

Support to VET Financing

Policy guidance note:

Training Levies

Policy Maker Summary

VET Financing and ETF Support

Like any public policy area, vocational education and training (VET) systems and their performance are shaped to a significant degree by financing. With the growing importance of VET for employment, productivity, and international competitiveness, there is a renewed impetus round VET reform; but more questions are being asked about how VET is funded and financed. This is particularly the case because it is an expensive field for public policy, requiring small pedagogical group sizes for effective practical learning and appropriate levels of professional equipment and material. Along with other social policies, VET is still commonly considered a cost rather than an investment and therefore an easy target for budget cuts.

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The ETF has been studying financing for some time, as part of its wider remit in VET governance. Having published a Position Paper on VET financing in 2018, the ETF is also developing a series of Policy Guidance Notes to support partner countries in making changes to the way they address VET financing. The emphasis is on moving away from a technical view focused on monetary and resourcing aspects, to a holistic policy-oriented vision. The ETF has created a methodology specifically for this purpose, called the ETF Financing Prism. The Prism is a geometric model which captures the interrelated aspects of VET financing policy, allowing issues to be examined through the three key aspects of Resource Mobilisation, Resource Allocation, and Management of the Financing Chain. The Prism rotates on an axis with 'data' at one end, and 'costing' at the other, to ground reform efforts in the realities of their inevitable costs, and the need for data throughout the policy cycle to inform decision-making. For more information on the ETF Financing Prism, see the brief introduction below, or download the separate guidebook, [Understanding the ETF Financing Prism](#).

Defining Training Levies and their Objectives

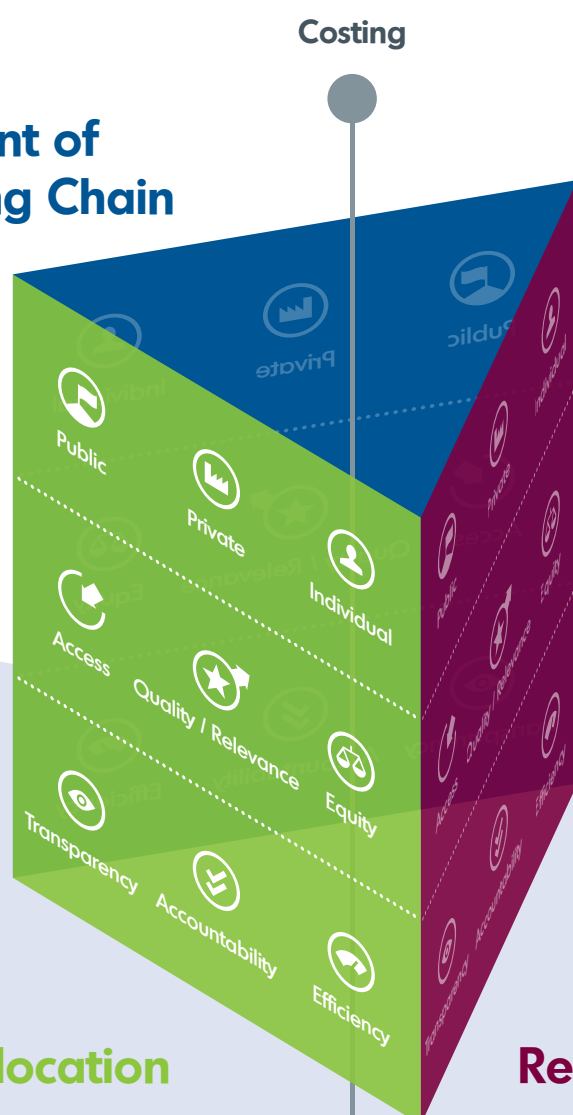
This Policy Guidance Note explores the introduction of training levies on enterprises to collect resources for VET, and is supported by case studies from Hungary, England¹, and Spain. The term used throughout this note is 'training levy' as we are discussing funds defined by legislation and therefore 'imposed', rather than established through voluntary agreement.

The TVETipedia online glossary defines a training levy as a compulsory payment dedicated to VET. In other words, the funds collected are earmarked for some part of the VET system. In terms of the ETF Financing Prism, a training levy can be a Resource Mobilisation tool linked to Resource Allocation rules or mechanisms that enable the payers of the levy to 'get their money back' if they meet specific conditions. A training levy is expected to increase and/or formalise companies' financial contribution to VET, and incentivise behaviours that promote training. Thus, training levies are designed as an additional tax on a business activity metric, and used to collect and mobilise resources for VET. They can be used as a governance tool to steer the VET activities of enterprises. Depending how the collected resources are spent, they can influence Resource Allocation.

¹ The use and distribution of the levy is differentiated between the four nations of the United Kingdom, as VET policy is devolved. Companies based in England only pay the levy on the total payroll for employees living in England.

Management of the Financing Chain

Resource Allocation



3 Governance Dimensions

Stakeholders

Objectives

Principles

Resource Mobilisation

Data

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Main policy questions

- What are the policy priorities associated with the levy?
- Who pays the levy?
- How and when is the levy collected and distributed?
- How is the use of the levy defined?



Levies can be introduced by government through legislation, or suggested by voluntary agreements among social partners. There are mixed examples, in which legislation underpins social partner agreements. For example, all enterprises can be required to pay, but management of funding can be delegated to social partners. Given the required involvement of enterprises, the introduction and operation of a levy should be undertaken through policy dialogue.



1. What are the policy objectives?

Justifications for introducing a levy include: Raising revenue; creating a dedicated finance source for VET; sharing and pooling private and public funding; enhancing fairness by spreading the cost; avoiding market failure; promoting enterprise training activity; and creating a government/enterprise co-funding mechanism for training activities. These are not mutually exclusive, and there can be multiple objectives. Until 2012, the Hungarian levy was earmarked for a broad range of VET, whereas the English case is specifically for the school-based part of an apprenticeship. They have a similar collection principle, in which only what is not spent by an individual enterprise is collectivised. In both cases, the levy is subsidised by public funds.

2. Who pays the levy?

A levy can be charged on all enterprises equally or designed to target or exempt some, for instance by size, economic sector, specific types of workers, or financial data. It can also exclude certain types, such as social enterprises, or micro and small enterprises. The treatment of the range of public and private structures must be clear. The case studies are primarily based on total payroll liabilities, although in England there are exemptions for payrolls which are below a certain level, and further incentives for small enterprises. In Hungary and Spain, all enterprises pay the levy regardless of size.

3. How much levy?

A levy can be linked to social security, gross or net payroll, per employee, profits, or any aspect of enterprise tax liabilities including sales. The amount of the levy is decided through social dialogue and negotiation. Concessions can include: Exempting contributions from corporation tax; allowing social partners to manage the funds; allowing enterprises to contribute on a 'train or pay' basis; and leveraging public subsidy. The case studies show levies on payroll liabilities where the levy is designed to increase enterprise training activities. There are examples from elsewhere of training levies imposed on profits and used to subsidise public VET budgets. Within the EU, levies tend to be agreed through social partner negotiation and earmarked for enterprise-based training rather than for subsidising other education and training activities or enhancing tax receipts.

Given the required involvement of enterprises, the introduction and operation of a levy should be undertaken through policy dialogue.

4. What for?

For target beneficiaries, depending on the policy objectives, a levy can be used as a redistributive tool allocating more to some enterprises than they contribute and less to others. How much enterprises receive in return for their contributions is an important design issue. Training levies are often run on a 'train or pay' basis, in which the levy is only due if the required amount has not been spent on training. Matching levy income with expenditure, and mitigating a surplus or deficit, requires agreement. In both the Hungarian and English cases, the levies are subsidised with public funds. In England, the use of nominal individual accounts allows each enterprise to view what is available. Overspending attracts further subsidies, but underspending leads to loss of funding.

There are three types of training activities to be supported by a levy; enterprise based, publicly provided, and mixed provision (e.g. apprenticeship). Training activities can be further differentiated, for example by promoting apprenticeships for specific groups. Equally, a levy may be used for any enterprise training. A levy used to fund publicly provided training can be further differentiated or aggregated into the public VET budget. The Hungarian case shows the variety of training activities originally supported by the contributions, which included funding for public providers and enterprise training. In England, the levy is tailored to enterprise costs associated with apprenticeship training, although the same levy will be used for a broader range of measures in Scotland. In Spain, there is a 50:50 split of the levy between enterprise-based training and training for unemployed people. The part available for enterprises is not targeted, attracting the criticism that it is neither efficiently spent nor used for anything beyond specific enterprise requirements.

5. How is the levy collected and distributed?

There are three main typologies for levy collection and distribution:

- 1. Levy reimbursement.** Enterprises pay the levy and can be reimbursed for training costs, up to the total of their contribution, or a part thereof. Reimbursement levels can also be differentiated by type of training and/or target group. The key feature is that the levy is collected and distributed on the basis of completed training, after the costs have been incurred.
- 2. Levy grant.** Enterprises pay the levy but can receive funding for training on the basis of pre-planned activities. As with the first model, grants can be less than, equal to, or more than the enterprise levy payment, but they are provided in advance of the training.
- 3. Levy exemption.** In the 'train or pay' model, enterprises can avoid paying the levy if they commit to verifiable expenditure on approved training and associated costs. Those which do not spend the required amount pay the difference as their levy. Enterprises may also be able to claim excess expenditure from levy monies collected.

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The Hungarian model is based on 'train or pay', whereas the English model is a combination in which enterprises obtain a voucher to purchase training from an approved provider. The provider receives payment for the voucher from the Education and Skills Funding Agency. A similar scheme operates in Spain for the part of the levy used for training in enterprises. For the remainder, funds are transferred to the National Employment Service which approves projects for funding with regional governments.

KEY SUCCESS FACTORS

Articulating the purpose. Is the purpose to support enterprises in deciding on and funding their own training? Or to support public funds and the publicly-funded training system?

Agreeing the institutional structure for VET financing. Training levies operated through the taxation system cut across the interests of different line ministries. The earmarking process for the levy must be clear, to ensure funding transfers can take place.

Clarifying the role of social partners in the training levy. This note deals with levies operated by government and through the formal taxation system. There are examples of levies collected through social partner agreements, as well as mixed systems.

Establishing monitoring and tracking procedures. Whatever the details of the design, a levy payment requires monitoring. This can be complex, since the levy collector is not the distributor. There is a risk that administering the levy becomes expensive or subject to misuse.

Balancing simplicity and complexity. The balance between operational simplicity and complexity is linked to monitoring procedures. Detailed definitions of eligibility criteria, training activities and costs require detailed monitoring. On the other hand, it is difficult to target if all enterprise training activities can be supported or offset by a levy payment.

Managing levy income and expenditure. The collection and distribution mechanisms presented require decisions on whether the levy be distributed in advance or in retrospect, and what happens if the amount collected is not enough or too much? The interaction of regulation, institutional structure, and rules for public funding will play a part in how the levy is established, designed, and operated.

Clarifying the risks. Risks require identification and mitigation. They can include enterprises 'defaulting' training expenditure to the level of the levy, which might be less than they were spending before, or providing training which is not useful, just to receive the funding. The levy can come to be viewed as part of general public revenue, replacing public funding, and/or is diverted from its purpose to support training.

Training levies operated through the taxation system cut cross the interests of different line ministries.



Case study 1: Hungary

In this case study, the goals are to operate a levy to provide an increase in reliable VET funding, and cover the costs of work-based VET. Business organisations, with some exemptions, are the primary contributors. Objectives include using the funding for apprentices to gain skills within a work environment. Employers pay a compulsory training contribution set at 1.5% of payroll. Currently, the Tax and Customs Administration manages the tax returns and claims for refunds in accordance with legislation, with contributions paid into a Training Fund within the National Employment Fund. The Training Fund's estimated expenditure is set out in annual budget law. Until 2012, the Tax and Customs Administration and the National Institute for VET and Adult Learning had separate reporting and registration systems, making monitoring impossible. In addition, there was no evaluation of how the funds contributed to the improvement of vocational training. Their effectiveness and efficiency could not be assessed due to scattered information sources, and a high degree of irregularity was identified in the use of funds. Contributors could reduce their liability by the costs of their own training, but companies tended to pursue their own business interests for training rather than national goals. Several organisations were involved in auditing implementation reports and could not filter and remedy for irregularities found. According to the State Audit Office, the tax-processing system was not a closed circuit, so the full collection of contributions was not assured.



Case Study 2: United Kingdom

This case study describes an initiative to increase availability of, and investment in, apprenticeships. A levy applies to all enterprises in the UK through a uniform collection method, but budget distribution decisions are the responsibility of the devolved administrations in the four nations. The main objective is to change the funding collection mechanism for the school-based element of apprenticeship training by formalising enterprise contributions, and link government subsidies, enterprise contribution, apprenticeship obligations, and training provision through an 'apprenticeship agreement'. Distribution is based on a defined set of associated costs. All public and private enterprises must contribute 0.5% of their total pay bill where it exceeds the apprenticeship tax allowance. This means approximately 2% of enterprises pay the levy. Enterprises receive a voucher to give to an accredited provider of their choice to purchase school-based training specified in the apprenticeship agreement. The funds are collected by the central tax authority, and budgets transferred to the government body responsible for skills funding, and to the training provider. Enterprise contributions and apprenticeship spend are monitored through a digital account. There is no comprehensive evaluation of the scheme yet, as it was only introduced in 2018. However, recent figures reveal a decline in new apprenticeship starts and GBP 1.28 billion of levy funds remaining unspent, suggesting problems with attractiveness, perceived complexity, and quality of careers information and guidance.

A levy can be linked to social security, gross or net payroll, per employee, profits, or any aspect of enterprise tax liabilities including sales.



Case Study 3: Spain

In this case, the goal is to promote vocational training of private salaried and unemployed workers via a levy applicable to all enterprises. It mainly supports training for currently unemployed workers, as well as permanent seasonal workers when not working, and those affected by downsizing. The levy is financed by a contribution from enterprises of 0.7% of total wages, of which 0.1% is paid by workers. The levy finances continuing training of employed and unemployed workers, with other contributions established in the Public State Employment Service's budget, and from funds the Autonomous Communities allocate. Continuing training, which is based on collective bargaining and social dialogue, may also attract co-financing through the European Social Fund or other initiatives, with collected resources centralised and only devolved in part to the Autonomous Communities. Allocation of the levy is split, with 0.35% directed to training for the unemployed and the remainder to training for workers, whether public or private sector. An annual evaluation plan reports on effectiveness, efficiency, satisfaction and impact, and governmental foundation Fundae carries out ex-ante and ex-post evaluations of all training initiatives for employed workers. A Royal Decree of 2015 established an evaluation and monitoring system to ensure training quality, build multi-annual strategic planning, create transparent tendering processes for private training providers, and set up an anti-fraud

Support to VET Financing Policy guidance note: Training Levies

All public policy depends on financing to meet the fundamental requirements of affordability and sustainability. The structure of public policy financing determines how resources are collected, allocated, and managed, and is therefore central to good governance. Within the field of human capital development, financing is one of the factors that shapes vocational education and training (VET) systems and their performance, as well as being an enabler of ambition in VET policy. In many countries around the world, VET is seen as an increasingly important factor in employment, productivity, and international competitiveness. As that importance grows, so will questions about VET financing, especially in light of the complex stakeholder environment and overlapping government accountabilities which can lead to VET being viewed as a relatively expensive part of the education system.

The ETF has been studying the funding and financing of VET systems for several years, and is committed to supporting its partner countries in this area. In 2018 we published a Position Paper, *The Financing of VET and Skills Development: A Policy Area for ETF Support*² to articulate how we see best practice in funding and financing, drawing on EU, partner country, and wider international experience. Our aim is to support partner countries to change the way they address financing in VET, moving from a technical view focused on monetary and resourcing aspects to a holistic, policy-oriented vision. To this end, we are developing a series of tools to contribute to country-based policy analysis, advice, and institutional capacity building. The main users of these tools are policy makers and VET experts in ETF partner countries. They will also be of interest to international VET experts and the wider education reform and development assistance communities. We have developed a methodology called the ETF Financing Prism both to guide analytical efforts, and structure social dialogue. This methodology offers a comprehensive, holistic approach to financing, anchored in VET policy objectives, and taking the governance setting into account.

The ETF Financing Prism is a geometrical model which captures the inter-related aspects of policy in VET financing, presenting them in an analytical framework designed to promote shared understanding and to foster and structure dialogue. Each of the three faces of the Prism represents one of the three key facets of VET financing:

- Resource Allocation
- Resource Mobilisation; and
- Management of the Financing Chain.

Each facet is supported by three rows of governance settings; stakeholders, policy objectives, and working principles. Finally, each of these three settings is divided into three core characteristics (see Figure 1). The whole Prism 'rotates' on an axis with data at one end, and costing at the other. This axis is vital to the validity of the framework, because it grounds any reform efforts in the realities of considering the costing of the

² Available at www.etf.europa.eu/web.nsf/pages/Financing_VET_and_skills_development

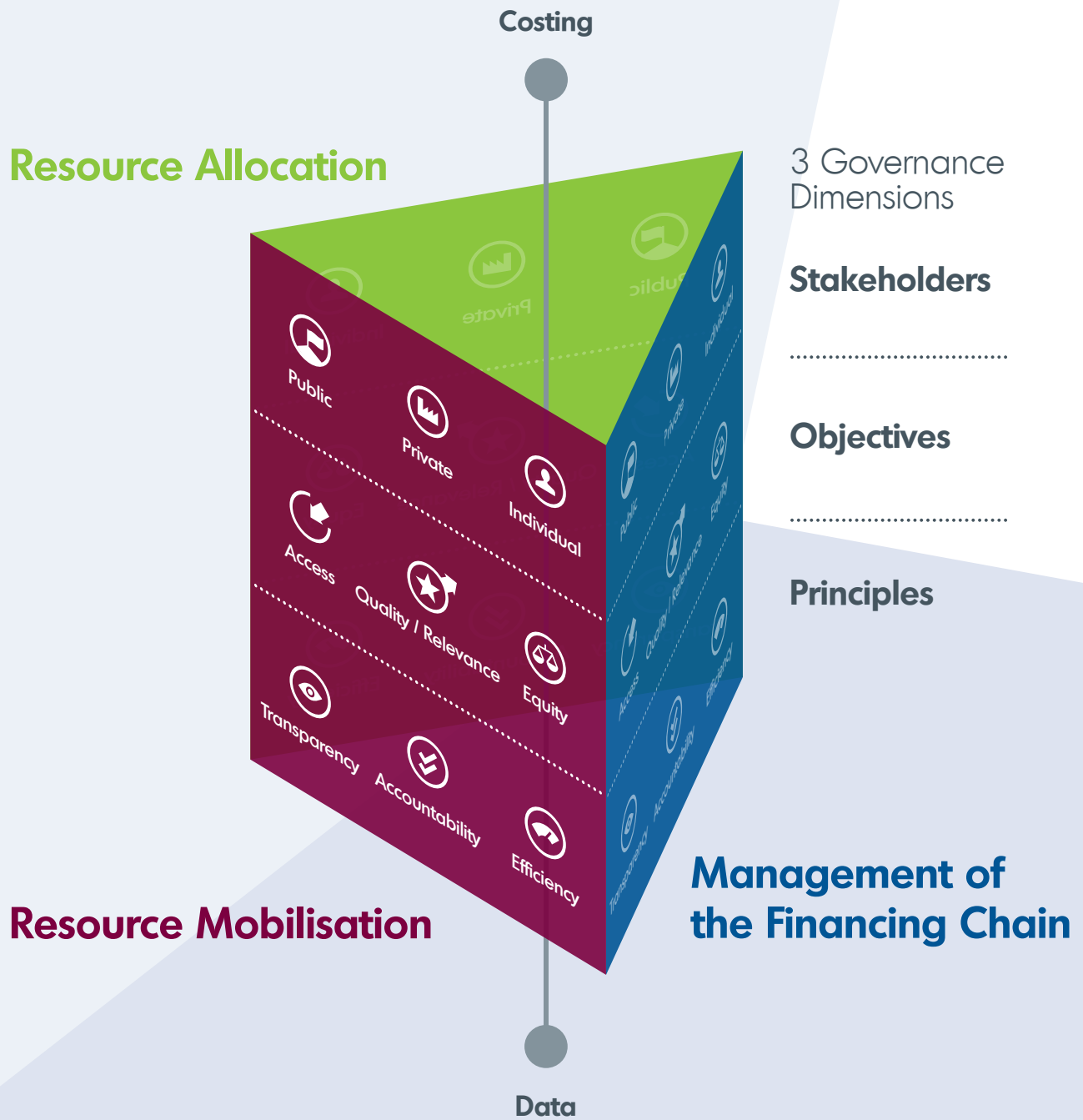


Figure 1. The ETF Financing Prism

envisaged measures and using data throughout the policy cycle, particularly at the design stage and in the monitoring and evaluation processes associated with each policy action. As such, the Prism guides policy discussion at the macro level.

We have also prepared a series of Policy Guidance Notes to help partner countries develop specific instruments to ensure sound and effective financing for their VET systems. Following the logic of the Prism, each Policy Guidance Note explains the policy issues at stake behind a particular financing instrument, the possible modes of implementation, and critical points for consideration and success. They also include case studies from EU Member States.

Conceptual clarification

This Policy Guidance Note addresses the training levy, and presents some issues concerning the introduction of training taxes or levies on enterprises, to collect resources for VET. The document is supported by case studies from Hungary, England, and Spain. Although the apprenticeship levy in England was introduced on a UK-wide basis, the use and distribution of the levy is differentiated between the four nations of the United Kingdom, as VET policy is devolved. Companies based in England only pay the levy on the total payroll of their employees living in England³. The term used throughout this note is ‘training levy’ as we are discussing funds defined by legislation and therefore ‘imposed’, rather than established through voluntary agreement⁴.

Definition

According to UNEVOC TVETipedia, a training levy is imposed on employers with a view to financing training activities⁵. This definition identifies a training levy as a compulsory payment dedicated to VET. In other words, the funds collected are earmarked (also known as ‘ring-fenced’ or ‘hypothecated’) to be used for some part of the VET system.

Main connection to the ETF Financing Prism

A training levy can be a Resource Mobilisation tool linked to Resource Allocation rules or mechanisms that enable the payers of the levy to ‘get their money back’ if they meet specific conditions. A training levy is an instrument expected to:

- Increase and/or formalise companies’ financial contribution to VET, hence improving diversification of resources and cost-sharing
- Incentivise behaviours that promote training through the levy distribution mechanism.

Thus, training levies are used to collect and mobilise resources from enterprises for VET, and are designed as an additional tax on a business activity metric. They can be used to steer the VET activities of enterprises (i.e. as a governance tool). Depending how the collected resources are spent, they can influence Resource Allocation.

³ See e.g. <https://beta.gov.scot/publications/scottish-apprenticeships-seven-things-you-need-to-know/>

⁴ The use of the term ‘levy’ rather than ‘tax’ is due to English terminology. For example, both England and France have a levy on employers for apprentices. In England, it is called an apprenticeship levy whilst in France it is termed an apprenticeship tax.

⁵ See www.unevoc.unesco.org/go.php?q=TVETipedia+Glossary+A-Z&id=497

Levies can be introduced at the behest of government, through legislation, or suggested by voluntary agreements among social partners.

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Main policy questions for social dialogue

The main questions in defining a levy are: How much will be charged? How? When? From whom? And for what?

There are multiple stakeholders in the design and introduction of a levy. Levies can be introduced at the behest of government, through legislation, or suggested by voluntary agreements among social partners. There are mixed examples, in which legislation underpins sectoral social partner agreements. For example, all enterprises can be required to pay a levy, but the management of funding can be delegated to social partner bodies. Given the required involvement of enterprises, the introduction and operation of a levy should be undertaken through policy dialogue between public authorities and social partners.

Key policy questions include:

- What are the policy priorities associated with the levy?
- Who pays the levy?
- How is the use of the levy defined?
- How is the levy collected and distributed?

1. What are the policy objectives of the levy?

There are many justifications for introducing a levy, including:

- Raising revenue, increasing current funding for VET
- Creating a dedicated finance source earmarked for VET
- Mutualising funding by sharing and pooling private funds and public funding
- Enhancing fairness by ensuring that those who benefit from VET contribute to the cost
- Avoiding market failure by overcoming 'free riding' on others' VET expenditure
- Promoting enterprise training activity by clarifying responsibility for payment
- Creating a co-funding mechanism for training activities shared between enterprises and government (e.g. apprenticeships).

These aims are not mutually exclusive and there can be multiple objectives. The case studies provide a variety of rationales and examples of different ways to use a levy. Up to 2012, the Hungarian levy was earmarked for a broad range of VET activities, whereas the UK case is specifically for the school-based part of apprenticeship training. Yet both have a similar collection principle, whereby only what is not spent by an individual enterprise is collectivised. Both are also examples in which the levy is subsidised by public funds.

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A levy can be charged on all enterprises equally, or designed to target some, or exempt some. There are examples of targeting enterprises by size, defined as number of employees and payroll levels.

2. Who pays the levy?

A levy can be charged on all enterprises equally, or designed to target some, or exempt some. There are examples of targeting enterprises by size, defined as number of employees and payroll levels. A levy can be further differentiated by economic sector, specific types of workers (e.g. where there is a high number of temporary workers who might not receive training), or by financial data (e.g. where profits are viewed as being high). In other words, a levy could be targeted at enterprises specifically to raise more funds from a certain group. In the same way, it can be defined to exclude certain enterprises, such as social enterprises; or, by setting baseline levels of total payroll, to exempt micro and small enterprises. The treatment of the range of corporate structures, including public enterprises, must be clear.

Examples of targeting levies according to enterprise characteristics:

- Size by employee numbers or turnover, or other enterprise characteristic
- Financial data, such as companies viewed as making high profits
- Payroll, including charging on total payroll, or exempting enterprises above or below a specified level of payroll
- Economic sectors at risk of underinvestment in training
- Geographical area.

The case studies are primarily based on total payroll liabilities, although in England there are exemptions for payrolls which are below a certain level, and further incentives for small enterprises. In Hungary and Spain, all enterprises pay the levy regardless of size.

3. How much levy?

A levy can be linked to social security, gross or net payroll, per employee, profits, or any aspect of enterprise tax liabilities including sales. How much levy is judged appropriate to fund the required VET activities is decided through social dialogue and negotiation between the government and social partners. Concessions can include: Ensuring levy contributions are exempt from corporation tax; allowing social partners to manage the funds collected; allowing enterprises to contribute on a 'train or pay' basis (i.e. enterprises can manage their own contributions); and leveraging public subsidy.

The case studies show levies on payroll liabilities where the levy is designed to increase enterprise training activities. There are also examples, both from Member States and from outside the EU, where training levies are imposed on profits and used to subsidise public VET budgets. Within the EU, levies tend to be agreed through social partner negotiation and earmarked for enterprise-based training – either apprenticeship and/or employee training – rather than for subsidising other education and training activities, or enhancing government tax receipts. The Hungarian example was an exception up to 2012, when the levy could be used by enterprises to provide funding to modernise training providers. In England, the levy proportion is set much lower than in Hungary, 0.5% as opposed to 1.5%, as it is more specifically targeted. In Spain, the levy is set at 0.7% but it specifically requires 0.6% to be on the enterprise and 0.1% as a charge on employees.

Depending on the policy objectives, a levy can be used as a redistributive tool; some enterprises might receive more than they contribute, others might receive less.

4. What for? Defining the use of the levy

a) Target beneficiary

Depending on the policy objectives, a levy can be used as a redistributive tool; some enterprises might receive more than they contribute, others might receive less. For example, small enterprises can be exempted from a levy but may apply to receive funding for their training activities. How much enterprises can receive in return for their contributions is an important design issue. Training levies are often designed on a 'train or pay' basis, whereby enterprises only pay the levy if they have not spent the required amount on training. The surplus can be used to fund training in smaller enterprises.

Matching the income generated by a levy with its expenditure, and mitigating a surplus or deficit, requires agreement. In both the Hungarian and English cases, the levies are subsidised with public funds. In England, the use of individual (nominal) accounts allows each enterprise to view what it has available. If it overspends (i.e. by doing more of the desired VET activity), it can attract further subsidies. If it underspends, it loses the funding.

b) Training activities concerned/eligible

There are three types of training activities to be supported by a levy:

- Enterprise based
- Publicly provided
- Mixed provision (e.g. apprenticeship).

It is possible to differentiate training activities further, for example, using a levy to promote apprenticeships for specific target groups or skills, or economic sector. Equally, a levy may be used for any training undertaken by an enterprise. A levy can also be used to fund training providers enabling free access to training by enterprises. Where a levy is used to fund publicly provided training it can be further differentiated or aggregated into the public VET budget.

The case studies show a broad range of training activities covered by a levy. The Hungarian example shows the variety of training activities originally supported by the contributions, which initially included funding for public training providers as well as enterprise based training. In the English example, the levy is tailored specifically to the enterprise costs associated with the training part of an apprenticeship in England, although the same levy will be used for a broader range of employment measures in Scotland. The Spanish example shows a 50:50 split of the levy between enterprise based training and training for unemployed people. The part available for enterprises is not targeted at any specific type of training or group, attracting the criticism that it is neither efficiently spent nor used to undertake training beyond specific enterprise required training.

The key feature of the levy reimbursement model is that the levy is collected and distributed on the basis of completed training activities and after the costs are incurred.

5. Collecting and distributing the levy

There are three main typologies for levy collection and distribution (see Gasskov, 1994):

1. Levy reimbursement. In this model, enterprises pay their levy and can receive reimbursement for the costs of providing training. Reimbursement levels can be up to the total of their levy contribution or a proportion. Reimbursement levels can also be differentiated by type of training and/or target group, for example, allowing higher reimbursements for the training activities of smaller enterprises. The key feature of this model is that the levy is collected and distributed on the basis of completed training activities and after the costs are incurred, although the time-lag can be short.
2. Levy grant. Enterprises pay their levy liability, but can receive funding for training on the basis of planned training activities set out, for example, through a formal training plan. As with the reimbursement model, grants can be less than, equal to, or more than the enterprise levy payment, but they are provided in advance of the training.
3. Levy exemption. This is the 'train or pay' model in which enterprises can avoid paying the levy if they commit to, and verify, expenditure on approved training and associated costs. Enterprises which do not spend the required amount pay the difference as their levy. Enterprises may also be able to claim excess expenditure from the levies collected.

The case studies show different models. The Hungarian model is based on 'train or pay', whereas the English model is a combination. For enterprises liable to pay a levy, distribution is based on reimbursement which is subsidised at different levels. Enterprises do not receive the funds back, but are given a voucher which is used to purchase training from an approved provider based on the apprenticeship plan. The provider receives payment on the basis of the voucher from the Education and Skills Funding Agency. A similar scheme operates in Spain for the part of the levy used for training in enterprises. For the other part of the levy, funds are transferred to the National Employment Service which approves projects for funding with regional governments.

Historical funding levels and intense consultation with stakeholders are necessary for both funding stability and legitimacy.

KEY SUCCESS FACTORS

- **Articulating the purpose.** Is the purpose to support enterprises in deciding on and funding their own training? Or to support public funds and the publicly-funded training system? Introducing a levy can be contentious, as enterprises tend to resist additional taxes and constraints on their training decisions. Without a precise definition of purpose and objectives, there is a risk that enterprises become training averse, and reduce rather than increase their training investments. Creating a levy through the tax system can create the impression that, once the levy is paid, enterprises have met their training obligations. Involving the social partners in administration and distribution of the levy can reduce this risk, as can building in incentives for enterprises to overspend.
- **Clarifying the institutional structure for VET financing.** Training levies operated through the taxation system cut across the interests of different line ministries, particularly those in charge of education and training, employment, economic development, and finance. The earmarking process for the levy must be clear, to ensure funding transfers can take place. How, and to which bodies, funds are distributed must be defined (for example, whether to social partner organisations, enterprises, lower government tiers, or directly to providers).
- **Agreeing the role of social partners in the training levy.** This note deals with levies operated by government and through the formal taxation system, but there are numerous examples of levies collected through social partner agreements. There are also mixed systems where the levy is collected by public tax authorities but distributed to social partners.
- **Establishing monitoring and tracking procedures.** Whether tied to legislation or voluntary agreement, enterprise use of the levy and/or provision of training to trigger a levy payment requires monitoring. This can be a complex process, since the levy collector (usually the tax authority) is not the levy distributor (usually the line ministry or other government tier or agency, or social partner organisation). There is a risk that administering the levy becomes expensive or subject to misuse. Equally, there are differences in the flow of financing in the models. In the reimbursement model, there is a distinction between levy income and expenditure. This flow is not so clear in the levy exemption model, as the income and expenditure are less predictable.
- **Balancing simplicity and complexity.** The balance between operational simplicity and complexity is linked to monitoring procedures. Detailed definitions of eligibility criteria for enterprises, training activities and training costs, will require detailed monitoring. On the other hand, it is difficult to target if all enterprise training activities can be supported or offset by a levy payment.

The formula should reflect both policy priorities and principles, for example, the principle that public funding should make service provision more equal.

- **Managing levy income and expenditure.** The collection and distribution mechanisms presented require decisions on management. For example, should the levy be distributed in advance or in retrospect, and what happens if the amount collected is not enough (or, equally, too much)? The interaction of regulation, institutional structure, and rules for public funding will play a part in how the levy is established, designed, and operated.
- **Clarifying the risks.** This is important for enterprises and for government. For example, as identified above, enterprises might 'default' training expenditure to the level of the levy from a higher previous level. Or enterprises may provide training which is not useful, just to receive the funding. These risks can be mitigated by being prescriptive about the training activities which can be funded by the levy. But more prescription requires more oversight and administration. Other risks include the levy being viewed as part of general public revenue, and it either replaces public funding and/or is diverted from its purpose to support training. Ensuring the involvement of social partners in decision making can mitigate this risk.

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In defining an incentive, it is important to consider the potential impact on enterprise accounting, the VET system, and the labour market

Case study 1: Hungary

Background

All labour market activities in Hungary are funded through the Labour Market Fund, Munkaerőpiaci Alap (MPA), originally established to consolidate a range of funds. The MPA includes a range of sub-funds including the VET Fund and the National Employment Fund. There is a range of sources contributing to the MPA, including a levy on enterprises, and EU and public budgets. The MPA and its sub-funds are used for all labour market assistance, including unemployment benefits and support for training system improvement (see Hajdu, 2011, p. 199). Since 2012 the MPA has been called the National Employment Fund, Nemzeti Foglalkoztatási Alap (NFA).

The training levy, introduced in the early 1970s, provides a significant and reliable source of funds for VET. It played a crucial role during the transition years as other funding sources collapsed or became uncertain (Kis et al, 2008). Employers were required to pay a compulsory 'vocational training contribution', szakképzési hozzájárulás (SZH) to the VET Fund³, which amounted to 1.5% of their payroll. This levy accounted for almost one-third of total national expenditure on school-based VET (Ministry of Labour and Social Affairs⁴, cited in Kis et al, 2008).

Until 31 December 2011, Act LXXXVI of 2003 on vocational training contribution and the support of training development was in force. The law and its implementing decrees had changed several times, making the regulation complicated and difficult to understand. Consequently, it did not serve the effective development of vocational training or perform the tasks as specified in law.

Until 2011, the training levy contribution could be spent by the company for the following uses (see Table 1):

- i. Cover costs of providing practical training for IVET students, up to 100% of the amount of the training levy
- ii. Cover costs of providing training for employees, up to 33%, or 60% for micro and small companies
- iii. Provide 'development subsidies' (equipment, or money for buying equipment) for VET schools or higher education institutions (up to 60% and 30%)
- iv. Pay it into the training sub-fund of the MPA (up to 100%).

The levy worked on a 'train or pay' basis: Companies could choose to pay 100% of the levy directly to the fund, or offset their allowable training expenditures against their liability. Any residual amount would be payable into the Fund.

³ Regulated under Act LXXXVI of 2003 on the Vocational Education Contribution and Support for the Development of Training.

⁴ Now subsumed into the Ministry of National Economy.

Year	Practical training provision for VET students in enterprises		Development subsidy for:				Training provision for employees ⁵		Payment into the NFA (previously called MPA) training sub-fund		Total	
			VET schools (SZI and SZKI)		Higher Education institutions							
	EUR	%	EUR	%	EUR	%	EUR	%	EUR	%	EUR	%
1998	23.7	-	-	-	n/a	-	-	-	36.1	-	59.8	-
1999	22.2	-	-	-	n/a	-	-	-	43.5	-	65.7	-
2000	21.2	-	-	-	n/a	-	3.84	-	51.14	-	76.14	-
2001	24.2	16.6	46.3	31.8	3.51	2.41	9.35	6.4	62.3	42.8	145.7	100.0
2002	28.4	15.8	51.4	28.6	9.47	5.26	13.9	7.8	76.5	42.6	179.6	100.0
2003	29.98	15.4	52.5	26.9	11.8	6.06	18.9	9.7	82.05	42.0	195.26	100.0
2004	31.8	15.1	49.3	23.4	13.1	6.21	21.4	10.2	95.4	45.2	211	100.0
2005	37.1	14.9	51.6	20.8	16.5	6.66	28.1	11.3	114.9	46.3	248.3	100.0
2006	41.6	16.2	46.5	18.1	16.6	6.49	29.5	11.5	122.2	47.6	256.5	100.0
2007	54.1	18.8	41.4	14.4	17.5	6.08	29.08	10.1	146.03	50.7	288.09	100.0
2008	64.08	19.8	42.6	13.2	17.9	5.54	31.04	9.6	167.6	51.8	323.6	100.0
2009	66.7	22.4	26.4	8.9	17.5	5.86	27.09	9.1	160.4	53.9	297.96	100.0
2010	76.7	24.1	29.4	9.3	17.4	5.5	23.97	7.5	170.3	53.6	317.7	100.0
2011	84.9	25.5	30.08	9.0	13.6	4.1	28.7	8.6	176.2	52.8	333.4	100.0
2012	127.8	32.0	-	-	-	-	-	-	271.9	68.0	399.7	100.0

Table 1. Amount (EUR million) and distribution of the vocational training contribution by the purpose of its use, 1998-2013. Source: Adapted from Ministry of National Economy table in Cedefop (2014).

5 From 1997 until 2012 companies liable to pay the SZH could deduct the cost of employees' vocational and foreign language training from this 'training levy'. Since 2007, micro and small enterprises could allocate up to 60%, the rest 33% of the SZH on such purposes, but from 2009, in line with Commission Regulation (EC) No. 800/2008, companies were also required to share the costs. In 2011 HUF 8 billion/EUR 23.96 million was spent on the training of 137,575 employees from this source. Act CLV of 2011 abolished this financing instrument, but a 2012 amendment re-established it, although with strict conditions that would probably be met by a few large companies.

Following the changes in 2011, the largest proportion of the levy contribution – 68% – has been transferred to the NFA, with the balance used to fund work based training for VET students in enterprises.

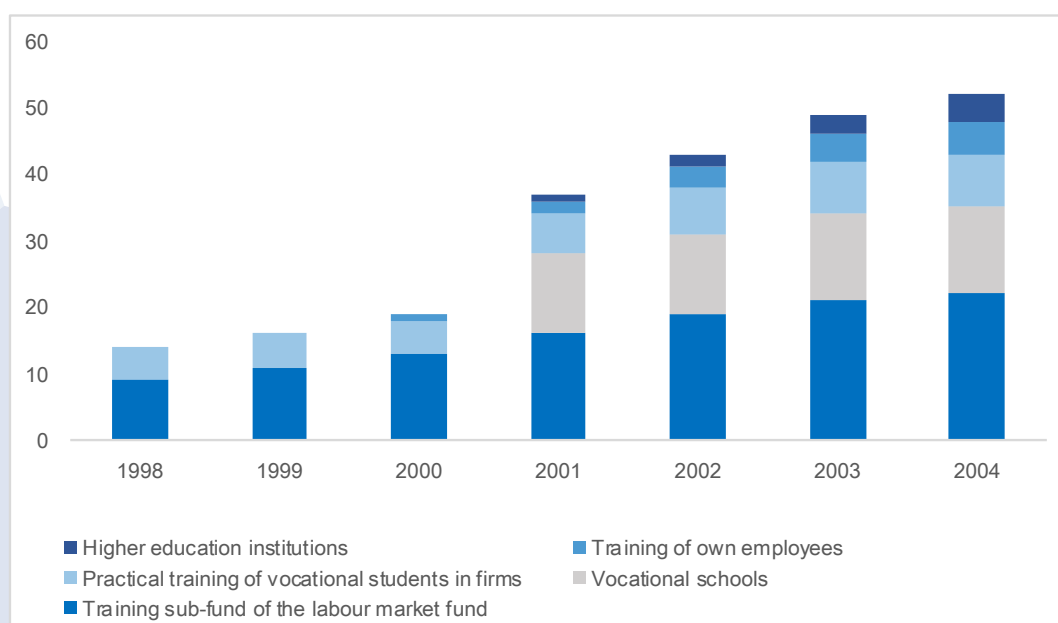


Figure 2. Evolution of the training levy and its allocation⁶. Source: Kis et al (2008).

Vocational training contribution

The vocational training contribution (SZH) of 1.5% of the total wage bill has been transformed by the new SZH law passed in November 2011 (Act CLV of 2011 and implementing decrees). The major part of the fund is now dedicated to covering the costs of work based VET (Cedefop, 2014). The objective is to use the funding for apprentices to gain the skills and competences needed for a profession in a real working environment. It allows students to get acquainted with advanced workplace technologies and become familiar with the work context, while gaining work experience.

Business organisations are the primary contributors to the levy. Some entities are exempt, such as individual entrepreneurs, sole traders (excluding its employees' tax base), non-profit public companies (after the tax base on its own beneficiaries' activity), and public health providers.

The amount of the contribution can be reduced or offset by organising practical training, including some practice-intensive bachelor's degree programmes and dual training in higher education institutions. This means the contributor is either paying for or delivering practical training (the incentive is to do the latter). The extent of the contribution, (differentiated per qualifications and basic norms specified in the respective budget Act, can be decreased.

⁶ The figure indicates how firms have allocated their compulsory contribution to the training levy. The training sub-fund of the MPA may subsequently be recycled and spent for a variety of purposes, including training of students in initial or continuing VET.

Businesses have to report to the Hungarian Tax and Customs Administration, Nemzeti Adó- és Vámhivatal (NAV) that they offset their vocational training contribution via practical training with apprenticeship contracts. Where the costs of practical training exceed their levy obligation, they can reclaim their costs. For enterprises training at least 30 students with apprenticeship contracts, their own employees' training costs can also be offset up to the contribution.

The levy can be used to finance the following costs (Cedefop, 2016):

- VET and adult training measures and activities, including those organised by VET schools
- Individual subsidies⁷
- Stipends (Szabóky Adolf) for qualifications demanded by the labour market
- VET school infrastructure.

Vocational training contributions not spent on vocational training provision must be paid into the training sub-fund⁸ of the NFA. Training providers/enterprises that are not obliged to pay the SZH (Act LXXXVI of 2003 exempts public sector organisations except state-owned companies, churches, foundations, pension funds, and non-profit organisations defined as being for the public benefit from paying the levy) can receive support from the NFA training sub-fund for providing practical training based on a training contract. It also provides funds for technological or infrastructure and content development, within training providers. The minister responsible for VET – currently the Minister of National Economy – has the sole right of disposal over the training fund, which can only support objectives directly related to VET and adult training (Cedefop 2014). Since 2012 the training sub-fund has been called Training Fund, Képzési Alap of the NFA.

A further change since 2012 is that the training levy contribution can be spent by companies on training their employees up to 16% of their liability (and not 33% as was the case pre-2011), if they have at least 45 training apprenticeship contracts. This is the only way to offset their contribution, and just a few large companies are able to make use of this provision. According to legislation, the collected funds (training sub-fund) which are not allocated to dual VET can be disbursed both through calls for tenders, and the individual decision of the minister⁹ or by government decision. Grants are disbursed to those applicants who best meet pre-determined criteria.

Collection and distribution of the levy

Currently the NAV manages tax returns and claims for refunds in accordance with Act CL of 2017 on Rules of Taxation. The vocational training contributions are paid into the Training Fund of the NFA. The amount received as a vocational training contribution is transferred as a net amount (after deductions and repayments) from the NAV. The Training

⁷ Decided by the minister responsible for VET and adult training.

⁸ The training sub-fund can provide support for the provision of adult training programmes, obtaining the new permit of operation and the technological development of training providers, development programmes and co-financing for ESF-supported programmes (Cedefop, 2014).

⁹ The central administration of VET, adult training and employment policy falls under the Ministry of National Economy, Nemzetgazdasági Minisztérium (NGM). The NGM regulates VET provision, sharing responsibilities with other ministries responsible for specific vocational qualifications, and with the Ministry of Human Resources, Emberi Erőforrások Minisztériuma which is responsible for education as well as social policy. The National Vocational and Adult Training Council, Nemzeti Szakképzési és Felnőttképzési Tanács, a consultative-advisory body participating in the allocation of the NFA training sub-fund, reports to the Minister of National Economy.

Fund's estimated expenditure is set out in the current annual budget law. This provides the domestic funding sources in accordance with the principles of the vocational training contribution. Support from the Training Fund part of the NFA is monitored by the National Office for Vocational Education and Training and Adult Learning, Nemzeti Szakképzési és Felnőttképzési Hivatal (NSZFH) which is responsible for enforcing potential sanctions.

Evaluation

Until 2012, the NAV and the National Institute for Vocational Education and Training and Adult Learning, Nemzeti Szakképzési és Felnőttképzési Intézet (NSZFI) – the predecessor of the NSZFH – had two separate reporting and registration systems, which were not synchronized. Therefore, proper monitoring of the received funds was impossible. In addition, there was no system to evaluate how these funds contributed to the improvement of vocational training. Their effectiveness and efficiency could not be assessed due to the scattered nature of the sources of information. NSZFI and the Hungarian State Audit Office, Állami Számvevőszék (ÁSZ) found that 21% of the received support and development aid was considered to be used improperly. Contributors could reduce their contribution liability by the costs of organising their own employees' training. However, investigation revealed that companies tended to pursue their own business interests for training, rather than the national goals of vocational training development. Moreover, several organisations (labour centres, NSZFI, NAV) were involved in auditing implementation reports and could not filter and remedy for irregularities found, either financially or in the training pursued.

According to the ÁSZ, the tax-processing system was not a closed-circuit, so the full collection of the contributions was not assured. The collection of the contribution did not belong to a single body but were split between the National Institute for VET and Adult Learning (for companies organizing their own training provision) and the NAV (for those having to pay the levy). No entity could perform a full audit and monitoring. According to the previous regulation, the minister responsible for VET and Adult Learning set the amount of resources to be used from the training part of the MPA according to the different appropriations. Any remaining funding allocation was shared with the Minister of Education and was not necessarily used for training purposes. That changed in 2012, and today the NAV reports each year on the use of the vocational training contribution in the previous year. Recent reports confirm that more of the levy is spent on supporting work-based training for apprenticeships.

Case study 2: United Kingdom

Background

The Apprenticeship Levy was introduced at the start of the financial year in 2017. The levy is a tax on all UK employers to support the funding of enterprise costs for apprenticeships. It was introduced following a consultation exercise with employers in 2015, and following the introduction of an exemption on employers to pay social security contributions for apprentices aged under 25 operating from 2016¹⁰. Whilst all UK employers pay the levy which is uniform across the UK, the design and implementation of apprenticeship programmes is devolved to the four nations of the UK (England, Scotland, Wales and Northern Ireland). What is described here covers the entirety of the UK, although the way in which funds are distributed and monitored for apprenticeships is focused on the scheme in England. Each nation will define its own criteria for using the levy collected. For example, only England operates a digital account scheme. Scotland has announced that half of the revenues collected will be used to fund a broader range of employment measures.

Policy objective

Following various reviews of the education, training and employment opportunities for young people in England, priority has been given to boosting participation in apprenticeship programmes as a means of integrating young people into the labour market. The government set a target to create three million apprenticeship starts in England by 2020, and to double investment in apprenticeships from 2010 to GBP 2.5bn¹¹. To achieve this, changes were introduced focusing on increased involvement of employers in apprenticeships. For example, 215 'Trailblazer' groups were set up, involving more than 1,400 employers, to develop new apprenticeship standards and categories. Key changes include changing the funding mechanism for the school-based element of an apprenticeship, and allowing more employer control by introducing a levy scheme and digital apprenticeship accounts.

The levy system changes the previous funding structure for the school-based element of apprenticeships, which had been based on public funding for training providers. This public funding will now follow employer choice over provider, and will be based on information from both the employer of the apprentice and the training provider which is formalized through an apprenticeship agreement. The new system is as much about shifting control over the apprenticeship funding mechanism as a means of mobilising enterprise funds for apprenticeships. According to government estimates, less than 2% of UK enterprises will have a levy liability, since the vast majority will not meet the minimum requirement of an annual wage bill of GBP 3m or more.

¹⁰ Specifically, Class 1 National Insurance contributions on earnings up to GBP 827 per week.

¹¹ See DfE (2016).

Operation of the Apprenticeship Levy: Collection

Private and public companies with an annual wage bill of GBP 3m or more are liable to pay 0.5% into a fund. In practice, this is paid through the existing income tax system on a pro-rated monthly basis. All enterprises are allocated a GBP 15,000 apprenticeship allowance in their tax calculation, which effectively exempts any enterprises below the required minimum wage bill.

The calculation is based on the following steps:

1. Divide the Apprenticeship Levy allowance by 12 (GBP 15,000/12 = GBP 1,250)
2. Subtract GBP 1,250 from 0.5% of the monthly pay bill
3. Where the amount is more than zero, this is the levy liability for that month.

Corrections can be made in-year, each month where the wage bill changes. Enterprises with a bill of zero do not need to report it. Those that do, include it in their monthly report to Her Majesty's Revenue and Customs (HMRC), the UK income tax collector.

The levy allowance and payment structure is fully integrated into the monthly tax return of enterprises, with provisos for different corporate types. All public enterprises are required to participate (including, for example, schools and VET providers). The levy amount paid attracts a subsidy of 10% from the government for each enterprise.

Distribution of the Apprenticeship Levy

There are two types of distribution mechanism for the levy. The first applies to those who pay the levy, and the second to those who don't (until April 2019, when the system will be harmonized). But inherent to both is a set of detailed definitions about what constitutes an 'apprenticeship' and what costs can and can't be covered by the funds available (e.g. wages, travel, licenses to practice, and costs of setting up an apprenticeship programme are not included). An apprenticeship must be for at least 30 hours a week, in which at least 20% of the time should be dedicated to training. The apprenticeship is governed by an agreement which outlines the planned schedule and content of the apprenticeship and is signed by the employer, apprentice, and training provider. The agreement must be in force for at least one year. There are also detailed eligibility criteria for who can be an apprentice¹².

Detailed criteria apply to the apprenticeship costs which can be funded regardless of the different distribution systems. These include:

- Off-the-job training through an externally contracted provider or evidenced costs for employer-provided training, including distance and/or blended learning approaches and administration costs to identify and plan training
- Registration, examination, certification and assessment costs associated with qualifications

¹² For a full explanation of all criteria for apprentices, their employment/training conditions, and the eligible costs, see ESFA (2018).

- Non-capital training materials, and accommodation costs where residential modules are required.

Within the provisions, there are various transitional arrangements and incentives. They include:

- Employers who pay the levy recruiting young apprentices (aged 16 to 18), or apprentices requiring additional learning support, receive a GBP 1,000 subsidy via their training provider.
- Employers not meeting the levy payment threshold will have 100% of their apprenticeship training costs met for young apprentices.
- Small enterprises, defined as those with less than 50 employees, will have 100% of their apprentice agreement costs met (up to a defined ceiling).
- To protect training providers under the new funding arrangement, a 20% uplift is designed to protect them from budgetary instability (to be reviewed annually) as well as fixed payments for providers training apprentices in areas defined as deprived.

It is important to note that monies are not transferred to an employer. Rather, funds are paid directly from the levies collected to training providers. The focus for the operation of the funding system is the three-way agreement, which sets out the costs of the apprenticeship in advance between the employer and training provider, and the commitment of the apprentice to participate. These costs are restricted according to pre-agreed ceilings set by the government, in consultation with providers and employers, for different apprenticeships; currently, ranging between GBP 1,500 and GBP 27,000 according to 15 bands. It is possible for enterprises to provide the training themselves and/or to sub-contract to other companies. In both cases, the funding from the levy will follow the training provider. But there is a quality assessment and an accreditation requirement for employer-providers and sub-contractors.

Distribution of the levy for those who pay it in England

Enterprises paying an Apprenticeship Levy establish a digital account with the apprenticeship service. The account nominally holds the enterprise levy funds. The funds are automatically topped up by 10% each month by government subsidy. Funds held in the digital account are transferred directly to the training provider involved in the apprenticeship agreement (or an enterprise-provider). For agreements made with public training providers, up to 80% is distributed from the digital account on a pro rata monthly basis, with the remaining 20% when the agreed learning for the year is completed. Where funds are insufficient because employers are exceeding their required expenditure, they must contribute 10% of any outstanding balances, according to the apprenticeship agreement and within the ceiling levels. The remaining 90% is met by government funding, with evidence from training providers that employers have paid the 10% figure, up to the agreed funding band.

There are strict rules for the management of the digital account. Although enterprises cannot gain access to the actual money held within them, they can have an impact on the amount of funds available, for example in the way the enterprise is structured and makes its levy contribution. Hence the importance of clear definitions for how a single corporate entity is defined. An enterprise also chooses their training provider, and therefore the information submitted by both enterprises and providers is cross-checkable (through a voucher mechanism). Where the enterprise itself provides the required training for the apprentice, all training costs must be clearly documented and evidenced, and are limited by the funding bands in the same way as for external providers. Under the regulations, the government can take legal action against an enterprise to recover misappropriated funding or in the case of inaccurate reporting, and the provider is obliged to repay any funding overpayment.

Distribution of the levy for those who do not pay

For employers below the levy threshold who do not have a digital account (until 2020), they can benefit from a co-investment mechanism whereby a 10% funding commitment to their apprenticeships will attract a 90% government co-investment, up to the appropriate funding band. For 16 to 18 year-olds, the government will meet 100% of costs. Employers are issued vouchers to purchase the training agreed with a provider. The vouchers are redeemed by the provider from the ESFA.

Evaluation

As the scheme was revised in 2017, there are no evaluations to date about the achievement of targets, either in terms of increased spending on apprenticeships or higher numbers of participants. The policy documents and regulations include clear monitoring statements, both on the collection and distribution side, concerning how enterprises respond to the changes, as well as the impact on training providers – although this has yet to be reported on. However, there has been an evaluative report on the reliability of the forecasting model used to calculate the expected targets. The report highlights the difficulty in measuring, and therefore targeting, increased demand for apprentices by employers, and the preference of young people and adults to enter an apprenticeship. The report does not comment on target progress or achievement. Nevertheless, recent figures reveal a decline in new apprenticeship starts, and GBP 1.28 billion of levy funds remain unspent, suggesting problems with attractiveness, perceived complexity, and quality of careers information and guidance¹³.

Key success factors

Whilst it is too soon to fully judge the effectiveness of the UK's Apprenticeship Levy, there are some useful pointers:

- Most enterprises will be exempt from the levy, but will have more control over the delivery of the training part of the apprenticeship agreement

¹³ See www.gov.uk/government/statistics/apprenticeship-and-levy-statistics-june-2018

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- The collection and distribution methods for the levy are separated – collection is through the existing taxation system, whereas distribution is through the education funding structure
 - Funding flows from enterprises to the tax revenue authority, and from there via the ESFA to training providers (where the levy is payable); and from the ESFA to training providers where there is no enterprise liability, although nominal funds will sit in a digital account for non-levy payers from 2019
 - There are significant proportional contributions from government budgets
 - There are detailed definitions of what constitutes an apprenticeship and the associated costs that will be funded, including ceilings for different apprenticeship categories
 - There are definitions for the type of corporate structure required to pay the levy
 - There are exclusions for enterprises with lower total pay bills, as well as uplifts for small enterprises and additional incentives to recruit young people into an apprenticeship
 - The funding is based on the three-way agreement between an enterprise, a training provider, and the apprentice
 - Enterprises which use the funds in their digital accounts for apprenticeships will receive more than they contribute
 - As the levy changes the funding structure for training providers for the school-based training element of the apprenticeship, there are transitional arrangements to protect provider budgets for two years.

Case study 3: Spain

Background

Continuing training (CT) in Spain has been funded since 1993 through the Vocational Training Levy (Cuota de Formación Profesional) on workers and employers; and, to a minor extent, subsidies from the European Social Fund, contributions made by the State, and private contributions. This system originated in the agreement between the main employers' and trade union associations (known as the Bipartite Agreements) and with the government (the Tripartite Agreements). Implementation of the agreements is through the State Foundation for Training in Employment, Fundae, which manages part of the system. CT used to be a residual activity before these agreements, mainly carried out by large companies for their employees. Overall average expenditure was 0.2% of labour costs, compared with 1.5% in neighbouring countries.

Training funded by the vocational training levy is mainly aimed at private salaried and unemployed workers (95% of funds). It also serves other groups with training needs, such as; part-time workers, permanent seasonal workers when they are not working, workers affected by a work reduction plan (as defined by the national public employment service¹⁴), workers who become unemployed when they are undergoing training, self-employed workers, and workers in social economy companies. Each year, the general budgets of the state establish the distribution of CT funds among the different initiatives aimed at employed and unemployed workers and among the Autonomous Communities.

Training Levy collection and Continuing Training funding

The levy is financed by collecting a contribution from enterprises of 0.7% of their total wage bill, with 0.6% being paid by the employer and the remaining 0.1% by the worker. This is collected monthly by the General Treasury of Social Security. It exceeded EUR 2 billion in 2017.

CT for both employed and unemployed workers is financed from the levy and the budget of the Public State Employment Service, and with budgets raised by the Autonomous Communities. Some actions may receive co-financing through the European Social Fund or other aid and initiatives. In 2017, 87% of the CT funds were from the levy, with the remainder from the State. CT in Spain is based on the principles of collective bargaining, social dialogue, and solidarity, keeping the resources collected centralised and devolving only a part to the Autonomous Communities.

Allocating Continuing Training funds

The budget allocated to CT policies has changed since 1993 (see Figure 2). Currently¹⁵, the State splits the available CT budget evenly between training initiatives aimed primarily at employed workers (public and private sector), and for unemployed workers. The Sectoral Employment Conference¹⁶ distributes the territorial funds under its management via the Autonomous Communities.

¹⁴ National Public Employment Service, now known as SEPE.

¹⁵ The first Tripartite Agreement of 1993 set 0.10% for employed workers and 0.6% for unemployed. This distribution has been modified according to national needs and social partner agreements. Law 30/2015 of September 9 is the most recent regulation regarding CT.

¹⁶ The conference (Conferencia Sectorial de Empleo y Asuntos Laborales) is the general instrument for coordination and cooperation in employment policy between central government and the 17 Autonomous Communities, as well as the enclave cities of Ceuta and Melilla.

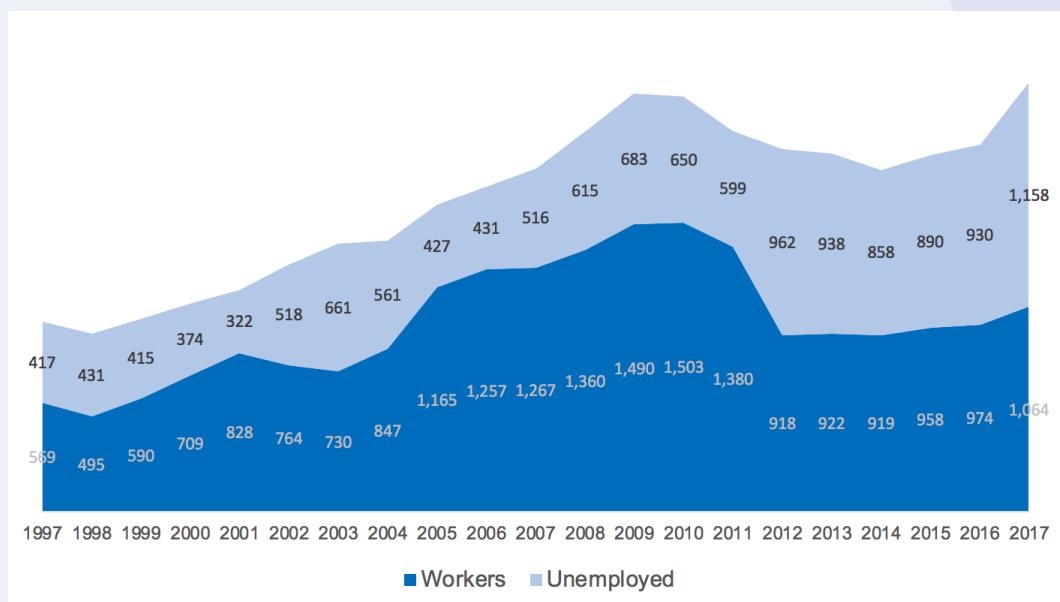


Figure 3. Evolution of continuing training budget and its distribution (Million EUR) Source: Fundae

The funding allocation of the budget alters according to the training initiative¹⁷ (iniciativas de formación):

- Training organised by companies for their employees (formación programada por la empresa), financed through discounts on what companies pay to Social Security as vocational training levy
- Training schemes through open calls for proposals, such as sectoral and cross-sectoral training programmes for employed and self-employed people, including those working in the social economy (known as planes de formación intersectoriales, sectoriales, autónomos, y economía social); they can be at national or regional level
- Programmes for unemployed people, including 'training plans' (planes de formación) to meet needs identified by public employment services, and specific training programmes. They are funded through open-tendered calls for proposals
- Other training initiatives, such as individual training leave (permisos individuales de formación), alternance training (formación en alternancia), civil servants' training, training in prisons, and so on.

Allocation of CT funds to employed workers training

Companies providing training for their workers can receive discounts on their social security contributions. The yearly training credit – or quantity they can discount – available for each company is calculated by applying a fixed percentage to the levy paid in the previous year. Companies with more than 10 employees must co-finance part of the

¹⁷ For further information see Fundae (2015).

training cost, scaled further by size (companies with fewer than five workers are exempt). Companies with fewer than 50 workers can accumulate their credit up to three years. Companies with fewer than 100 workers can also amalgamate their credits, grouping themselves based on territorial or sectoral criteria.

The system parameters are based on a principle of solidarity, in which large companies can recover less than they contribute to the system, while small businesses may receive much more than they paid.

Companies also have other social security exemptions for hiring apprentices on an apprenticeship contract (los contratos para la formación y el aprendizaje), which commit the company to provide the trainee, aged 16 to 30, with a job related to their vocational training qualification for up to three years (OECD, 2017).

There are few criteria on how employers spend their CT fund allocation, except:

- It must be used for workplace training.
- The training must be related to the activity of the company.
- Trainers have the necessary technical and pedagogical knowledge and skills.
- Courses are developed with the necessary flexibility in content and delivery time to meet company needs and adjust workers' skills to changing requirements.

There are cost limits based upon different hourly cost per participant depending on various factors (i.e. training content, techniques used or delivery mode). Distribution and allocation procedures to enterprises are carried out electronically in the Fundae portal, where employers can calculate the credit, register the training courses, trainers, participants, dates, etc.

Employees can take part in training programmes run by their company, or apply for individual training leave (permisos individuales de formación). Workers have the right to 200 working hours to study for a qualification, provided the company authorises leave. The company is reimbursed for the cost of salary of that worker¹⁸ by Fundae, and workers receive their salary during the training leave. An extra credit is available for companies granting training leave to their workers.

Training schemes funded through open calls for proposals

Employees can participate in other training schemes (see b), c), and d) above, supported by the levy) outside of the training activities of an enterprise. Both national and regional employment administrations tender and contract a range of training activities which workers and unemployed people can attend. Training providers can bid for the funding to deliver the training which is usually designed to meet qualification needs beyond the scope of individual enterprises; for example, cross-sectoral. A catalogue of training modules associated with national occupational standards, and leading to a qualification, is available with certain private qualification programmes, for example IT training, and programmes that respond to sectoral priorities defined by bipartite sectoral commissions.

¹⁸ Including associated tax and social security costs.

50% of CT funds are devoted to training initiatives aimed primarily at unemployed workers, as well as public employment training programmes, run by national or regional public administrations. The main objective is the insertion or reintegration of unemployed people into the labour market. Participants can receive aid and scholarships to assist their participation. These actions are programmed through an assessment of labour market skills and qualification gaps. As far as possible, links are made with both public and private companies to strengthen the training on offer.

Evaluation

An Annual Evaluation Plan (Plan Anual de Evaluación) is carried out, with indicators of effectiveness, efficiency, satisfaction, and impact. In addition, Fundae carries out ex-ante and ex-post evaluations of all training initiatives for employed workers, in which effectiveness, efficiency, satisfaction, and impact are analysed. To improve the impact indicators, a 2015 Royal Decree established an evaluation and monitoring system to ensure: Training quality; multi-annual strategic planning; an open and transparent tendering processes for private training providers; and an anti-fraud unit. The new system enhances the involvement of employers and trade unions in choosing the training courses, although efforts are still needed to adapt the courses better to labour market needs (OECD, 2017). This evaluation and monitoring system may provide a more comprehensive idea of how effective the levy is in the future. The following figure give an idea of how companies use (or not) the training levy during the last decade (from 2006 to 2016).

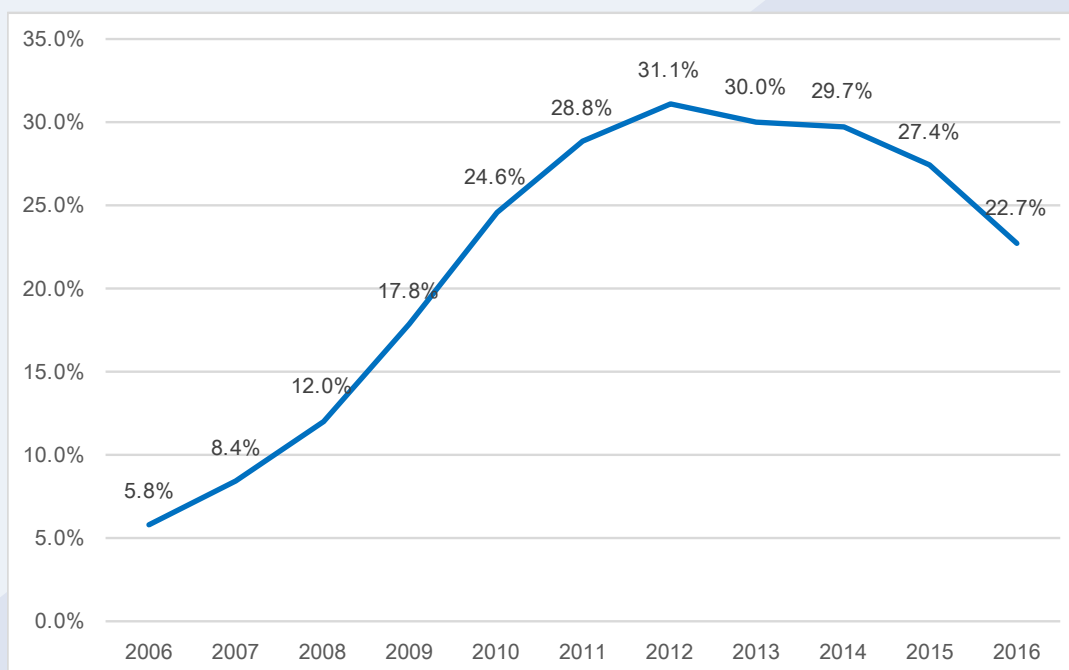


Figure 4. Training coverage rate. ALL COMPANIES. Source: Fundae.

Figure 4 shows the percentage of companies who provide training for their employees, from 2006 to 2016, compared to the total number of companies who pay the levy to the General Treasury of Social Security. In 2006, only 5.8% of companies that payed the levy were taking advantage of it, while by 2016 this has risen to 22.7%, which is still a small proportion, but an improvement. The situation is better if large companies (over 250 employees) are isolated. For employees in training, 30.9% of workers received training organised by their companies in 2016. In absolute numbers, 2,535,038 workers were trained that year, almost the same as in the previous year, of whom 48.6% participated in more than one training activity.

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