

The impact of the Apprenticeship Levy on UK employers

Introduction

From April 6th 2017, all employers operating in the UK with an annual pay bill over £3 million will be required to pay the new Apprenticeship Levy. There will also be changes in the way the government funds apprenticeships in England which will affect all English employers, regardless of size.

The Apprenticeship Levy was first announced by the government in 2015. Those employers with a wage bill over £3 million will pay a new 0.5% levy on their annual pay bill.

Coupled with some other reforms and changes to the qualifications available, the introduction of the **Apprenticeship Levy is the most fundamental overhaul of the apprenticeship system to date, designed to help deliver three million new apprenticeship starts by 2020.** Employers will be encouraged to use the levy to develop the skills of their workforce so that they can more successfully grow their businesses, become more competitive and increase their productivity.

'Skills' is a devolved policy meaning that each UK government decides its own priorities. The Apprenticeship Levy applies across the UK, but the way the funds are managed and used is decided by each government. Employers who pay the levy will be able to access funds for apprenticeship training for apprentices living in England through an online account. The government will also apply a 10% top-up to the funds, meaning that for every £1 an employer in England pays towards the levy, they will be able to access £1.10 in funding. Separate arrangements are yet to be announced for employers and apprentices in Scotland, Wales and Northern Ireland.

ManpowerGroup surveyed 1,000 UK employers to explore their awareness and understanding of the Apprenticeship Levy prior to its launch.



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Research findings:

Low awareness of the changes to apprenticeship funding among employers in general.

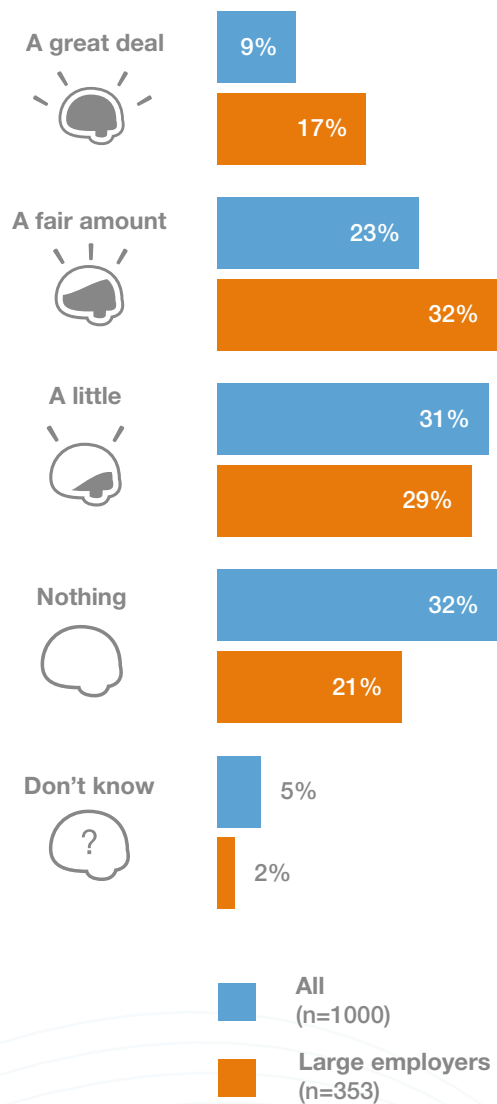
While the Apprenticeship Levy is estimated to affect only 2% of UK employers, the wider changes to the funding system will affect employers across the board. However, nearly two thirds (63%) of the 1,000 employers we surveyed say they know little or nothing about it.

It is particularly surprising that so many large employers are in the dark. Half (49%) of those employing 250 people or more say they know little or nothing about the changes, with only 17% saying they know a great deal (Fig 1).

About the research

The research is based on a survey of 1,000 UK employers, across different sectors and UK regions. Since the Apprenticeship Levy will primarily affect larger employers, large and medium-sized employers are proportionally over-represented in this survey compared to the breakdown of UK employers by company size. Small and micro employers (1-49 staff) comprise 272 respondents; medium employers (20-249 employees) and large employers (over 250 personnel) comprise the remaining 728 of those surveyed. Fieldwork was conducted via telephone between 18 and 27 January 2017.

Fig 1: How much do you feel you know about the introduction of the Apprenticeship Levy and the wider changes to apprenticeship funding?



Research findings:

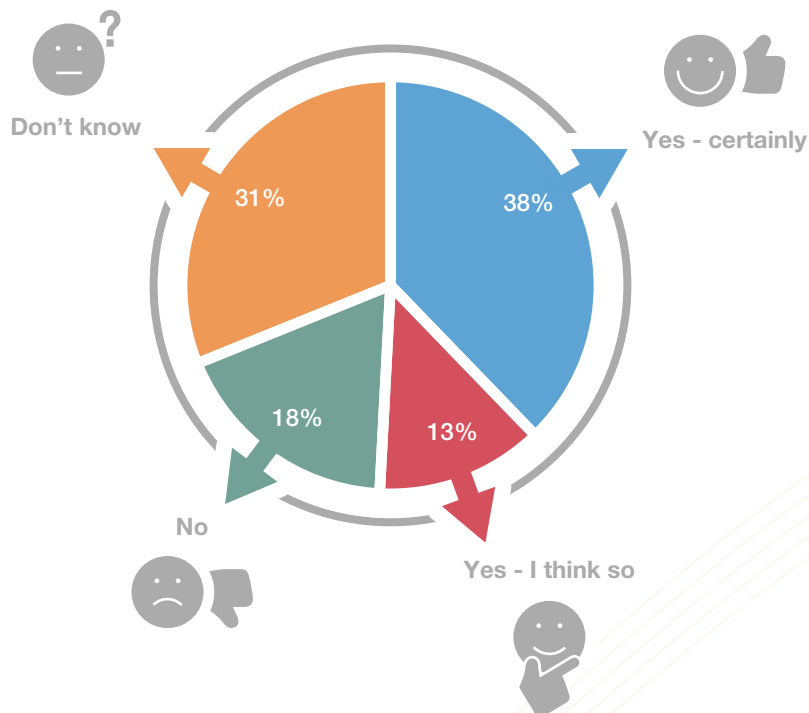
Large employers underestimate the likelihood they will be required to pay the levy.

Perhaps more surprisingly, just half (51%) of the large companies we surveyed expect to pay the levy. Thirty-one percent of large companies say they simply don't know whether they will be required to pay the levy or not (Fig 2).

The levy will be paid by all companies with pay bills in excess of £3 million, so in reality nearly all large companies will be required to pay it. For example, an organisation with 250 employees need only pay each worker an average of £12,000 a year in order to have a pay bill of £3 million, and therefore be required to pay the levy.

Of course, large employers play a critical role in the UK economy and employment. Large organisations comprise just 0.1% of the UK's private sector, or around 7,000 businesses in total. But between them those businesses employ 40% of everyone working in the private sector, and generate 53% of all private sector revenue.

Fig 2: Do you expect your organisation to be required to pay the levy or not? (Large employers, n=353)

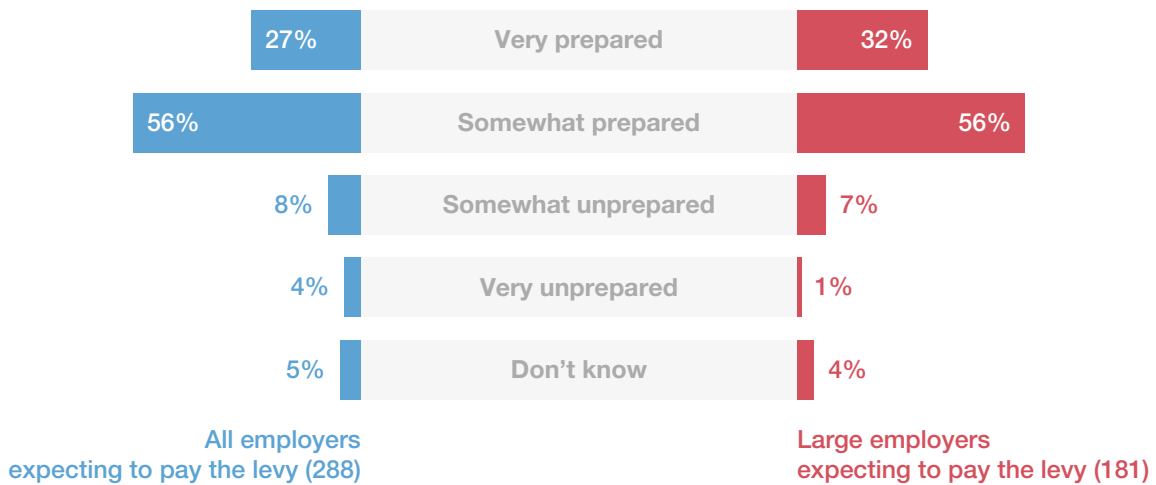


Research findings:

A majority of those who expect to pay the levy say they are prepared.

While levels of awareness and understanding overall are relatively low, those who expect to have to pay the levy say they are relatively well prepared. Of those who believe their organisations will need to contribute to the levy, 27% say they're very prepared, with a further 56% saying they're somewhat prepared. Just 12% say they are unprepared. Among large employers expecting to pay the levy, only 8% say they're unprepared. However, it is important to note that these figures do not take into account those organisations that do not expect to pay the levy but who in fact will be required to – organisations which are by definition unlikely to be prepared for the levy.

Table 1: How prepared or unprepared is your organisation for the introduction of the Apprenticeship Levy?

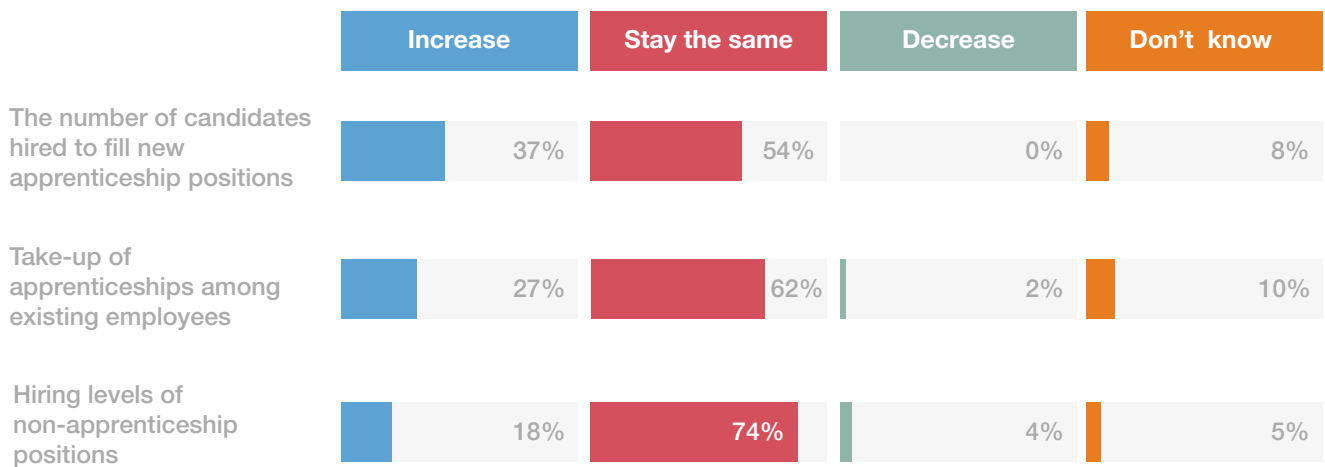


Research findings:

Our research suggests that the levy will help to increase the number of apprentice hires among employers paying the levy.

Our findings point towards a number of positive outcomes from the introduction of the Apprenticeship Levy, in line with the government's policy objectives. First, a third (37%) of employers who expect to pay the levy believe the number of new apprenticeship hires will increase. None expect a fall in apprenticeship hiring overall. Second, a quarter (27%) believe take-up of apprenticeships will increase among existing employees, with only 2% expecting uptake among this audience to decrease. Third, the levy is not expected to negatively affect hiring in other areas. Just 4% say they believe hiring for non-apprenticeship positions will decrease once the levy is introduced.

Table 2: Following the introduction of the Apprenticeship Levy, do you expect each of the following to increase, decrease, or stay the same within your organisation?

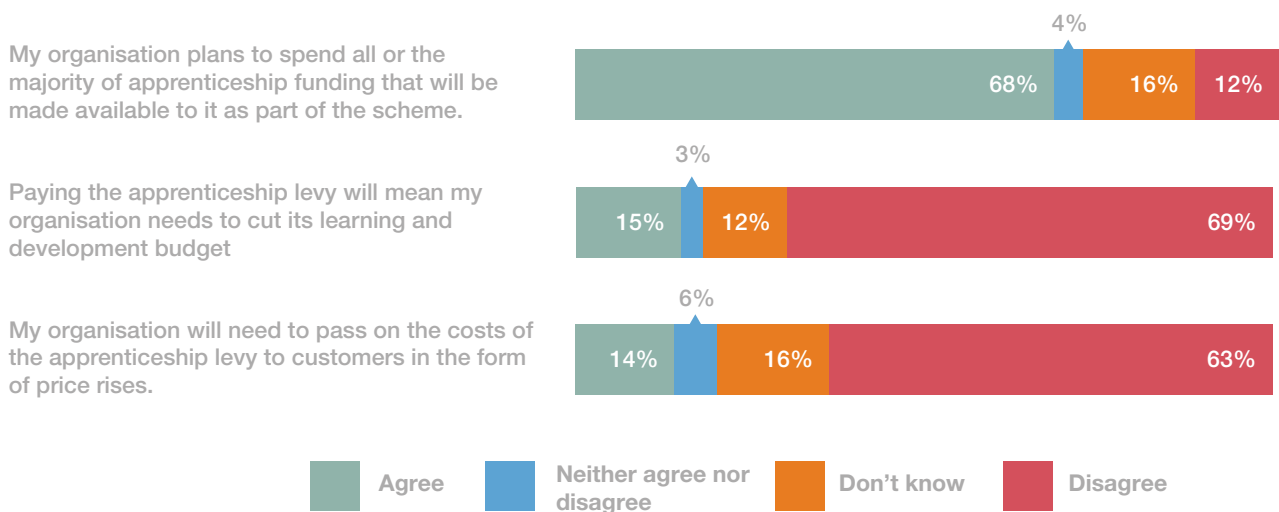


Research findings:

Most employers expect to spend all or the majority of the funding which will be made available to them.

Once the levy is paid, employers will be able to access funding via the digital apprenticeship account system. Of those employers who expect to pay the levy, a large majority (68%) say they expect to spend all or the majority of the apprenticeship funding available to them. A small minority (15%) say the levy will mean they are required to cut other parts of the learning and development budget, but a clear majority (69%) do not expect to need to make cuts. Fourteen percent expect to pass the cost of the levy onto customers via price rises (Fig 3).

Fig 3. Please say whether you agree or disagree with the following statements



Conclusions & implications

Whether paying the levy or not, there is a lack of awareness among employers of exactly how they will be affected by the changes to apprenticeship funding. While the levy may be considered a financial burden to some, the new apprenticeship model offers employers of all sizes the opportunity to review their current and future skills requirements, identify gaps and plan the best ways of preparing their workforce for tomorrow's challenges.

The new apprenticeship programmes can be accessed by a greater number of people since there will no longer be restrictions on the age of apprentices and fewer restrictions on the previous qualifications an apprentice can possess. There will be apprenticeships to meet almost any skills gap, covering the full range of qualifications from school leaver to degree level.

ManpowerGroup has been advising a number of our clients on how to navigate the new apprenticeships and funding system. From recruiting apprentices directly into their organisation, to supplying apprentices and managing their training; we are working with them to understand their levy bill and how to spend it to have the greatest impact.

Make sure you're ready by following our four steps:

1. Establish whether you will pay the Apprenticeship Levy

The first thing to establish is whether you are subject to pay the Apprenticeship Levy, by looking at your estimated annual pay bill. This covers all payments to employees that are subject to employer Class 1 secondary National Insurance contributions (NICs) such as wages, bonuses and commissions. If this is equal to or greater than £3 million, you will pay the Levy. Note that you must take into account the wage bills of any other companies or charities you may be connected to for Employer Allowance purposes. Paying the Levy is not dependent on making profit.

Prepare to report and pay the Apprenticeship Levy

All Apprenticeship Levy-paying employers must calculate their Apprenticeship Levy and report it via their Employer Payment Summary on a monthly basis. You will pay the Levy through the PAYE process in the same way you pay Income Tax and National Insurance contributions.

Manage apprenticeship funds

If you are an Apprenticeship Levy-paying employer, make sure you set up an account to manage your apprenticeship funds via <https://www.gov.uk/guidance/manage-apprenticeship-funds>. Once it is set up, you are able to add other individuals from your company as well as connected organisations to the account.

Conclusions & implications

2. Undertake an audit to identify training requirements within your organisation

Whether you are paying the Apprenticeship Levy or not, you can make the most of the new funding model by reviewing the skillsets within your workforce currently, your future requirements and your existing training and recruitment practices.

- ▶ **Look for any opportunities to convert existing training programmes to apprenticeships.**
- ▶ **Where you might be facing talent shortages, consider taking on candidates (or placing existing employees) who show aptitude for learning on a new apprenticeship programme to train them to the necessary level.**

You will be able to access funding from your Apprenticeship Fund if you're a Levy-paying employer or have 90% of the training costs paid if you're not.

3. Research relevant apprenticeships, training providers and assessors

If you identify that your business could benefit from apprenticeships, you should spend some time looking into the many courses that are available from different training providers. The government offers a search tool to help you (<https://findapprenticeshiptraining.sfa.bis.gov.uk/>).

Alternatively, you may wish to become an Apprenticeship Training Provider yourself. This would enable you to design and deliver your own content tailored exactly to your organisation's requirements. To become an Apprenticeship Training Provider, you will need to apply via the [Skills Funding Agency](#).

4. Develop an attraction strategy to secure apprentices

With our research indicating that more employers will be taking on apprentices, organisations will need to understand what motivates their ideal candidates and tailor their attraction strategy accordingly. Getting the selection element of your strategy will be crucial too as skills and experience take a backseat to aptitude and 'learnability' when hiring an apprentice.

For more information about the new apprenticeship scheme and funding for apprenticeships, visit manpowergroup.co.uk/apprenticeships or contact ManpowerGroup at apprenticeships@manpowergroup.co.uk



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