



<u>Committee and date</u> Enterprise & Growth Scrutiny Committee 31 st October 2016

<u>Item No</u>

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Apprenticeship Levy

1. Summary

This report provides details regarding the Apprenticeship Levy, due to come into force from April 2017, what it means for Shropshire Council and recommendations as to how this can be used to fit with developing our organisation in line with the Workforce Strategy.

2. Recommendations

Scrutiny are asked to note the contents of this report and the further work taking place. A further update will be provided to Scrutiny in the Spring 2017 to update on progress.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 This report outlines the work required to ensure that that the council maximises the levy pot for apprenticeship training to develop our staff in line with the Workforce Strategy.
- 3.2 Work will also take place to support levy-paying employers in Shropshire to maximise their contributions, as well as supporting non-levy employers. Commercial opportunities for income generation will also be investigated and maximised where possible.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

- 4.1 The financial implications of the recommendations proposed within this report are for directly employed staff only (equating to 0.5% of the paybill). The Council's financial strategy included funds to take account of the levy and this will be reflected in service budgets going forward.

5. Background

The Levy was first announced by the Chancellor George Osborne in the November 2015. Government also require us to comply with the Enterprise Bill. This means that by 2020 2.3% of Shropshire Council headcount are expected to be in an apprenticeship at any given time.

Due to the financial pressures on Shropshire Council is it not financially viable to meet this target by recruiting new staff alone. Contrary to many people's beliefs, apprenticeships can be done by current employees with no change to their job title, duties or pay grade. Apprenticeships can, in fact, help to progress current staff through a career plan to upskill the workforce and increase staff retention.

Historically, apprenticeships have been seen as an alternative to academic learning and are generally associated with lower level skills or school leavers. Apprenticeships no longer fit into this description with the development of Higher Level and even Degree Level apprenticeships. There is no upper age limit for apprentices.

6. How the levy will work

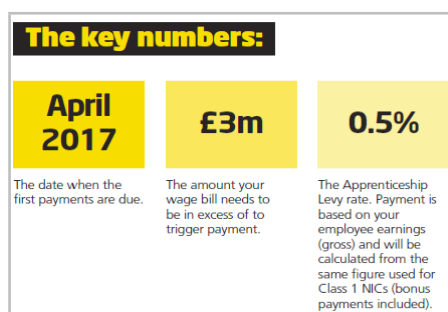
Levy payment for employers will be based on the total amount of earnings subject to Class 1 secondary National Insurance Contributions (NICs).

The Levy will be taken by HMRC via PAYE. Each employer will be able to log in to their account to see their balance on the Digital Apprenticeship Service (DAS). The DAS will also hold a library of training providers, some of whom will need to be on our preferred supplier list via a procurement exercise. Shropshire Council will then agree the cost of each apprenticeship with the provider. Funding caps will be set on different qualifications. For each apprentice an employer takes on, the employer can obtain a voucher up to the value of the cap for that particular apprenticeship standard. This will be based on the apprenticeship, the age of the candidate, etc. Once an apprenticeship has been agreed, vouchers will be redeemed against the levy balance by the Skills Funding Agency to pay the provider directly.

The levy payment process will operate on a monthly basis, alongside PAYE processes. Levy monthly amounts will accumulate in Digital Apprenticeship Service (DAS) throughout the year.

Employers who pay the levy and are committed to apprenticeships training will be able to get out more than they pay in to the levy through a top-up to their digital accounts.

The Apprenticeship Levy will directly fund Apprenticeship training programmes, with the aim of increasing the number of people in apprenticeships to 3 million by 2020. It will mean employers can take control, and benefit from a further £3bn that will be added to the Apprenticeship pot over the course of the next five years.



An allowance of £15,000.00 will be offset against the levy liability. This equates to 0.5% of a £3million pay bill. The allowance is not an amount paid to an employer, it is a percentage amount of allowed pay-bill funding before the levy is due.

Example: If we used an estimated pay bill of £151.8 million (excluding academies)

- Levy sum: $0.5\% \times £151,835,865 = £759,179.33$
- Allowance: $£759,179.33 - £15,000$

Therefore = **£744,179.33 annual levy payment**

The government will apply a **10% top-up** to monthly funds entering levy paying employers' digital accounts, for apprenticeship training in England, from April 2017.

Example: If we used an estimated pay bill of £151.8 million

Employer has **£744,179 annually levy payment**

- Monthly account funding = **£62,014.92**
- Top up: $10\% \times £62,014.92 = £6,201.49$
- Levy monthly account increase: $£62,083.33 + £6,208.33 = £68,216.40$
- **£818,596.90 annually to spend on Apprenticeships**

Expiry of levy funds

- Levy funds will expire 18 months after they enter your account unless you spend them on apprenticeship training. This will also apply to any top-ups in your account.
- Levy funds which have expired will keep their value, as they will be reallocated to committed employers through the top-up to their accounts.

In the first year of the levy, you will be able to use the funds in your levy account to pay for apprenticeship training and assessment for your own employees.

Institute of Apprenticeships

- The apprenticeship levy will be regulated by The Institute of Apprenticeships, an independent employer-led body that will regulate the quality of apprenticeships, set up by April 2017 (shadow form from 2016)
- An independent Chair will lead a small Board comprised primarily of employers, business leaders and their representatives.

7. What does this mean for Shropshire Council

With Shropshire Council's current Graduate programme coming to an end, maximising the levy will give Shropshire Council the best opportunity for attracting new talent. The Workforce Strategy has staff engagement and developing managers as two of its' priorities. It describes one of the

ways it will develop managers is to upskill them in commercialism, identifying talent in the organisation and developing leaders of the future. The Workforce Strategy also states the intention to 'work with managers on identifying skills that we have in our workforce, what we need and how we fill any gaps'.

Apprenticeships, along with being beneficial to the individual providing them with practical upskilling without the financial costs of university, are also vastly beneficial to the organisation. When considering the retention of staff this becomes particularly apparent with a recent report from Oxford Economics suggesting that the average cost of replacing a member of staff being, on average, £30,000.

A decision will need to be made on the proportion of levy spend which is used on existing staff and that on new recruitment.

8. Funding Model

There will be a new apprenticeship funding model using price bands and funding limits set nationally.

Funding bands set the ranges in which government expects the cost of training for an apprenticeship to fall. Each of the bands will set an upper limit to which government or levy funding can be used to pay for the apprentice's training.

Employers will not be able to spend an unlimited amount of money on a single apprentice. Funding bands will be set which limit the amount of levy funds an employer can spend for an individual apprentice. The band will vary according to the level and type of apprenticeship (for example, more expensive, higher quality training is likely to fall within a band with a higher limit)

Funding limits will help to ensure that apprenticeships represent the best quality and value for money to the employer. Setting limits to the amount of government or levy funding that can be used for apprenticeships will enable employers to increase the quantity of apprenticeships they can purchase with their funding, whilst ensuring that quality training does not become too expensive for employers to purchase.

Employers can negotiate the best price for the training they require directly with training providers. Employers are encouraged to seek the best price for the training they are purchasing. Much like all business investment decisions, employers should be empowered to get a quality service for an acceptable price. If employers want to spend more than the funding limit themselves then they will be free to do that.

For example:

- The funding band limit is **£6,000** and the price negotiated with the provider is £5,000 the cost is **within** the funding band limit and the £5,000 will be deducted for the levy account over the life of the apprenticeship.
- The funding band limit is **£6,000**, however, the price negotiated with the provider is £7,500 the cost is **above** the funding band limit. £6,000 will be deducted from the levy account over the life of the apprenticeship and Shropshire Council would be responsible for paying the remaining £1,500 themselves through another method.

The funding limits are yet to be announced formally and until we have those available we are unable to make a clear indication of the number of apprenticeships which can be offered within different subject areas and at differing levels to utilise the levy pot to its full advantage.

The qualifications gained from undertaking an apprenticeship can then be used to map career progression and support Workforce Planning. This links with the Workforce Strategy which 'makes sure that we have the right people, with the right skills, at the right level and at the right cost'.

As we move towards a more commercial organisation, having employees with consolidated skills recognised in line with qualifications will give Shropshire Council a commercial advantage in the market.

9. Actions for Shropshire Council to meet the requirements of the Levy

An Apprenticeship Board has been set up to oversee the work required and has representatives from across the organisation attending. A range of activities are in progress to enable the organisation to be ready for April and these include:

Procurement – establish through procurement, a framework of providers which can also be accessed by third parties.

Application and Selection Process – clear and transparent application and selection process to ensuring fair access to training.

Communications – with staff and managers - roadshows to take place in the new year.

Development of Apprenticeships – links to workforce planning and ensuring we utilise the apprenticeship training to upskill our workforce in the way we need.

Commercial Offer – how we can generate income by administering the levy for others.

Supporting local employers – if we don't use all of our levy pot, explore how we may be able to use this... can use this to the benefit of others, and, for example advising employers to assist other employers in their supply chain

10. How the apprenticeship levy and apprenticeship reforms can assist the development of the skills agenda in Shropshire

Whether an employer pays into or accesses the levy or not, the way in which apprenticeships are structured, delivered and funded is changing. The new apprenticeship standards are developed by and with employers. This provides an opportunity to develop apprenticeships that best fit employer's needs (known as trailblazer apprenticeship development).

Organisations such as the Marches Skills provider network (MSPN) are working with their network of employers to provide timely support and information to plan for the changes. The Marches Growth hub/LEP website is providing a searchable skills portal for businesses, outlining who provides what training in the area.

European Social Fund funding has been awarded to the Marches area to provide free skills support and training for the workforce in small and medium enterprises. This will be managed by the MSPN across the Marches.

Local authority officers and MSPN are working collaboratively to provide information and advice to pupils about apprenticeship opportunities across the county, for example, the apprenticeship showcase event held during apprenticeship week.

Shropshire Council is continuing its apprenticeship/skills dialogue through various forums and networks with:

- Schools – promoting the benefits of apprenticeships for staff
- Higher Education –initial discussions held with University Centre Shrewsbury regarding the development of degree apprenticeships which can build upon degree apprenticeships offered by the University of Chester and other local HE institutions
- Further Education - working in conjunction with the Marches LEP to ensure the alignment of the apprenticeship training offer matches the skills requirements across Shropshire and the Marches
- Marches LEP- Shropshire Council is supporting and engaged in the development of the LEP skills plan 2016-18, in partnership, driving the aspiration to increase the number of apprenticeships
- Shropshire Business Board- ongoing input to enable members of the board to respond strategically to changes to apprenticeships and the introduction of the levy. To understand how many employers will be affected by the levy, develop and share best practice

Shropshire Council, as a large employer, will be a key stakeholder in the development of apprenticeships across the county.

List of background papers (This MUST be completed for all reports but does not include items containing exempt or confidential information) – None
Cabinet Member (Portfolio Holders) Cllr Steve Charmley Cllr Michael Wood
Local Member All local members