
APPRENTICESHIP LEVY

Report by Service Director Regulatory Services

EXECUTIVE COMMITTEE

6 September 2016

1 PURPOSE AND SUMMARY

- 1.1 This report is to inform members of the Apprenticeship Levy and its potential impact on Scottish Borders Council and to seek approval of the Scottish Borders Council's recommended response to the associated Scottish Government consultation.**
- 1.2 The Levy will, in principle, apply to all UK employers, across all sectors, regardless of whether they already employ apprentices or not and will be set at 0.5% of an employer's "pay bill" for employers who have an annual pay bill of £3m or more. The Levy will be payable through the PAYE system, alongside income tax and NIC. Scottish Borders Council has an annual salary bill of around £150m and the council's contribution to the levy would be around £750,000 each year.
- 1.3 The mechanism to access this funding in Scotland is not yet known. Funding can only be accessed in England and Wales to pay for the costs of training programmes. The fund does not meet the costs of employing modern apprentices.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Executive Committee:-**
 - (a) Notes that the introduction of the levy in April 2017 will cost Scottish Borders Council an initial estimated £750,000 per year based on 0.5% of payroll.**
 - (b) Notes that the extent of the actual impact is unknown until Scottish Government makes a decision on how the funds will be used in Scotland.**
 - (c) Agrees to the submission of the proposed response to the Scottish Government consultation.**

3 THE APPRENTICESHIP LEVY

- 3.1 The Chancellor first announced plans for a new Apprenticeship Levy in the 2015 Budget and, subsequently, the Department for Business Innovation & Skills held a public consultation to consider the views of employers and other interested parties. Following the 2015 Autumn Statement, the results of the consultation were published and the Chancellor confirmed his intention to implement the Levy from April 2017.
- 3.2 The introduction of the Levy is a significant change to the way apprenticeships are funded, and the Government estimates that it will raise £3 billion annually over the first five years following its introduction. The Government believes the changes to the existing funding arrangements will increase the number of skilled workers in the UK by placing the control and responsibility of employee skills in the hands of the employer.
- 3.3 The Levy will, in principle, apply to all UK employers, across all sectors, regardless of whether they already employ apprentices or not and will be set at 0.5% of an employer's "pay bill" for employers who have an annual pay bill of £3m or more. The Levy will be payable through the PAYE system, alongside income tax and NIC. Scottish Borders Council has an annual salary bill of around £150m and the council's contribution to the levy would be around £750,000 each year.
- 3.4 The Levy will be paid into a central Treasury fund. All employers in England, regardless of whether they have contributed or not, will be able to access funds via a digital account to pay for qualifying apprenticeship training programs. **As skills training is a devolved policy area in Northern Ireland, Scotland and Wales, the Government will be carrying out further work with the devolved administrations to ensure that the Levy works in conjunction with their respective skills policies.**
- 3.5 Current arrangements in Scotland are that apprenticeship training is funded by Skills Development Scotland (SDS) with the employer remaining responsible for funding the salaries of the apprentices. Training costs are paid directly to training providers who enter into contracts with SDS on an annual basis.
- 3.6 Scottish Borders Council has employed 46 apprentices (26 in year 1 and 20 in year 2) over the past two years which have attracted training provider training costs of around £160,000 (90k in year 1 and 70k in year 2) , which were paid to various training providers who provide the SVQ element of the modern apprenticeship. The salary costs for these apprentices were around £690,000 over the two years (390k in year 1 and 300k in year2) and these costs are the responsibility of Scottish Borders Council.
- 3.7 The Scottish Government is currently running a consultation on the best use of the apprenticeship levy in Scotland. The consultation seeks to gather views from businesses, industry and stakeholders. The consultation process closed on 26 August 2016. The consultation document is attached to this report along with the proposed officer's response which was submitted as a draft response on the due date with agreement that Officers would confirm the final response following approval by members.

3.8 The main points made in the response are:-

- The Scottish Government's target of 30,000 Modern Apprenticeships per year should not be increased until there is sufficient employer demand.
- The levy should be used to support Graduate Level Apprenticeships, but not at the expense of other levels of apprenticeships.
- The levy should be used to support wider workforce development where appropriate.
- The Apprenticeship Levy funding should not be used to support the expansion of Foundation apprenticeships. The senior phase curriculum, under DYW, to develop young people with the skills for life and work should be embedded as a mainstream approach financed from existing education resources within schools and/or colleges.
- The Apprenticeship Levy funding should be used flexibly to help unemployed people move into employment and to support local employers and job seekers.
- Consideration could be given to using the Levy to fund an employer recruitment incentive scheme which could be targeted at young people as well as disabled people and people with long term health conditions. The level of incentive would require discussion but should be targeted at covering as much of the apprenticeship salary as possible i.e. 100%.

3.9 The Council would wish to see a minimum negative financial impact arising from the introduction of the new arrangements. The ability to access funding as part of a tailored Scottish Solution that meets the costs of employing, as well as training modern apprentices, would clearly be desirable in this regard. Further details on the Levy are expected to be published by the Scottish Government in the autumn of 2016.

4 IMPLICATIONS

4.1 Financial

At this time, the only clear financial implication is that the Levy will result in a cost to the Council of around £750,000 per annum. Discussions on the exact implications are ongoing at a national level, and the consultation on the Apprenticeship Levy closes on the 26th August. After this time ministers will be able to develop proposals on how receipts from the levy will be allocated and if employers will be able to recoup any of this outlay. When further detail is available on how the levy funding will be used Officers will bring back a report for consideration by the Executive Committee.

4.2 Risk and Mitigations

- (a) There is a risk to the Scottish Borders Council that the added burden of paying the levy will reduce the council's ability to employ apprentices. The level of risk will be dependent on the approach the

Scottish Government take in how they use the funds.

- (b) Scottish Borders Council has strongly suggested in the consultation that the Scottish approach should ensure that any monies deducted from public bodies via a levy on PAYE be returned to these bodies in the form of grant to employ apprentices.

4.3 **Equalities**

A Full Equalities Impact Assessment will be carried out when the Scottish Government proposals are finalised and the extent of implications known. The EIAs would identify any potential adverse impact of any future proposals.

4.4 **Acting Sustainably**

At this time there are no economic, social or environmental effects associated with this report

4.5 **Carbon Management**

At this time there are no effects on carbon emissions.

4.6 **Rural Proofing**

Rural Proofing is not applicable at this time

4.7 **Changes to Scheme of Administration or Scheme of Delegation**

There are no changes to be made to the Scheme of Administration or Scheme of Delegation at this time.

5 CONSULTATION

- 5.1 The Chief Financial Officer, Monitoring Officer, Chief Legal Officer, Chief Officer Audit & Risk, Chief Officer Human Resources and Clerk to the Council are being consulted and their comments will be incorporated in the report.

APPENDICES

Consultation Document on the Scottish Government
Response to the UK Apprenticeship Levy

Scottish Borders Council Consultation Response

Approved by

Brian Frater

Service Director Regulatory Services Signature

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Background Papers: Nil

Previous Minute Reference: Nil

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Jacqueline Whitelaw can also give information on other language translations as well as providing additional copies.

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