



Apprenticeship levy

Accounting treatment

Background

In December 2016, the HFMA published a discussion document on accounting for the apprenticeship levy. Throughout 2017, the subject has been on the agendas of both the Provider Technical Issue Group and the Accounting and Standards Committee.

The discussion document was updated in September 2017 with the latest information – this document updates and replaces that document now that the Group accounting manual 2017/18 has been revised and reissued.

Paying the apprenticeship levy

In the 2015 Summer Budget, the Government announced that it would be introducing an apprenticeship levy. The 2015 Spending Review provided more details. In summary:

- the levy was introduced in April 2017
- it is a UK wide levy and applies to all employers not just the public sector
- it is set at 0.5% of an employer's pay bill but each employer will receive an allowance¹ of £15,000 to offset against their levy payment. In practice, this means only employers with a pay bill of more than £3m² will be affected
- the levy is collected via 'Pay As You Earn' (PAYE) arrangements.

As the largest employer in the UK, this levy is a cost pressure on the NHS as a whole.

The following has been issued by HMRC on how the levy will be collected:

- guidance on how the levy will be paid in December 2016 (updated February 2017)³
- the internal apprenticeship levy manual in February 2017 (subsequently updated)⁴.

Benefiting from the levy

Skills policy, including responsibility for apprenticeships, is a devolved policy issue so the arrangements for how the levy will be used vary between the each of the devolved nations.

¹ HMRC has confirmed that each NHS body is entitled to their own £15,000 allowance.

² 0.5% of £3m is £15,000 so employers with pay bills of less than £3m will be covered by the allowance.

³ www.gov.uk/guidance/pay-apprenticeship-levy

⁴ www.gov.uk/hmrc-internal-manuals/apprenticeship-levy

England

English employers will be able to recoup at least some of the levy they have paid through the operation of a digital account:

- employers who pay the levy will have a digital account to allow them to access funding to offset the costs of training eligible⁵ apprentices
- the Government will top up that digital account by 10% each month
- funds in the digital account expire after 2 years.

The Department for Education issued guidance on how the scheme will work in March 2017 (updated July 2017)⁶

Scotland, Northern Ireland and Wales

None of the devolved nations plan to implement similar arrangements to England, therefore employers will not be able to recoup the levy directly. The apprenticeships will generally be used to continue to fund existing skills and training provision.

Guidance has been issued for each of the devolved nations as follows:

- in Scotland, the Scottish Government issued a formal response⁷ to the introduction of the levy as well as other information⁸
- in Northern Ireland, a statement on the levy was issued in April 2017⁹ with a link to guidance on the Apprenticeships NI programme¹⁰
- in Wales, a summary of the requirements and a frequently asked questions document has been issued¹¹

Employers near borders

NHS bodies that operate near the border with England will need to be able to identify where staff live so that the amount of levy which is paid into the digital account is appropriately calculated. An English NHS body's digital account will only include the amount of levy paid in relation to staff who live in England. Any levy relating to staff living in Wales or Scotland but working in England will be excluded from the digital account.

Accounting for the apprenticeship levy

Scotland, Northern Ireland and Wales

As there is no digital account or other direct mechanism for recouping the amount of levy paid, the apprenticeship levy is expected to be accounted for as a staff cost as incurred. The appropriate accounting manual will provide guidance on whether the levy is separately disclosed in the accounts or included as part of tax and social security.

⁵ To be eligible the apprentice has to spend at least 20% of their time on off-the-job training which will be provided by a government approved training provider working towards an approved apprenticeship standard/framework and their apprenticeship must be at least 12 months long. See www.gov.uk/government/publications/apprenticeship-funding-and-performance-management-rules-2017-to-2018

⁶ www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work

⁷ <http://www.gov.scot/Publications/2017/01/2588>

⁸ www.apprenticeships.scot/take-on-an-apprentice/apprenticeship-levy/ and www.gov.scot/Topics/Education/skills-strategy/apprenticeship-levy

⁹ <https://www.nibusinessinfo.co.uk/content/introduction-apprenticeship-levy>

¹⁰ <https://www.nibusinessinfo.co.uk/content/apprenticeships-employers>

¹¹ <https://businesswales.gov.wales/skillsgateway/apprenticeship-levy>

England

NHS bodies are required to follow the guidance in the Department of Health's *Group accounting manual* (GAM). In December 2017, the Department issued amendments to the GAM¹². One of these - FAQ 3 – deals with accounting for the apprenticeship levy.

HM Treasury has determined that the levy will be treated as a tax¹³ and therefore payment of the levy must be recognised as an additional social security cost as it arises. It cannot be treated as a prepayment.

Accounting for the benefits arising from the use of the digital account will depend on whether the NHS body is a training provider or not:

- for non-training providers, the amount of employees' training funded by the levy will be recognised as a non-cash expense in the period that the training occurs, this is matched by non-cash grant income
- for those NHS bodies providing the training themselves then receipt of cash from the digital account will be treated as grant income. Expenditure incurred in delivering the training is accounted for in the usual way.

Whilst this is not the treatment the accountancy firms are proposing¹⁴, it has been agreed with the National Audit Office. As NHS bodies prepare their accounts in accordance with the GAM, this is the treatment local auditors will expect to be adopted.

Using the digital account (England)

Accessing the fund

The Education and Skills Funding Agency published guidance on how to access the digital fund in February 2017¹⁵ as well as a tool to estimate the apprenticeship funding that will be available to an employer¹⁶.

NHS Employers have issued various guides to the levy¹⁷ for board members and for all staff.

Becoming providers

Some NHS bodies are registered to provide apprenticeships and they can receive money from the levy for the training that they provide. The Department of Education has provided guidance on how to become a training provider¹⁸

A register of apprenticeship training providers can be found on the Education and Skills Funding Agency's website¹⁹.

¹² www.gov.uk/government/uploads/system/uploads/attachment_data/file/670031/DH_GAM_2017-18_additional_guidance.pdf

¹³ The minutes of the June 2017 FRAB meeting say 'The Treasury explained that their expert advice from the Classification Team has considered the levy to be a tax. As a result, the accounting treatment must treat it as such with the top up amount providing access to a government grant.'
www.gov.uk/government/uploads/system/uploads/attachment_data/file/663558/FRAB_Minutes_15_June_2017.pdf

¹⁴ This paper produced by Deloitte (www.iasplus.com/en-gb/publications/uk/need-to-know/2017/ntk-apprenticeship-levy) sets out how they expect all employers, not just those in the public sector, to account for the levy. Whilst this is the only publicly available pronouncement from the accountancy firms, we understand that the other firms are in broad agreement with this approach.

¹⁵ www.gov.uk/guidance/manage-apprenticeship-funds

¹⁶ <https://estimate-my-apprenticeship-funding.sfa.bis.gov.uk/>

¹⁷ www.nhsemployers.org/your-workforce/recruit/employer-led-recruitment/apprenticeships/apprenticeship-policy/levy

¹⁸ www.gov.uk/government/publications/apprenticeships-become-a-training-provider

¹⁹ <https://roatp.apprenticeships.sfa.bis.gov.uk/download>

Background reading

Summer budget 2015: www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015

Autumn statement 2015: www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015

Grant Thornton Insight: www.grantthornton.co.uk/en/insights/apprenticeship-levy-what-you-need-to-know/

