

Charity Finance Group

Apprenticeship Levy Roundtable Summary

27th January 2016

Update from BIS

Lynne Robinson from the Department of Business Innovation and Skills attended the meeting to answer questions and provide an update on the levy's implementation.

Key points:

- The government's motivation for the levy:
 - There has been a general decline in investment in training over the last 20 years.
 - The levy is a big step and is expected drive up the number of apprentices.
 - Government wants employers to 'own' apprenticeships and develop their own standards. Employers will be the primary player in apprenticeships rather than Further Education Colleges.
- They levy will only cover the costs for training. Salary is currently outside of the levy's scope.
- They levy applies to all UK employers, including public departments. There will be no exemptions for individual sectors.
- National Insurance Contributions for under 25s will be abolished from April 2016.
- As it stands both the level of contributions (0.5% of the employer's payroll) and the eligibility criteria (£3m pay bill) are fixed for this Parliament.
- Technical details:
 - Franchises will be recognised as individual employers.
 - The pay bill is based on total employee earnings. It will not include other payments such as benefits in kind.
 - Cash bonuses are included, but company cars are excluded.
 - **It has not been announced whether the cost of overseas staff that are paid in the UK will be counted.**
 - Further guidance on the technical details will be available in the summer.
 - Legislation to permit the imposition and collection of the apprenticeship levy will be introduced in the Finance and Enterprise Bills 2016.

Lynne emphasised that there will be on-going, open discussion with stakeholders through the levy's development.

CFG's position

Anjelica Finnegan (CFG's Senior Policy Officer) outlined CFG's position on the levy.

- In our response to the Apprenticeship Levy consultation last October, CFG called for charities to be exempt from paying the levy with the option of employers opting in. However, the government have been adamant that all sectors will be subject to the levy. We are therefore committed to working with BIS to ensure that the system can work for charities and is sustainable.
- **Charities lack the resources to invest in skills and apprenticeships due to a tough financial environment.**
 - Unlike the rest of the economy, the UK charity sector is still in recession.
 - CFG's research into charities has found that most organisations have responded by cutting back on personnel development and skills.
- **There has been no strategic oversight of development and quality of apprenticeships in the charity sector since we lost our skills council in 2013.**
 - Both investment in skills and apprenticeships and strategic oversight through a body such as a charity skills council are essential for the development of a successful apprenticeships programme.
- **CFG believes that charities should be able to use the levy to pay for developing new apprenticeships, recruitment and salary costs in addition to training.**
 - Under existing proposals, employers will be required to meet the costs of development and recruitment outside of the levy. CFG believes that this poses significant challenges for the charity sector, which faces a £4.6 billion funding deficit by 2018.
 - The vast majority of charity funds are allocated to delivering charitable activities and so it is difficult to find room in their budget to invest in development and recruitment.
 - The UK Commission for Employment and Skills found that 17% of charities not investing in training cited lack of funds, this is compared to 10% in the private sector.
- **CFG believes that if any unspent funds in charities' digital account should not be redirected out of the charity sector.**
 - Currently, any unspent funds in an employer's digital account can be redirected towards another employer.
 - As it stands the levy is at odds with the principles which underpin the use of charitable resources. I.e. money given for public benefit should not be used to subsidise private sector employers and support private benefit.
 - CFG would also question whether resources given to one charity by a funder or donor should be allowed to leave that charity in order to subsidise another charity's operations.
- **It is because of these unique challenges faced by the sector, and the fact that charities are a major employer in the UK that charity representation on the board of the new Institute of Apprenticeships is essential.**

Roundtable Discussion

Overview

Attendees were unanimous in their assessment that they would not get out more than they would put into the levy. This is principally due to:

- the lack of existing apprenticeships in the charity sector
- the lack of unrestricted funds to enable charities to invest in developing apprenticeships
- that the levy can only be used to cover training costs

It was felt that the money raised through the levy should therefore be made available for charity employees to cover the costs of developing apprenticeship opportunities and recruitment into these new posts, as well as apprentice salaries.

There was significant concern that because of the sector's lack of capacity to recruit apprentices, charities will lose the funds in their digital accounts. As such, charitable funds will be at risk of being moved out of the sector to private enterprise.

Participants also expressed concerns about the timeframe for introducing the levy. With final details of the levy due to be decided in the summer, there will be less than a year for employers to prepare.

Notes

- Attendees were concerned that the **levy will place unsustainable pressure on charities' unrestricted funds**, especially for those organisations that are contracted to deliver public services. This will increase the pressure on charities' capacity to meet the needs of their beneficiaries.
 - In trying to keep the cost of public services down, commissioners are pushing down overhead costs in contract agreements.
 - There was concern among participants that charities will be priced out of public service contracts if overheads are pushed up and this is not being matched in public service tenders.
 - This will have a detrimental effect on beneficiaries reliant on charities' services.
 - It was also felt that this demonstrates a disconnect between government policies: On the one hand government is driving down the cost of public services, and on the other implementing a policy that will drive up overheads.
- Attendees were concerned that **bringing in apprenticeships will drive down productivity**. This is because meaningful apprenticeships will need significant in house training and management beyond that of a normal employee. This will place further pressure on charities' squeezed funds, further reducing their capacity to meet the needs of their beneficiaries.

- **Charities are concerned that the cost of irrecoverable VAT will compound the cost of the levy.** It was felt that digital vouchers should cover the gross cost of the training for those charities that cannot recover VAT.
- **Many charities do not have apprenticeship schemes in place.** Charities are concerned that because employers will only be able to use the funds raised from the levy to cover the costs of training, many will not be able to spend the funds in their digital accounts.
 - **The existing squeeze on charitable funds make the cost of developing meaningful apprenticeships prohibitive.** Whilst an apprentice's salary may be lower than that of other employees in the charity, attendees noted that developing an apprentice to the point where they are working at full capacity is not cost free. For example, the time that an employee would need to take out of their core job to monitor, assess and support an apprentice will need to be covered.
 - **To address this, charities should be allowed to use the levy to cover the costs of developing apprenticeships and recruiting people into them.**
- **The levy will not give back more than charities put in.**
 - For some charities, they could have as little as £1,000 in their digital account. **Attendees suggested that employers be allowed to build up the allowance in their digital account so that they can spend it in a meaningful way.** This would also in part address the concern that charitable funds will be redeployed away from the charity.
 - In order to get out what they put into the levy charities will need to increase the number of apprentices they employ. However, as they recruit more apprentices to get back what they put in, the pay bill will increase which will in turn raise the cost of the levy again. This is a circular problem.
 - **It was felt that this could be addressed in part by removing apprentices' salaries from the pay bill calculation.**
 - A lot of grant funding covers the cost of salaries. This issue was raised in relation to medical research charities funding Universities. Initial conversations with the university sector have indicated that most universities would seek to recover the cost of the levy through grants. This will impact the number of grants that charities can offer.
- Attendees felt that **buying in training is not necessarily the best way to develop an apprentice.** In some cases it might be more appropriate to provide in house training.
 - Employers can register to become approved trainers. However, the lack of capacity and demands on charities' unrestricted funds will mean many charities will not have the capacity to go through the process of becoming a registered training provider. Attendees asked for more details on the process.
 - **There was concern that the levy will encourage an emergence of expensive training courses that are not necessarily effective, nor meet the needs of the sector.**

- Participants put forward the suggestion that the levy could also cover the cost of volunteer training.
 - There was some concern that volunteers might be driven out by paid apprenticeships as resources would need to be reallocated to apprenticeship management. This would mean that beneficiaries and wider society would not benefit from the social value added by volunteers, and it will drive up costs for the charity.

- **Attendees were asked if charities would use the levy to fund apprenticeships in their supply chain. The consensus was that it would not be of benefit to the sector.**