

14th March 2016

Meeting Context

On 14th January, Charity Finance Group (CFG) hosted a roundtable with 35 of our charity members and a representative from BIS.

This meeting highlighted overall support for driving up skills and attracting people to work in the charity sector. However, attendees outlined the significant challenges the Apprenticeship Levy will pose to those charities that will be subject to it.

CFG subsequently called for a meeting with the Skills Minister, Nick Boles MP, to discuss these challenges.

Charities and the Apprenticeship Levy

Introduction from CFG

Caron Bradshaw opened the meeting. She reiterated that CFG welcomes the intentions behind the policy and that charities understand the importance of investing in skills development.

However, there are four key and unique pressures that the Levy places on charities undermining both the principles of the levy to increase the number of apprenticeships, and the charity sector's ability to engage effectively in it.

These are:

1. The expectation that charities face in allocating as much of their income to the front line as possible.
 - For many charities much of their income is restricted and so under charity law can only be spent directly as determined by the restriction rather than on core costs.
 - Spending money on core costs such as salaries, 'back office' staff and training (including apprenticeships) can attract criticism from the media and donors thus can pose a reputational risk for charities.
 - The risk that money will leave the charity sector to fund private business.

2. The lack of existing training schemes, capacity and investment will mean that charities have a long way to go before they are able to use funds in their digital accounts on training. To build capacity will take both time and additional funds.
3. Loss of key infrastructure – specifically the Third Sector Skills Council – means there is a lack of strategic oversight regarding skills and training in the sector.
4. The additional investments or unintended consequences for charities such as additional expenditure to create opportunities for apprenticeships or the potential to suffer additional VAT.

CFG would like to work with Government to make this levy genuinely increase skills and productivity within the sector, whilst ensuring that money given for charitable purposes remains within the cause.

Caron outlined four recommendations to help achieve this:

1. Allocating a charity representative on the board of the new Institute of Apprenticeships.
2. Allow charities to use the Levy to cover costs such as developing apprenticeship schemes, recruitment, salaries and other non-direct training costs.
3. Ring fence unspent levy funds for the sector to then invest in skills development across the sector.
4. Minimising exposure to irrecoverable VAT – e.g. gross route costs for digital vouchers.

Input from charity representatives

Throughout the meeting the charity representatives outlined the concerns of the charities that they represented.

Whilst the above challenges and recommendations were reiterated, additional issues were highlighted:

- **Challenge:** Government contracts are a major source of income for charities. Those that predominately deliver public service contracts will find it difficult to find the unrestricted funds to pay the levy.
 - **Recommendation:** Government departments need to speak to one another. Payroll costs are going to go up. Existing government contracts need to be updated to cover the costs of the levy and future contracts need to cover the cost of the levy.
- **Challenge:** As the sector has a high use of volunteers apprentices will not drive up productivity for many charities. When looking at skills gaps in the organisation a charity's first question is often: can this be done by a volunteer? Apprentices are likely to occupy the same level as volunteers within a charity's structure and so in order to use the Levy charities will be incentivised to replace volunteers with apprentices perversely reducing productivity.

- **Recommendation:** Government should work with the sector to explore how volunteer training can be included under the levy.
- **Challenge:** Some charities have moved their training programmes in house. This is a more cost-effective and efficient way of training their workforce; particularly in niche areas. There is concern that the Levy will require charities to buy-in training if their programmes are to meet apprenticeship standards. This is again driving charitable resources out of the sector and towards private business.
- **Challenge:** a year is a very short amount of time for charities, particularly in the light of the reduction in skills investment over the last 5 years. Most charities do not have existing apprenticeship schemes – and to implement the necessary processes to be able to spend the funds in their digital account will require assistance.
 - **Recommendation:** Allow charities a longer breathing space in order to put the necessary steps in place and build up funds in their digital account.
 - **Recommendation:** provide seed funding to assist the sector in creating new standards and capacity to ensure that funds are used for the purposes they were given and do not leave the sector (into the private sector).

Response from the Minister

The key messages the Minister gave are:

- The Levy is a payroll tax designed to increase the quantity of Apprenticeship opportunities.
- Charities must use or lose the Levy.
- Unspent funds in the digital accounts will be redirected and no additional ‘ring fencing’ will be considered.
- The Levy will apply across the sectors and no special considerations will be granted to charities.
- If organisations cannot spend the funds in their account, they can pass the funds onto organisations in their supply chain or another organisation that they work with.
- The Levy will only be used on training apprentices. There is no scope for the funds in individual digital accounts to cover additional costs such as recruitment, salaries, and so on.
- Apprenticeships can be introduced at any level and are not limited to young people.
- The Minister indicated that there will be more than a year for organisations to utilise the funds in their digital accounts - however it was unclear what the mechanism would be or the amount of time such funds could be ‘rolled over’.

Direct responses to concerns & recommendations

The Minister did not have time in the meeting to address each concern and recommendation. We received direct responses to the following:

Allow charities to use the Levy to cover costs such as developing apprenticeship schemes, recruitment, salaries and other non-direct training costs

- The Minister emphasised that the levy will only cover costs of Training and cannot be used for recruitment, salaries or other non-direct costs.
- The Minister accepted that there were difficulties around volunteering but could not immediately offer a solution to this challenge. The Minister undertook to give further thought to how volunteers might be accommodated within the scheme.
- Employers are responsible for making sure that they can spend the levy.
 - Charities therefore need to invest their own income into developing apprenticeships schemes, covering costs of recruitment, salaries and so on in order to benefit from the levy.
 - The Minister considered the additional investment necessary for charities to make use of their Levy funds (investment to set up schemes etc) to be justifiable charitable expenditure though he accepted this would be difficult as a result of restricted funding and expectations of donors.

Ring fencing unspent levy funds

- The Minister argued that the levy is already ring fenced for each individual charity and it is up to the charity to make sure they spend the funds in their digital accounts.
- Each employer subject to the levy will have just over a (tax) year to spend the levy although the Minister implied that this could be rolled forward.
- If an employer does not spend the levy, this money will be distributed to other employers that will be able to use the funds.
 - These employers might be private businesses and there is no justification in the Minister's view to retaining charitable funds for expenditure solely within the charity sector.
- Employers can pass on the funds in their digital accounts to other organisations.
- The Minister accepted that there is a lack of skills capacity in the sector and was interested in the proposed idea of having seed funding to invest in sector-wide skills development infrastructure. He called on CFG to work up a proposal on this and he will talk to the Cabinet office.

The timeline for implementation is too short for charities to prepare

- The Minister stated that charities will have longer than the financial year to spend the funds in their digital accounts and that in his view this will be enough time for charities to be able to spend the funds in their digital accounts.
- He referenced the broad definition of an Apprenticeship – a paid job, of more than 1 year, supported by training which meets the standards. Thus charities should be able to apply the Levy to a broader range of roles and could develop their own standards.
- The Minister was not persuaded a longer timeframe was necessary and confirmed the Levy will become effective for all from 1 April 2017.

Next steps

- CFG to write to the Minister following up on the meeting outlining any further points that time prevented exploration of.
- CFG will develop proposals for use of seed funding for skills infrastructure in the sector and submit these to the Minister.
- CFG and the Minister will look into the issue of volunteering and how it may be accommodated within the principles of the Levy.