

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee/Panel:	Employment in Hampshire County Council
Date:	10 November 2016
Title:	Update on Apprenticeship Levy and Public Sector Apprenticeship Target
Decision Reference:	7875
Report From:	Director of Corporate Resources

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1. Executive Summary

- 1.1. The purpose of this paper is to update Employment in Hampshire County Council EHCC on the introduction of the Apprenticeship Levy (for England) from April 2017 and the Public Sector Apprenticeship target.
- 1.2. This paper provides the legislative and policy context for the introduction of the levy, as well as some of the key financial, operational and strategic issues that will need to be considered.

2. Apprenticeship Levy - Contextual information

- 2.1. The Government is committed to boosting productivity by investing in human capital. As part of this, the Government is committed to developing vocational skills, and to increasing the quantity and quality of apprenticeships. It has committed to an additional 3 million apprenticeship starts in England by 2020. The levy's intent is to help to deliver new apprenticeships and support quality training by putting employers at the centre of the system
- 2.2. As part of its Apprenticeship policy, and aligned to its Skills, Productivity and Industrial strategies, from April 2017 the Government will introduce (in England) a levy on employers (all sectors) with a pay bill of more than £3 million each year. By 2020, it is estimated that this will generate £3bn annually to support Apprenticeship training.

- 2.3. The levy will be charged at a rate of 0.5% of an employers annual pay bill. An allowance of £15,000 p.a. will be applied (0.5% x £3 million = £15,000). The Government estimates that 98% of employers will be exempt from the levy.
- 2.4. The levy can only be used for apprentices training and end of apprentice training assessment and cannot be used for any associated costs, such as salary, equipment or management and administrative costs associated with the levy.
- 2.5. The Government is targeting 3 million Apprenticeship starts (all ages) across the life of the current parliament (2.4 million were created in the last). The current funding model, operated by the Skills Funding Agency, invests just over £1bn annually in Adult Apprenticeships and a further approx. £0.5bn for 16-18 Apprenticeships (funding for these comes from the Education Funding Agency). These figures do not include employer contributions.
- 2.6. The levy is one element of the wider reform of Apprenticeships (in England) that places employers at the heart of the design and funding of Apprenticeship programmes that meet their future skills needs.
- 2.7. Through the 'Trailblazer' programme employers are able to develop and propose new Apprenticeship 'standards' to meet their specific needs (usually in clusters of twelve employers' minimum). If approved by the Government, these are then eligible for funding. Eventually, Apprenticeship 'standards' will fully replace the existing Apprenticeship 'frameworks' model, offering a more flexible and bespoke accreditation model for employers. All Apprenticeship standards require impartial end-assessment.
- 2.8. The levy will be paid to HMRC through the PAYE process. Access to the funds will be through a new digital apprenticeship service account which will be available for registration from January 2017. Funds will be available from May 2017 and can be used for Apprenticeship training (approved standards and remaining frameworks) and end-assessment only. Salaries, scheme management and standards development costs can not be funded by the levy.
- 2.9. The Government will apply a top-up of 10% to any funds paid into a digital account (levy paying employers only). This means that an employer will get £1.10 to spend on Apprenticeship training for every £1.00 they pay in the levy.
- 2.10. An additional £2000 is to be paid for all 16-18 Apprentices, £1000 each to the employer and training provider, to meet the costs associated with recruiting and supporting a young person. Additional funding will also be paid to providers to cover the cost of English and maths (to level 2) and additional learning support.
- 2.11. Funds will remain in an employer's digital account for 18 months only, and will be utilised on a 'first-in, first out' basis to minimise the amount of expired funds. There is no specific guidance on how expired funds will be used and/or re-distributed.
- 2.12. The Government is proposing that employers who are not eligible for the levy, i.e. who have a pay bill of less than £3 million each year, will be able to have 90% of the cost of Apprenticeship training met, requiring a 10% contribution in a 'co-investment' model.

- 2.13. Initially, two Apprenticeships funding system will operate. The new levy will fund all starts from 1 May 2017, existing Apprenticeships (as of 30 April 2017) will continue to be funded under the current SFA allocations model until they complete.
- 2.14. A consultation is currently underway on the introduction of new funding bands for Apprenticeships. Fifteen bands are proposed from £1,500 to £27,000. New Apprenticeship standards are assigned a funding band as part of the approval process. This will vary depending on level, content and length. These bands would represent the maximum funds available from the digital account to pay for both training and end-assessment.
- 2.15. Funds can only be used for training delivered by an approved provider and end-assessment organisation. Public sector employers (who are subject to a proposed Apprenticeship target of 2.3% of their workforce, currently subject to consultation) must comply with Public Sector Contracts Regulation (2015) when purchasing training and end-assessment. The aim will be to fully optimise the use of apprenticeship bandings in line with the County Councils business requirement.
- 2.16. The levy will fund Apprenticeships at all levels, including Higher and Degree level, and for all ages. This is of particular importance given the lower youth unemployment in Hampshire. The current requirement for employers to contribute to the cost of Apprenticeships for adults will end (other than in the case of the aforementioned co-investment model, which applies to all ages).
- 2.17. The Government is to propose an option for levy paying employers to share up to 10% of funds in their digital account with other employers, for example those in a supply chain, a third sector partner or an Apprenticeship Training Agency (ATA). This arrangement would not be applied until 2018 earliest, if agreed, meaning that initially funds in the digital account can only be spent on an employers own employees.
- 2.18. Local authorities have implicit responsibility for the promotion of Apprenticeship (to young people) as part of their explicit duty to support young people's participation in education and training. Apprenticeship policy sits with the Department for Education. No Combined Authority or associated devolved agreement includes responsibility for Apprenticeship funding (as distinct from Adult Education).

3. Apprenticeship Levy - Issues / financial implications

- 3.1. When introduced in April 2017, the Apprenticeship levy will apply to Hampshire County Council. This includes all maintained schools in Hampshire and other organisations operating through the County Council's PAYE scheme.
- 3.2. Based on the April 2016 payroll, the total annual levy liability is estimated at £3.3m. This is made up of £1.2m for the County Council's Departments and £2.1m for schools. Note that the allowance has not been modelled into this estimate. It includes foundation schools operating through our PAYE system.
- 3.3. As of August 2016, the County Council – including schools – reported 115 Apprentices being currently employed, although it should be noted that full

consistency of reporting is yet to be achieved and so this is likely an underestimate.

- 3.4. In total, by August 2016, the Hampshire Youth Investment Programme had supported the recruitment of 194 Apprentices across the County Council and Schools (plus a further 31 in the third sector).
- 3.5. The introduction of the levy has the effect of an additional cost burden for the County Council. It is also an opportunity to support future strategic resource requirements.
- 3.6. Recruitment of Apprentices since 2013 has been supported by the 'Apprentice First' policy, which requires that any vacancy at EHCC Grades A-C that are for more than 12 months and 30 hrs per week will first be considered as an Apprenticeship vacancy.
- 3.7. Currently, Apprentices are recruited on EHCC terms and paid in accordance with the County Council's pay policy. For their period of training, those on Grades B and C are paid at Grade A and B respectively. Those on substantive Grade A are paid at £6.70 per hour (to age 24) and £7.20 per hour (25 plus).
- 3.8. Based on numbers recruited to date, the number of new apprentices is unlikely to fully utilise the apprenticeship levy. By reviewing and redesigning elements of the County Council's workforce development programme, such as management training, education, social care and technical roles, fuller utilisation of the levy may be achieved. An option to claw back the costs of training within a specified time frame of undertaking training may also act as an effective retention tool, particularly in areas of skill shortage and where targeted training funded from the levy is applied.

4. Apprenticeship Levy - Timelines/next steps

- 4.1. The Government is due to publish further guidance on the levy operation in October. It will also report on the outcome of its current consultation with employers and the proposed new funding bands later this autumn.
- 4.2. Working with the information currently available about the levy the Council has appointed a member of Corporate Management Team (CMT) to lead on developing an organisation wide approach to the use of apprenticeships. The approach is engaging a lead from each of the directorates to ensure that we maximise the use of the apprenticeship levy in the context of the directorate resourcing strategies..
- 4.3. A further update will be provided to the next EHCC.

5. Public Sector Apprenticeship Target

- 5.1. The Government wants to ensure that the public sector is a model employer, leading by example and employing a significant proportion of apprentices to develop a skilled workforce for the future. The Government believes that expanding the number of apprenticeships in the public sector will support growth in the programme and will also be a clear sign that the government is investing in apprenticeships.

- 5.2. The Enterprise Act 2016 provided the power for the Secretary of State to set targets for public sector bodies in relation to the number of apprentices who work for them in England (the public bodies within scope of the clause will be set out in regulations) and require these bodies to have regard to any targets set on them and to report annually on progress against meeting those targets
- 5.3. Consultation on the specific public sector targets closed in March 2016 and the Government is yet to publish its response.
- 5.4. In order to bring the measures into effect the Government will have to introduce the necessary regulations. The timetable on when the Government plans to do this has not been published.
- 5.5. Further updates will be provided to EHCC in due course.

6. Recommendations

- 6.1. That EHCC note the introduction of the Apprenticeship levy, the County Council estimated liability and the current position regarding the introduction of Public Sector Apprenticeship Targets.
- 6.2. That EHCC note that the Council is committed to optimising the use of apprenticeships, targeting all ages in line with the needs of the business.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

These government proposals do not link to the Corporate Strategy but potentially impact the County Council's workforce strategy.

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Reference</u>	<u>Date</u>
Update on proposed Government policy changes	6988	11 November 2015
Update on Government proposed policy changes	7325	9 March 2016
2016 National Pay Award and National Living Wage	7338	9 March 2016
Update on National Pay Award (NPA) and Government proposed policy changes	7645	6 July 2016

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None.

IMPACT ASSESSMENTS

1. Equality

1.1 The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2 Equalities Impact Assessment:

It is too early to determine whether there is any equalities impact, as the government have not published the full details of these proposed policy changes.

2. Impact on Crime and Disorder:

2.1 Not applicable.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.