the Levy and it will only be on **any value above £3,000,000**

This is because there is an **initial £15,000 levy deduction** for all employers.
0.5% of £3,000,000 = £15,000

This deduction is **not a cash payment**, it simply means that employers will not pay any levy payment unless their pay bill rises above £3,000,000

Your pay bill is made up of the total amount of your employees’ earnings that are subject to Class 1 National Insurance contributions. You will report and pay your levy to HMRC through the PAYE process.

The government hope that the levy will ultimately lead to greater levels of investment in training and it will allow employers more influence over the design of and payment for apprenticeships.

The government envisage half of all levy pots to be used so that ultimately levy paying employers will majority fund the apprenticeships of Non Levy Payers.

Putting these values into context, the government have stated that approx. 2% of employers in the UK will have to pay the levy.

Employers who pay the levy will receive digital funds to the value of their levy contributions. It is these digital funds that can be used to pay for apprenticeship training and assessment.

Levy paying employers will also receive a 10% top up to their digital funds.

Paying the Levy and spending digital funds

Eligible employers will pay the Levy from April 2017. The Levy amount payable is based on an employer's cumulative UK pay bill over the financial year.

An employer's first Levy declaration will be May 2017 and digital funds will appear in the employer's digital account shortly after.

Apprenticeship Frameworks and Apprenticeship Standards (Trailblazers) are currently funded differently. From 1st May 2017 there will be one single funding system in use.

Any apprenticeships started before May 2017 will maintain the current funding approach.

The new funding system will be made up of 15 funding bands, ranging from £1,500 to £27,000.

Digital funds can only be used post 1st May 2017 on apprenticeship training and assessment that meets the following criteria:

- Training and assessment is against an approved framework or standard.
- Training and assessment is with an approved training provider and assessment organisation.
- Training and assessment equates to the funding band maximum for that apprenticeship.

Apprenticeship delivery has to be through an accredited training provider who will be listed on the Digital Apprenticeship Service (DAS) portal.

If a levy paying employer has unused digital funds the following rules apply:

- For the 1st year employers cannot transfer their unused funds to another employer.
- If at the end of the 1st funding year there are any unused funds they will stay in the digital account and expire after 24 months.
- From 2018, employers will be able to transfer 10% of their annual digital funds to another employer (e.g. into their supply chain).

Digital Apprenticeship Service (DAS) Overview and finding a provider

The DAS is the digital platform the government are introducing to support this new funding system. All Apprenticeship Levy and Funding reform functions will be accomplished through this computer system.

The DAS will show an employer the following information:

- How much they have paid into the levy.
- How much they have to spend on Apprenticeships in England.
- Their Top Up Value.
- Forecasted payments over the coming months.
- How much funding they have left.

The DAS will be the platform from where you choose the provider you wish to deliver the Apprenticeship.

In order to appear on the DAS all Providers who wish to work in the Apprenticeships Domain must apply to be on the Register of Apprenticeship Training Providers (RoATP).

In the past providers could remain "invisible" through other organisations and "lower value" contracts, but government concerns over this process have led to the new approach.

This register will focus specifically on Apprenticeships, quality assuring delivery not only for the government but also employers.

Once Providers have successfully gained a place on the register then they will appear on the Find a Provider section of the DAS.

Negotiations will take place between employer and provider around the delivery package and once the employer selects a provider from the DAS they enter into a contract of sorts with them.

From a Skills Funding Agency (SFA) perspective the RoATP was needed because:

- More employers are expected to want to deliver apprenticeships/become a provider.
- The SFA expect new providers to deliver new standards.
- The SFA expect investment and more demand for Apprenticeships.

Funding Rates & SFA Subsidies Overview

Under these Funding Reforms there have been 15 Provisional Funding Bands created.

Band Number	Band Limit
1	£1,500
2	£2,000
3	£2,500
4	£3,000
5	£3,500
6	£4,000
7	£5,000
8	£6,000
9	£9,000
10	£12,000
11	£15,000
12	£18,000
13	£21,000
14	£24,000
15	£27,000

These bands are intended to be the basis of “simplifying” current funding rules, regardless of age or geographic location, which at present are influencing factors.

Every apprenticeship will be placed within one of these funding bands and the band maximum will limit the following:

- Amount of digital funds a levy paying employer can use towards an apprenticeship.
- The price the government will co-invest for non-levy paying employers or those that have insufficient digital funds.

There is only an upper limit on bands there is no lower limit, employers are free to spend more than the upper limits using their own money.

These funding bands have been based on the current funding rates for Adult Apprenticeships then rounded up or down to the nearest of the 15 bands.

Science, Technology, Engineering & Mathematics (STEM) pathways have had the following increases to the Adult rates above:

- Level 2 Apprenticeship – 40% increase.
- Level 3 Apprenticeship – 80% increase.

The funding bands for standards (Trailblazers) are more than that for frameworks as it is the intention for standards to be more robust than frameworks, thus more expensive to deliver, particularly in the case of end point assessment.

Funding Rates & SFA Subsidies Non Levy Payers

‘I don’t pay the levy’

‘My levy payments fluctuate with seasonal workers’

‘My levy pot is empty’

The statements above will apply to a lot of employers and in these cases, in comparison with levy paying employers the rules and subsidies do differ.

Known as the Co-Investment model:

- Non Levy payers will be required to pay 10% of Apprenticeship training and assessment.
- The remaining 90% of the Apprenticeship training and assessment will be funded by the government up to the limit of the funding cap.

If you are a levy payer but you run out of digital funds then you must also adopt this model with the following approach being adopted:

- The employer will pay what they can from their digital funds.
- In relation to the amount the employer cannot pay, the government will fund 90% and the employer needs to fund 10%

Employers with less than 50 employees who recruit a 16-18 year old or a 19-24 year old who has been in care or who has a care plan will have 100% of Apprenticeship training and assessment funded by the government.

Some employers may need to pay the levy in some months but not others, particularly in the case of seasonal workers. The PAYE system will ensure that employers pay the correct amount of levy tax for the year.

If you do not pay the levy, you won’t need to use the DAS to pay for apprenticeship training and assessment until at least 2018. You will pay the Co-Investment value directly to the provider, being able to spread it over the life time of the apprenticeship.

Other payments

The Apprenticeship Grant for Employers of 16 to 24 year olds (AGE Grant) will cease to exist in line with the funding reforms becoming “live”.

There are however some alternative “incentive” payments being offered:

- Employers recruiting a 16-18 year old apprentice will receive a one off payment of £1000 paid in 2 equal instalments at 3 months and 12 months after apprenticeship start.
- Employers recruiting a 19-24 year old apprentice who has been in care or who has a care plan will receive a one off payment of £1000 paid in 2 equal instalments at 3 months and 12 months after apprenticeship.

Initially payments will be paid to providers to pass onto the employer, however in the future payments will go directly to the employer.

Cross Border Funding Rules

Cross Border Funding Rules apply to those employers who operate across the United Kingdom.

In these cases Cross Border Funding Rules can be split into three parts:

1. Paying the Levy.

- The employer will pay the levy on the entire UK pay bill, it doesn't matter where they live or work and there are no exceptions

2. The funds that go into the Digital Account.

- The funds that go into the employers digital account will equal the levy paid on employees with an English home postcode

3. Spending the funds in the Digital Account.

- The digital funds can only be spent on Apprenticeship training and assessment for those employees with whose main place of work is in England. That is where the apprentice is expected to spend the majority of their time during their apprenticeship (50% or more)

The intention is to make sure the system is joined up with the government working closely with the Scottish Welsh and Northern Irish governments to share what they are doing.

Summary/What Happens Next?

Three is the key. There are **THREE** main elements to the funding reforms, they are as follows:

1. Apprenticeship Levy
2. Digital Apprenticeship Service
3. Funding Rates & SFA Subsidies

Remember it is **more than just the Apprenticeship Levy!**

At this moment in time the next steps to move the reforms forwards are as follows:

- December 2016.
- Further employer guidance from HMRC on how to calculate and pay the apprenticeship levy.
- February 2017.
- First edition of the RoATP published.

**“The first step toward change is awareness.
The second step is acceptance”**

-Nathaniel Branden

Worked Example 1 Levy Payer with Cross Border Workforce

Scenario

Acme Ltd. employs 400 people and has an annual pay bill of £5,000,000. 80% of their pay bill is paid to their employees that live in England.

Levy Amount Calculation

HMRC collect 0.5% of the UK paybill, 0.5% of £5,000,000 = £25,000

There is a government levy allowance of £15,000 which must be taken from the initial value £25,000-£15,000 = £10,000

Acme Ltd will pay an annual apprenticeship levy payment of **£10,000/year.**

Acme Ltd. will pay a monthly apprenticeship levy payment of £10,000/12 = **£833/month.**

Digital Funds Calculation

Digital funds are only relevant to those employees who are classed as “English”, meaning digital funds equal levy paid on employees with an English home postcode.

=£833 x 80% = £666.40 + 10% government top up = £733.04

This means that Acme Ltd have **£733.04/month** to spend on apprenticeship training and assessment. This is the amount in their digital fund.

Apprenticeship Selection, Delivery & Payment

Acme Ltd want to train 1 apprentice in Engineering Manufacture – Fabrication & Welding @ Level 3 over a period of 18 months. (This aligns to funding band 7 (£5000)).

Acme Ltd from the Find a Provider part of the DAS select a Training Provider to deliver the apprenticeship, negotiating a price with this provider within the funding band limit of £5000.

In months 1 to 17 £222/month will be paid via the DAS from Acme Ltd digital funds to the selected Training Provider for the training delivered as per the original negotiated terms.

In month 18, taking into account that 20% of the funding is held back until completion of the apprenticeship (this aligns with current rules) £1222 (£1000 (20% of funding) & £222 monthly payment) will be paid to the Training Provider from the Acme Ltd digital funds.

The remaining monies (unused) in the digital funds will accumulate over time for use on other apprenticeship programs.

Worked Example 2

Non Levy Payer with no Cross Border Workforce

Scenario

ABC Ltd. employ 25 people. They are based in England with all employees living in England. Their annual paybill is £1,000,000

Levy Amount Calculation

HMRC collect 0.5% of the UK paybill, 0.5% of £1,000,000 = £5,000

There is a government levy allowance of £15,000 which must be taken from the initial value £5,000-£15,000 = -£10,000

This means that the allowance covers any required levy payments. ABC Ltd will pay an annual apprenticeship levy payment of **£0/year**.

ABC Ltd. will pay a monthly apprenticeship levy payment of £0/12 = **£0/month**.

Digital Funds Calculation

Because ABC Ltd do not pay any levy payment they do not have any digital funds so are unable to pay directly for their apprenticeship provision.

ABC Ltd have **£0/month** to spend on apprenticeship training and assessment.

Apprenticeship Selection, Delivery & Payment

ABC Ltd want to train 1 apprentice in Engineering Manufacture – Fabrication & Welding @ Level 3 over a period of 18 months. (This aligns to funding band 7 (£5000)).

ABC Ltd from the Find a Provider part of the DAS select a Training Provider to deliver the apprenticeship, negotiating a price with this provider within the funding band limit.

In months 1 to 17 ABC Ltd will pay £22.22/month (10% of total after 20% completion bonus removed) towards apprenticeship training and assessment and the government will pay £200/month towards apprenticeship training and assessment. All payment will be through the DAS for delivery as per the original negotiated terms.

In month 18, taking into account that 20% of the funding is held back until completion of the apprenticeship (this aligns with current rules) ABC Ltd will pay £122.20 (10% of completion bonus & last monthly payment) to the Training Provider and the government will pay £1099.80 (90% of completion bonus & last monthly payment) to the Training Provider.

Worked Example 3

Levy Payer with no Cross Border Workforce who runs out of digital funds

Scenario

XYZ Ltd. employ 400 people. They are based in England with all employees living in England. Their annual paybill is £3,100,000

Levy Amount Calculation

HMRC collect 0.5% of the UK paybill, 0.5% of £3,100,000 = £15,500

There is a government levy allowance of £15,000 which must be taken from the initial value £15,500-£15,000 = -£500

XYZ Ltd will pay an annual apprenticeship levy payment of **£500/year**.

XYZ Ltd. will pay a monthly apprenticeship levy payment of £500/12 = **£41.67/month**.

Digital Funds Calculation

=£41.67 + 10% government top up = £45.83

This means that XYZ Ltd have **£45.83/month** to spend on apprenticeship training and assessment. This is the amount in their digital fund.

Apprenticeship Selection, Delivery & Payment

XYZ Ltd want to train 1 apprentice in Engineering Manufacture – Fabrication & Welding @ Level 3 over a period of 18 months. (This aligns to funding band 7 (£5000)).

XYZ Ltd from the Find a Provider part of the DAS select a Training Provider to deliver the apprenticeship, negotiating a price with this provider within the funding band limit.

In months 1 to 17 XYZ Ltd will pay £45.83/month out of their digital funds to the Training Provider. As the expected payment should be £222/month (20% completion bonus removed) this leaves a deficit of £176.17. From this deficit XYZ will pay £17.62 to the Training Provider (10% of outstanding amount) in addition to the £45.83 and the government will pay £158.55/month to the Training Provider (90% of outstanding amount) to the Training Provider. When totalled up all of these payments amount to the £222/month total. All payment will be through the DAS for delivery as per the original negotiated terms.

In month 18, taking into account that 20% of the funding is held back until completion of the apprenticeship (this aligns with current rules) XYZ Ltd will pay £45.83/month to the Training Provider. The expected payment should be £1222 taking into account the completion bonus, this leaves a deficit of £1176.17. From this deficit XYZ Ltd. will pay £117.62 from their own monies to the Training Provider and the government will pay £1,058.55 to the Training Provider.

Useful Information

The following are good sources of information for further details on the funding reforms:

Further detail on the levy and the DAS can be found at:

<https://www.gov.uk/government/collections/apprenticeship-changes>

FAQ's relating to the apprenticeship levy from the EEF.

<https://www.eef.org.uk/campaigning/news-blogs-and-publications/publications/2016/mar/apprenticeship-levy-faq>

Government details of which employers will be affected by the levy, how much they will pay, and what happens once they've paid the money.

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work>

Use this tool to estimate if your organisation will pay the apprenticeship levy, how much your organisation will have available to spend on apprenticeships and how much the government will contribute towards the cost of training. You'll need to know your organisation's annual UK payroll.

<https://estimate-my-apprenticeship-funding.sfa.bis.gov.uk/>

Draft legislation: regulations for the calculation, payment and recovery of Apprenticeship Levy.

<https://www.gov.uk/government/publications/draft-legislation-regulations-for-the-calculation-payment-and-recovery-of-the-apprenticeship-levy/draft-legislation-regulations-for-the-calculation-payment-and-recovery-of-apprenticeship-levy>

Apprenticeship employer helpline:

If you'd like to know more about what this will mean for you, contact the government employer helpline.

Email: nationalhelpdesk@apprenticeships.gov.uk

Telephone: 08000 150 600



**making a difference through
positive learning**



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