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Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study

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Executive Summary

Introduction

The study is the fifth in the Net Benefits of Training to Employers series. The aim of the study was to identify the costs and benefits employers derive from: (a) Apprenticeships; and (b) Workplace Learning (WPL) leading to the award of a formal qualification at the same level as an Apprenticeship. Throughout the report, WPL is used to refer to workplace based learning distinct from Apprenticeships, though strictly, Apprenticeship is a form of WPL.

The study was conducted through the completion of approximately 80 employer case studies spread across eight sectors of industry:

- Engineering;
- Construction;
- Retailing;
- Hospitality;
- Transport and Logistics;
- Financial Services;
- Business Administration (mainly in the local government sector);
- Health and Social Care.

Employers were interviewed and asked to provide information about the costs they encountered in delivering training leading to the successful completion of an Apprenticeship or some other equivalent form of WPL and the benefits to the business derived during the period of training. In each sector the focus was upon the Apprenticeship or WPL which was common to that industry; for instance, the case studies in engineering were concerned with the completion of engineering Apprenticeships at Levels 2 and 3. The method used to estimate the costs borne by the employer, and the payback period for recouping those costs, is the same as used in previous Net Benefits to Training studies. The method is described in detail in the main body of the report.

As well as estimating the costs and benefits of providing each form of training, the study also sought information from respondents about why they invested in Apprenticeships and WPL, how the training decision was made, and what were the perceived benefits of having made the investment.

The study is based on a relatively small number of in-depth case studies. The results should be, therefore, regarded as indicative rather than being a definitive account of employers' investments in Apprenticeship and WPL.

Timing of the Study

Much of the fieldwork was undertaken between May and July 2011 and thereby before the changes to Apprenticeships brought in by 2010 Specification of Apprenticeship Standards for England (SASE) had taken full effect. The changes introduced by the 2010 SASE have been designed to assure the quality of Apprenticeships to ensure that sufficient new learning to support the acquisition of skills takes places.

More specifically, the 2010 SASE sets out the minimum requirements to be included in a recognised Apprenticeship framework in England. Compliance with the SASE is a statutory requirement of the Apprenticeships, Skills, Children and Learning (ASCL) Act. The SASE requires that the learning element provides a minimum of 37 credits on the QCF in the majority of cases and that there are a minimum of 280 guided learning hours reflecting both on-the-job and off-the-job training. The ASCL requires that apprentices must have employed status such that Apprenticeship is training in employment rather than training for employment. In combination the ASCL and SASE are designed to further improve the quality of Apprenticeship training provision.

This study contains several examples of where Apprenticeship has been used as a form of continuing vocational training and delivered to sometimes long-standing, older employees. The current policy position is explicit on this issue. Whilst older workers – i.e. those who are likely to be in receipt of Apprenticeship training as a form of CVET - are likely to be starting from a higher base of skills and experience, Apprenticeship as a form of CVET should involve significant new learning to support people of any age to re-skill or up-skill in order that they might progress their careers.

The Employer's Training Decision in Relation to Initial Vocational Education and Training (IVET)

In the case studies where training was provided to new recruits and corresponds to IVET, the reasons employers gave for engaging in this form of training included the following:

1. where the employer had a long history of taking on, principally, apprentices in order to replenish the supply of skills the business needed, they tended to stick with what worked well for them;

2. a recognition that new recruits who were being formally trained often brought in new skills – acquired through the training provider - which could be cascaded through the workforce;

3. a means of bringing young people into the organisation;

4. a perception that the local labour market had an insufficient stock of fully experienced workers who could be readily recruited;

5. a view that there was little scope for up-skilling existing members of the workforce working in less skilled jobs;

6. recognition that the recruitment of graduates – principally instead of apprentices –would not supply the type and level of skills the organisation currently required;

7. a preference for training one's own because this ensures a better fit between the skills of employees and the needs of the workplace;

8. a belief derived from experience that it was more cost effective to train one's own employees because they were likely to stay with the organisation longer;

9. a means of recruiting relatively well qualified and well suited people to the organisation;

10. a sense of corporate social responsibility where employers provided training mainly to young people to assist them to access the labour market. This was particularly common amongst local government employers.

At its core, training designed to deliver IVET, was concerned with the provision of skills which would allow the individual to work in a given occupation. Completion of the Apprenticeship in sectors such as engineering and construction was, in many respects, a de facto licence to practice.

The Employer's Training Decision in Relation to Continuing Vocational Education and Training (CVET)

Traditionally Apprenticeships have been seen as a form of IVET, initially in a relatively narrow range of occupations but gradually in a much wider range following the introduction of Modern Apprenticeships in the mid-1990s. Given the pace of technical change in the economy over the recent past, and that many individuals may have missed the opportunity to gain access to structured vocational learning and obtain a externally accredited vocational qualification on leaving compulsory schooling, Apprenticeship, and Government funded WPL more generally, have a role to play in relation to CVET. This role is twofold: (i) filling skill gaps by ensuring that existing employees have the skills required to meet both the current and future skill demands in their given occupation; and (ii) ensuring that skills acquired are externally accredited which will, over the longer run, assist an individual with their path through the labour market. Where public funding is used in relation to CVET the intention of policy is to ensure that there is a substantial learning and training element and that Apprenticeships, and WPL more generally, should not be used to simply accredit existing skills as part of a wider human resource policy designed to bolster recruitment and retention and stimulate worker motivation.

Whilst the case study evidence suggests that Apprenticeships and WPL as a form of CVET has the capacity to deliver new learning and new skills, to the benefit of employees and employers, there is also evidence that employers used it to fulfil a wider set of human resource goals which, in several instances, fell outside the stated goals of policy. The reasons why employers invested in CVET through Apprenticeships and WPL can be summarised as:

1. a desire to reward employees through the provision of an externally accredited qualification which certified, in many instances, the skills the employee already possessed. There was a preference for an Apprenticeship qualification in many instances because this was seen to more highly valued in the labour market;

2. a means of recruiting people who were suitably skilled for the job on offer by making the employer potentially more attractive through an offer to either accredit their existing skills and / or enhance those skills at the margin through an externally accredited training programme;

3. a consequence of recruitment practices where an employee was taken on in a relatively unskilled position and then, once the employer was convinced they had settled into the job and had the capacity to progress, were placed on an Apprenticeship or other WPL programme (this was evident in the social care sector);

4. a way of adding to the confidence and motivation of employees through the provision of training and accreditation of skills (mentioned by several employers in the financial services sector where qualifications were highly valued by employers and were sometimes part of a licence to practice);

5. a means of reducing labour turnover by being seen to invest in the employee (this was especially the case in high labour turnover sectors such as retail and hospitality);

6. up-skilling existing employees such that they might be able to take on higher level jobs (evident across several sectors).

As can seen from the above list the rationales which guided employers' training decisions in relation to CVET were in several instances influenced by sectoral specificities, such as high levels of labour turnover in retailing and hospitality, and the expectation that employees in financial services would be appropriately qualified.

The introduction of the latest SASE – mentioned above – suggests that all employers using Apprenticeship as a form of CVET will need to ensure that there is a substantial training element, delivered over, typically, a minimum period of 12 months, designed to either re-skill or up-skill the employee. In this way, the wider human resource policy goals which Apprenticeship contributes to will be achieved only if a substantial training and skill need within the workplace is satisfied first.

It needs to be borne in mind, that whilst employers may be willing to upgrade the skills of their existing employees and externally accredit the skills of their employees, human capital theory indicates that they would be unwilling to fund activities which contribute to strengthening the position of their employees in the external labour market (i.e. by upgrading and accrediting the general skills), without funding to compensate for this potential loss. Similarly employees may be unwilling to invest in their own skills because they lack information about which skills to invest in. Hence the role for public funding in providing both Apprenticeships and WPL as a form of CVET.

The case studies reveal that whilst there was a training or skills accreditation element driving employers' CVET investment decisions, because training was being delivered to existing employees it becomes somewhat inevitable that the training decision becomes intertwined with a wider set of human resource management objectives concerned with employee retention, motivation, productivity, and job satisfaction. As noted above, the evidence was collected before the new SASE was fully implemented.

Reasons for Choosing Apprenticeships or WPL

With respect to the choice between Apprenticeships and WPL, this was determined by the following factors:

1. inertia – where employers had a tradition of training people through, for instance, Apprenticeships they were reluctant to move away from that model where it had proved useful in the past;

2. sectoral norms – where there was a general acceptance across the sector that certain groups of people would be trained through Apprenticeship;

3. legal or regulatory requirements that required employers to ensure that their employees held the necessary qualifications;

4. perceived business benefits – in some sectors there was recognition that where all IVET was provided through Apprenticeships this could be beneficial in winning new contracts;

5. cost – employers in some sectors were more attuned to the costs they bore in delivering training and selected the type of training on this basis;

6. the role of the training provider – where the employer had relatively little experience of engagement in IVET or CVET they were often guided by the training provider as to which programme they should adopt.

The general picture to emerge was of Apprenticeships being predominant in engineering, construction, and business administration. In the two former cases this was because employers had always trained through Apprenticeships, and in the latter case because employers were often involved in training as part of the their responsibility to the communities they served and saw Apprenticeship as giving young people a more valuable qualification. In the other sectors, employers were more ambivalent in their preference for either Apprenticeships or other forms of WPL. Accordingly, their decisions were determined by the mix of factors listed above.

The Costs of Apprenticeships and Workplace Learning

Based on the method developed in the previous Net Benefits of Training to Employers series, an estimate is provided in Table 1 of the total net cost to the employer of engaging in Apprenticeships and Workplace Learning in eight sectors. These costs and benefits relate to the formal period of training leading to completion of the Apprenticeship or WPL. Table 1 is based on summing all the costs the employer bears (including the wages of

apprentices and trainees, the costs of training materials and courses, the costs of supervision whilst learning on-the-job, the costs of organising training, etc.) and subtracting from this all the benefits the employer derives (i.e. the productive contribution of the apprentice or trainee whilst training). In some sectors, employers engaged in only one or two types of training, hence it is not possible to provide a cost in each cell of the table.

Table 1: Summary of Employers' Net Training Costs

Sector	Apprenticeship			Workplace Learning
	Level 2	Level 3	Level 2 and 3 combined	Level 2
Engineering			£39,600	
Construction			£26,000	
Retailing	£3,000			£1,650
Hospitality	£5,050			£1,950
Transport and Logistics	£4,550			£2,500
Financial Services	£7,250	£11,400		
Business Administration	£4,550			
Social Care	£3,800			£1,250 (£1,200 for Level 3)

Note: Data have been rounded to nearest £50.

The data in Table 1 reveals a similar pattern found in previous Net Benefits of Training to Employers studies insofar as sectors such as engineering and construction, which typically provide structured, formal training delivered over a three to four year period, record the highest net costs. In contrast, employers in sectors such as retailing and hospitality record much lower costs given that training is typically delivered at Level 2 rather than Level 3, has a higher on-the-job training element, and is of shorter duration (usually around one year).

Recouping the Cost of the Apprenticeship Investment

The estimated payback periods for Apprenticeships are set out in Table 2. This is the time taken after the end of the Apprenticeship for employers to recoup their investment. It assumes that a flow of monetary benefits accrue to the employer over time resulting from an increase in the productivity of trainees. In general, employers are able to recoup their costs within one or two years after the training has been completed.

Table 2: Payback periods by Sector

Sector	Apprenticeship Level	Payback period
Engineering	Level 3	3 years, 7 months
Construction	Level 2+3	2 years, 3 months
Retail	Level 2	2 years, 3 months
Hospitality	Level 2	10 months
Transport	Level 2 (mechanic)	6 months
Financial Services	Level 3	2 years, 6 months
	Level 2	3 years, 8 months
Business Administration	Level 2	9 months
Social Care	Level 2	3 years, 3 months

The calculation of the payback period has been limited to those cases where the apprentice is a new recruit to the company rather than including cases where Apprenticeships are offered to existing employees. To include the latter is potentially misleading. At face value, the payback period in relation to CVET would be much shorter than in the case of IVET because the employee is already doing the job which in the case of IVET the employee is being trained to fill without any experience of doing the job. Accordingly, in the examples of CVET there would be much less productivity change (as measured by the capability to carry out a given proportion of the fully experienced worker's job at each point in their training), since the person is already doing the job and are therefore more or less fully productive at the start of their training according to this definition of productivity. If there is not much or any productivity improvement then this might suggest that the training delivered was of little value. But this result would be an artifice and ignore the possibility for CVET via Apprenticeships and WPL to bring about benefits which are not fully captured with respect to the measure of trainee productivity used by the study, including:

- qualitative improvements in the way employees carry out their jobs (such as. being able to take on more responsibility, being able to manage a wider range of tasks, being better placed to go on to higher level training. In this way, the content of the job is changed over time which may bring about a productivity increase;

- the capacity of the employee to better meet future skill needs within the organisation;

- the benefits to the individual resulting from possessing an externally accredited qualification;

- savings in recruitment and induction training costs arising from lower employee turnover (which has the impact of increasing average productivity in the organisation since new recruits will not be fully productive at the start of their employment).

Clearly the value derived from CVET needs to been seen in a different light to that related to obtained from IVET with more emphasis given to the points listed above.

In the past the Net Benefits of Training to Employers studies have tended to focus on the costs and benefits associated with IVET. Given the potential for Apprenticeships and WPL to contribute to CVET there is a need to develop a method which is able to fully capture the costs and benefits of this type of training. In this regard the current study can be seen as an initial investigation into how to achieve this goal in a manner consistent with the existing method. The key issue is how to fully measure the benefits of training. In the case of IVET, the main benefit is the increase in the productive contribution of the apprentice or trainee as they approach being 100 per cent as productive as the fully experienced worker. In the case of CVET, the study shows that most of the apprentices or trainees were already 100 per cent as productive as the fully experienced worker at the start of their training. This results from them being, in many cases, fully experienced workers at the start of their training It is apparent that the method can be improved by asking whether as a consequence of CVET the employee's productive contribution exceeds that of the average fully experienced worker in that occupation and by how much. Or by asking how much their productivity has increased as a result of the training. The method should also take account of savings in recruitment costs from lower turnover. The current study suggests ways in which this might be developed in future studies. As the new SASE becomes effective the costs borne by the employer in the examples of CVET may well increase in some cases as a result of increased guided learning hours.

The Benefits of Apprenticeships and Workplace Learning

Some employers encounter substantial costs in delivering training to their employees, especially to new recruits in receipt of IVET. Employers could point to a number of benefits deriving from their training investment:

Skills supply:

- the need to maintain an inflow of young people being trained in the occupations on which the organisation is dependent;

- an inflow of new skills – which can be cascaded through the existing workforce – which result from completing a Framework or an NVQ;

- obtaining an optimum fit between the skills of the employee and the needs of the workplace by being able to shape apprentices' and trainees' approaches to their work and the organisation in which they are employed. This relates primarily to younger apprentices and trainees without much prior experience of employment;

- providing a pool of skilled employees from which supervisors and managers could be internally recruited;

- a more effective means of meeting both current and future skill demand than recruiting from the external labour market.

Recruitment and retention:

- a means of attracting the best quality recruits by being able to offer a period of training leading to a widely recognised qualification;

- a recognition that people who undertake their initial vocational education and training with a given employer are more likely to stay with that employer;

- a means of retaining existing staff by providing on-going training designed either to raise their skill levels, and / or accredit existing ones.

Motivation and reward:

- where training is being delivered to existing employees this was described by some employees as a reward insofar as it provided an externally accredited qualification;

- training also acted to motivate employees in that it was a sign that the employer considered the employee worth investing in. This could be interpreted as a signal that the individual's future lay with the company and employees responded accordingly.

Meeting industry norms:

- in sectors such as engineering and construction, Apprenticeships were seen as the primary means of supplying initial vocation education and training, hence employers needed to adopt this form of training if they wanted to take on the most able trainees.

Corporate social responsibility:

- by conferring upon the local community a public good – especially in relation to the recruitment and training of young people – organisations were able to raise their profile as an employer of choice.

As noted above, the benefits in relation to IVET relate mainly to the employer obtaining the skills needed over the medium-term and obtaining a good fit between the values held by the organisation and trainee respectively. In relation to CVET, this was seen as meeting a set of wider human resource management goals within organisations than just the supply of skills.

Sensitivity to Costs

In order to shed some light on the extent to which State funding for both Apprenticeships and WPL brings about additionality, employers were asked how they would be likely to respond if the current level of State funding were reduced. At the time of the study, Government met the costs of the training provider delivering to the employer various elements of training related to the Apprenticeship or WPL. In order to give some perspective to the discussion, employers were presented with an indication of the total net cost of the training they were engaged in per trainee or apprentice – i.e. the total net cost met by the employer plus the element paid by the State to the training provider - and shown the share paid for by the State and the share met by the employer. In general, employers met around half of the total net cost of training a person to completion of their Apprenticeship or NVQ if they were aged between 16 and 18 years of age at the start of their training, and around two thirds to three quarters if they were older than this at the start of their training. If the State had met the full funding rate, then the share of costs distributed between the State and the employer would be more or less the same for older workers as for 16-18 year olds.

A number of findings emerged in relation to how employers might respond if State funding to providers was reduced and if employers were expected to meet a greater share of overall training costs.

- At one end of the spectrum of responses, there were employers who were of the view that they would need to continue training much as they did now but would try to find efficiency savings – such as less delivery by off-the-job training or more by e-learning - even if they were not sure how this might be achieved in practice. This was especially the case in sectors with a long tradition of Apprenticeship training: engineering and construction. At the other end of the spectrum were employers which would be likely to continue to engage in training but with either a much reduced number of trainees or would look to shift towards some form of non-certificated training of a type they had participated in previously (e.g. transport).

- Some employers, typically those in engineering and construction but not limited to these sectors, saw little option but to train people through externally accredited training programmes if they were to equip themselves with the skills they needed and in doing so signal to the markets in which they operated that their employees possessed the competence to meet the demands of their customers.

- At the other extreme there were employers which were using Apprenticeships and WPL, in part, as a means to manage labour retention, and their commitment to this form of training hinged in part on it being cost-effective in meeting this aim. As mentioned earlier this was particularly the case in sectors where labour turnover was considered to be an issue for the employer (e.g. in retailing and hospitality).

- Employers in engineering, construction, and financial services were the least likely to indicate that increased costs would result in them disengaging from Apprenticeships or reducing the number of apprentices. For many of these employers Apprenticeship is seen as the only way in which they can satisfy their demand for intermediate level skills. But any increase in the costs of training would need to be offset by reducing funding in other activities within the organisation.

- Employers in engineering and construction were reluctant to reduce the duration of training since experience had demonstrated that three to four years was the time required to become nearly fully competent in an occupation. They were also reluctant to reduce wages since this might affect the quality of applicants.

- In the other sectors employers considered how they might absorb some of the additional costs. In relation to apprentice and trainee wages there was thought to be relatively little room for manoeuvre as wages were already at or close to the National Minimum Wage. This was especially the case in retailing, hospitality, and social care.

- There was also limited scope to reduce the duration of training since most were already at the minimum recommended duration. This was especially the case in those sectors where much of the training was conducted on-the-job such as in retailing, hospitality, social care, and business administration. Some said they might look to their existing training provider to absorb some of the cost or look for a training provider charging less.

- Some employers across several sectors indicated that they would consider providing training which was limited to the 'essential' components required in the job currently and, in some cases, this might be non-accredited, or it might not comprise a full NVQ just those elements essential to the job currently – such as a licence to drive in transport. This was not considered a plausible option in engineering and construction where the 'essential' element was considered to be the Apprenticeship in its entirety.

- Some employers in retail, business administration and social care said that it may be possible to reduce training costs by increasing their use of e-learning and distance learning but there were concerns over the quality of such training without more traditional training supervision.

- A number of employers across different sectors indicated that in light of increased training costs they would be more selective about which employees were trained. Where existing employees comprised the majority of trainees, employers might provide training only to those who were eligible for funding (perhaps younger rather than older employees or to those who had not already obtained a qualification at a given level). This was evident in financial services.

- Some indicated that if they were to meet an increased share of the overall costs of training, they might consider recruiting trainees and apprentices who had already attained qualifications which would count towards the qualification they were providing so as to reduce the company's costs.

The evidence points to the availability of State funding shaping the training activities of employers, especially so where employers had less tradition of engaging in either Apprenticeships or WPL and, consequently, had introduced new systems of training to accommodate the requirements of the Apprenticeship or the WPL programme. Employers in sectors with much more of a tradition of providing Apprenticeship training – and these were sectors which typically provided more structured, longer duration training leading to Level 3 qualifications – had much more difficulty conceiving how they might adapt to a

reduction in funding given that the existing system had been in place for so long and had served their needs well. This group tended to respond by saying they would continue as usual in the provision of Apprenticeships, but presumably cost savings would need to be found from elsewhere in the organisation, and / or by the training provider absorbing some of the cost. Moreover, one cannot be certain that they would continue to train as usual given that their responses stemmed from the difficulty of conceiving of a situation where public funding were not available to cover some of the costs of training. There is a risk that many would reduce the number of apprentices they would recurrently take on.

Further Education Loans

For those aged 24 years of age or over at the start of their Apprenticeship or WPL training leading to a Level 3 qualification, a loan system similar to that which operates in higher education is proposed. Individuals would receive a loan provided through a loans agency to cover the costs of the training currently funded by the State, which they would be expected to payback once their salary reaches £21,000 a year or more. Any outstanding debt would be written off after 30 years.

Employers tended to conceive of a system where they provided the loan and deducting repayments from their employee's salary, even though this is not how the system is envisaged to work in practice. Their reactions, in general, were negative because they thought it might deter some applicants and it was difficult, where much of the training was on-the-job, to identify exactly what was being paid for. There were also concerns that it might lead to employers having to increase wage rates in to attract recruits who would need to take out a loan and to retain recruits faced with the need to pay back a loan though there would, as stated, be a minimum earnings threshold in relation to repayment. Where a few employers felt a loan system was practicable, it was in relation to older trainees, who it was reported, were more aware of the need to invest in their own skills.

In general, most employers delivering IVET who gave their views about FE loans would not fall within scope of their trainees requiring to take out a loan because training was delivered mainly to younger people. FE loans are likely to have more of an effect on employers delivering CVET through Apprenticeship and WPL.

Final Word

Overall, the evidence reveals that employers which invested in Apprenticeships and WPL derived many business benefits from doing so. Whilst employers met much of the cost of delivering each form of training, they can recoup their investment relatively quickly upon completion of the training if they are able to retain their former trainee.

1. Investing in Apprenticeships and Workplace Learning

1.1 The Costs and Benefits of Apprenticeships

Apprenticeships in England have a long history dating back to the master guilds of mediaeval times, but its modern form dates back to the introduction of the publicly funded Modern Apprenticeship programme in 1994. Modern Apprenticeships sought to take the long-established, highly regarded pattern of training associated with Apprenticeships in sectors such as engineering and transfer it to sectors with no such tradition. The aim was to increase the volume and quality of initial vocational education and training.[1]

Although there have been a number of root-and-branch reviews of the publicly funded Apprenticeship system since the mid-1990s - such as the Modern Apprenticeship Advisory Committee which produced the Cassels Report in 2001[2] which ushered in various changes to the structure and content of the programme - the evaluation evidence relating to Apprenticeships has been broadly favourable. There are three sets of data which can be pointed to in this regard:

1. the employer surveys conducted in 1995[3] and 2003[4] which revealed the extent of additionality associated with Apprenticeships;

2. a series of studies which have revealed the relative wage returns of conducting an Apprenticeship;[5] and

3. The Net Benefits of Training to Employers series of studies which have revealed how quickly employers can recoup their investments in Apprenticeships. The first study was conducted in the mid 1990s.[6]

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[1] Hogarth, T. L. Gambin and C. Hasluck (2011) 'Apprenticeships in England: What Next?' *Journal of Vocational Education and Training* Vol. 64, No.1. pp 41-56

[2] DfES (2001) Modern Apprenticeship: The Way to Work, Report of the Modern Apprenticeship Advisory Committee, Department for Education and Employment, London

[3] Hasluck, C., T. Hogarth, J. Pitcher and M. Maguire (1997), *Modern Apprenticeships: Survey of Employers*, Department for Employment, HMSO

[4] Hasluck, C., T. Hogarth, J. Pitcher and M. Maguire (1997), *Modern Apprenticeships: Survey of Employers*, Department for Employment, HMSO

[5] McIntosh, S. (2007) *A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications,* Department for Education and Skills Research Paper RR834, Sheffield; McIntosh, S. (2004) '*The Returns to Apprenticeship Training.* Centre for Economic Performance Discussion Paper 622. London Economics (2011) *Returns to Intermediate and Low Level Qualifications*, Department for Business Innovation and Skills, BIS Research Paper No. 53

[6] See Hogarth T., G Siora, G Briscoe and C. Hasluck (!996) *The Net Costs of Training to Employers,* Department for Education and Employment, Research Paper No. 3

The survey of employers conducted in 2003 revealed that in 48 per cent of cases, apprentices would have been provided with similar training in the absence of the Apprenticeship programme. This was more typically the case for Apprenticeships leading to a Level 3 qualification (53 per cent) than in the case of Level 2 (44 per cent).[7] This suggests a relatively high level of additionality associated with the programme. As well as increasing the volume of training undertaken by employers, the evidence points to apprentices benefiting through the receipt of relatively high wages. McIntosh's research shows that relative to a comparison group with Level 2 qualifications (either academic or vocational), those who completed a Level 3 Apprenticeship earned a wage premium of 18 per cent. And relative to a comparison group with Level 1 or Level 2 qualifications, those who completed a Level 2 Apprenticeship earned a wage premium of 16 per cent.[8]

Where the evidence is less certain is with respect to the benefit or returns the employer obtains from engaging in Apprenticeships. The qualitative evidence from the Net Benefits of Training to Employers series suggests that employers obtain a return through: (a) obtaining a better fit between the skills possessed by the apprentice and those required by the company; (b) improved employment retention rates; and (c) providing a relatively cost-effective alternative to recruiting often hard-to-find skills from the external labour market.[9] The evidence also points to employers being able to recoup their training investments over a relatively short space of time such that there is relatively little risk attached to employer investments in Apprenticeships.[10]

1.2 Employers' Investments in Apprenticeships and Workplace Learning

Currently the State funds workplace learning - through both Apprenticeships and other forms of workplace learning (WPL) – by providing: (a) the learning and skills infrastructure (e.g. the Sector Skills Councils' role in developing Apprenticeship frameworks, the National Apprenticeship Service, the qualifications framework, etc.) and; (b) meeting the costs of the training provider in delivering the training required by a particular framework. This central role is also observed in other countries with substantial intermediate vocational education and training (VET) systems and appears to be inescapable if the system is to deliver accredited skills which will meet the future as well as current needs of the labour market, and contain both general and vocational education elements.[11] Where there has been more discussion is with respect to the relative shares met by the State, the employer, and the apprentice. Over the past ten years there has been an increasing obligation on

[7] Anderson,T. and H. Metcalf (2003) *ibid*, p.56
[8] McIntosh, 2007, *ibid*
[9] Hogarth, T., C. Hasluck, and W.W. Daniel (2005) *Employing Apprentices: The Business Case*, Apprenticeship Task Force; Hogarth, T. and C. Hasluck (2003) *Net Costs of Modern Apprenticeship Training to Employers*, DfES Research Series, Report No. 418; Hogarth, T. *et al.*,(1998) *Employers' Net Costs of Training to NVQ Level 2*, DfEE Research Report RR 57, Stationery Office, London; Hogarth, T. *et al.*,(1996) *Employers' Net Costs of Training*, DfEE Research Report RR 3, HMSO
[10] Hasluck, C. and T. Hogarth, *et al*. (2008) *The Net Benefit to Employer Investment in Apprenticeship Training*, Apprenticeship Ambassadors Network, London
[11] Vogler-Ludwig, K. H. Giernalczyk, L. Stock and T Hogarth (2012) *International Approaches to the Development of Intermediate Level Skills and Apprenticeships: Synthesis Report.* UK Commission for Employment and Skills, Evidence Report 43 – Volume 1

training providers to obtain from employers a contribution towards the cost of the training they provide where the trainee is aged over 19 years - with some exceptions - insofar as the State has met only fifty per cent of the full cost of training for a given programme. The Banks Review suggested that there should be a cash transfer between employer and training provider rather than the acceptance of gifts in kind.[12]

The willingness of employers to meet more of the costs of training at Level 3 is clearly dependent upon the value they currently attach to Apprenticeships and other forms of WPL. Increasingly there is interest in the extent to which apprentices aged 24 years or over at the commencement of their training might be persuaded to take out a loan to meet the costs of their training currently funded by the State.[13] The model will work along the lines of that in the higher education sector where loans are provided by a student loans organisation and repayment of the loan starts only where the employee's wage exceeds £21,000 a year. Any outstanding balances will be written off after 30 years. Whilst the operation of any system of loans would be dependent upon the willingness of trainees to take out loans it is also dependent upon employers being willing to accommodate any such change.

Thus far, Apprenticeship – and WPL more generally – has been presented as a homogeneous programme of learning. In practice there are large variations by Framework and Level. Undertaking a Level 2 Apprenticeship in, for instance, retailing, is a very different proposition for the employer, apprentice, and training provider, compared with, for example, a Level 3 in engineering. It is known, for instance, that the costs to the employer vary by level and framework,[14] the amount of formal training differs,[15] the wage returns to the apprentice vary, and the cost to the state differs.[16] The level of heterogeneity in Apprenticeships needs to be taken into account when considering the level of investment employers make in this form of training and their rationales for doing so.

1.3 Recent Changes in Policy

There has been an emphasis over the recent past in increasing levels of employer and individual participation in Apprenticeships. For instance, in the academic year 2009/10 there were 279,700 Apprenticeship starts, but in the academic year 2010/11 this had risen by 63 per cent to 457,200 starts.[17] Whilst policy has been oriented towards increasing the number of apprentices, increasingly attention has focused on assuring the quality of Apprenticeships to ensure that they contain a substantial amount of new learning which

[12] Banks Review (2010) Independent Review of Fees and Co-Funding in Further Education in England: Co-investment in the skills of the future, Report to BIS
[13] BIS (2011) *New Challenges, New Changes: Next Steps in Implementing the Further Education Reform Programme*, BIS: London
[14] The 2008 Net Benefits of Training to Employers study revealed that a Level 2 retailing Apprenticeship cost the employer £2,305 compared with £28,762 for a Level 3 in engineering.
[15] The Survey of Apprentices Pay in 2008 reported that apprentices in retailing received one hour of off-the-job training a week in retailing compared with ten hours in engineering.
[16] For example, the State pays training providers less for delivering a Level 2 in retailing compared with a Level 2 or 3 in engineering.
[17] Statistical First Release, January 2012

will support the acquisition of skills. The Apprenticeships, Skills, Children and Learning (ASCL) Act 2009, brought about a review of the number of guided learning hours embodied in frameworks. The 2010 Specification of Apprenticeship Standards for England (SASE) sets out the minimum requirements to be included in a recognised Apprenticeship framework in England and compliance with the SASE is a statutory requirement of the ASCL Act.

The 2010 SASE requires that the learning element provides a minimum of 37 credits on the QCF in the majority of cases and that there are a minimum of 280 guided learning hours reflecting both on-the-job and off-the-job training. The ASCL requires that apprentices must have employed status such that Apprenticeship is training in employment rather than training for employment. In combination the ASCL and SASE are designed to further improve the quality of Apprenticeship training provision.

It needs to be borne in mind that much of the fieldwork upon which subsequent chapters are based was undertaken between May and July 2011 and thereby before the changes to Apprenticeships brought in by 2010 SASE had taken full effect.

It is against this background that the latest Net Benefits of Training to Employers study has been undertaken.

1.4 Aims and Objectives of the Fifth Net Benefits of Training to Employers Study

The overall aims and objectives of the study were:

- to establish the general current levels of investment in Apprenticeships, and, in broad terms, workplace learning (WPL). This covers both financial and 'in kind' investments made by employers in a number of broad sectors and different sizes of employer;
- to inform funding simplification models and implementation emerging from the skills strategy;
- to gauge employers' views on their investment and reaction to the planned funding changes, particularly for Level 3 for those aged 24 years and over, and the impact funding arrangements may have on employer investment.

The specific objectives which the study addressed are listed below.

- Undertake semi-structured interviews with employers, in a range of broad sectors, to explore levels and types of investment in Apprenticeships.
- Explore employers' investment in WPL in the same way to allow comparisons with Apprenticeships.
- Explore employers' views on the balance of investment between parties for Apprenticeships.

- Consider the potential impact of proposed funding changes from employers' perspectives.

1.5 Structure of Report

The report is structured as follows. Chapter 2 outlines the method and the particular frameworks and sectors within scope of the study. Chapters 3 to 10 provide the findings for each of the eight sector studies in which the employer case studies were conducted including an estimate of the total net cost to the employer of an apprentice completing an Apprenticeship or some other form of WPL. Chapter 11 looks in more detail at the training decision of employers and why they choose Apprenticeship versus other form of WPL. Chapter 12 provides an estimate of the payback periods for Apprenticeships and explores employers' sensitivity to training costs and their views on FE loans to trainees. Finally, Chapter 13 provides an overall conclusion.

2. Method

2.1 Overall Approach

The study is based on 79 employer case studies spread across eight sectors or broad frameworks:

1. engineering;
2. constriction;
3. retailing;
4. hospitality;
5. transport and logistics;
6. financial services;
7. business administration (conducted in the public sector);
8. social care.

These are all sectors / frameworks which have been included in previous Net Benefits of Training to Employers studies with the exception of transport and logistics.

The purpose was not just to include employers with apprentices but to also include employers who were engaged in some other forms of WPL, typically that leading to a National Vocational Qualification (NVQ) at either Level 2 or 3. By including examples of WPL, a comparison can be made about why employers prefer one form of work based training compared with the other. Table 2.1 shows the distribution of employer case studies by broad framework and level.

Table 2.1 shows that 79 employer case studies were conducted. In practice it was possible to observe 66 examples of training leading to a Level 2 qualification, and 35 examples of training leading to a Level 3 qualification. In total, it was possible to observe 99 training events.

Table 2.1: Employer Case Studies

Broad Framework	Number of Employer Case Studies	Level 2 Observations	Level 3 Observations
Business Administration	**12**	**11**	**3**
Apprenticeship	11	10	3
WPL	1	1	
Construction	**10**	**9**	**7**
Apprenticeship	9	8	7
WPL	1	1	
Engineering	**11**	**6**	**9**
Apprenticeship	11	6	9
Financial Services	**9**	**4**	**6**
Apprenticeship	9	4	6
Hospitality	**10**	**9**	**1**
Apprenticeship	5	5	
WPL	5	4	1
Retail	**9**	**9**	**3**
Apprenticeship	4	4	1
WPL	5	5	2
Social Care	**9**	**9**	**5**
Apprenticeship	3	3	1
WPL	6	6	4
Transport	**9**	**8**	**1**
Apprenticeship	5	5	
WPL	4	3	1
Total	**79**	**65**	**35**

2.2 Obtaining the Employers Case Studies

Employers were identified from those employers in the National Employers Skill Survey 2009 (NESS 2009) who reported that they had recruited an apprentice over the past 12 months or reported that they had trainees working towards a national accredited qualification which was not an Apprenticeship. A supplementary sample was also drawn from the Employer Perspectives Survey 2010. In this way, a sample of employers was obtained which contained those currently engaged in Apprenticeships and those which were participating in some other form of WPL. Only employers in NESS 2009 and EPS 2010 who said they were willing to participate in future research were contacted.

At the point of persuading an employer to participate in the study, some screening needed to take place to ensure that employers were in-scope of the study given that the NESS 2009 sample was approximately three years old by then (the questions used to screen

employers are reproduced in Annex A). Given that funding arrangements vary with respect to the age of the apprentice or trainee at the commencement of the Apprenticeship or WPL, the screener needed to ascertain the age of apprentices and trainees to ensure that there was a spread of employers with respect to age.

The employer case studies also included examples where Apprenticeships and WPL were being delivered to existing staff rather than to new recruits. The extent to which this occurred varied by sector (for example, in engineering Apprenticeship training was exclusively delivered to new recruits). This has implications for the cost-benefit calculations because often the change in the productive contribution of the apprentices or trainees changes relatively little over the training period where the training is offered to an existing employee who is already doing the job.. The study explores the rationale for training existing employees.

2.3 Conducting the Employer Case Studies

The principal management respondent in the case studies was the person responsible for managing apprentices or trainees within the workplace. All case studies were workplace based, though in certain instances permissions had to be sought from head office to engage in the study and, in others, data also needed to be supplied by head office.

A semi-structured interview schedule was used to collect information. This comprised the following sections:

1. background information about workplaces' training structures;
2. details about the training programme which formed the focus of the case study;
3. the workplaces' training decisions – why they invested in Apprenticeships and / or WPL;
4. details of the structure of training leading to the completion of an Apprenticeship or NVQ;
5. the sensitivity of employers' training decisions to the cost of training (and how employers might respond to a need to meet an increased share of the costs currently met via the training provider);
6. employer's views about how they might respond to the apprentice or trainee taking out a loan to cover the costs of training; and
7. employers' relationships with their training provider.

Annex B reproduces the semi-structured interview schedule used in the case studies.

2.4 Estimating Training Costs and Employer Sensitivity to Costs

At its core the study needed to provide an estimate of employers' current levels of investment in Apprenticeships and WPL, respectively, and gauge the sensitivity of that investment to changes in the learning and skills system (c.f. the changes outlined in: (a) the latest guidance note on Specification of Apprenticeship Standards for England, and (b) Apprenticeship Funding Requirements 2010/11). This is a complicated issue given that neither Apprenticeships nor WPL can be considered to be a homogeneous training activity – both vary by level and sector. Moreover employers' investments – and responses to any future changes – may be sensitive to their size (and organisation). Hence the need to ensure that workplaces of different sizes were included in the selection of employer case studies.

To estimate the employer's contribution to the total cost of training the method used in the previous Net Benefits of Training to Employers studies was deployed.[18] The accounting framework used in previous studies is reproduced in Annex C. This is based on:

- identifying the costs of training:
    - trainee or apprentices' labour costs;
    - the cost of supervision from training managers, first line managers, and supervisors (measured by how much time they spend training multiplied by their wage costs);
    - other costs of training (such as training materials, recruitment costs, etc.);
- identifying trainee benefits:
    - the productive contribution of the trainee over the entire period of training. This is measured by the proportion of the fully experienced worker's job the trainee can complete in each year of the traineeship or Apprenticeship. This is then multiplied by the wage costs of the fully experienced worker. The calculation takes account of the fact that the trainee or apprentice may spend time away from the workplace when no productive contribution is made.

The benefits of training are then subtracted from the cost to give an indication of the total cost to the employer. This figure is weighted by the level of drop-out in recognition that the employer has to train, in some instances, more than one trainee to end up with one successful completion.

Throughout the study reference is made to the wage of the fully experienced worker. This was the wage the employer provided as being typical of the wage the apprentice or trainee would be likely to earn when fully trained. In sectors such as engineering and construction, this rate might take a few years to achieve since wage levels in these organisations often reflected relative competence and experience. In other sectors such as retailing and hospitality apprentices or trainees could expect to be paid the fully

[18] See Hogarth *et al*., (1996) for a description

experienced worker's wage immediately upon successful completion of their training. Often there was relatively little difference in these sectors between the hourly rate paid whilst training and that paid post-training.

Employers often have a narrower view of training costs than that used in the Net Benefits of Training to Employers studies and often have little idea how much public funding contributes to the overall cost of the training they are engaged in delivering. If an informed discussion is to take place with employers about the extent to which costs are fairly shared between employers, trainees, and the State, they will need to be made aware of how costs are currently shared. At the interviews with employers, on the basis of the training cost information they provided during the interviews, an estimate was provided to them of their total costs of training an apprentice or trainee. An indication was also provided of the employer's share in the overall cost of training. The respondents were then asked for their views on this, including how they would react if they had to meet an increased share of the total cost.

The extent to which changes in funding are likely to result in displacement (e.g. a transfer from Apprenticeship to an alternative form of WPL) is dependent upon the employer having knowledge of the alternatives on offer. Again, from the previous Net Benefits of Training to Employers studies there is evidence, in sectors such as engineering and construction, that there is a significant amount of inertia in employers' training decisions. Typically, this takes the form of the employer having a long history of Apprenticeship training which they are loath to abandon.

A number of probes were used here to ensure that the various options available to the employer were explored in detail. These included:

1. where there would be no change because the current financial contribution of the employer meets the contribution they might be expected to make to the training provider (if public funding to the training provider is reduced);

2. employers absorbing the additional training cost without any impact on the volume or structure of training undertaken;

3. employers looking to achieve efficiency savings to reduce the impact of any additional costs (e.g. reducing the duration of the traineeship or Apprenticeship, seeking out new training providers, changing the structure of training, etc.);

4. a reduction in the number of trainees or apprentices recruited;

5. employers shifting from Apprenticeship to some other form of WPL;

6. shifting some of the costs of training on to full-time education (e.g. by recruiting apprentices at an older age after they have completed a full-time education course which gives the trainee exemptions from completing certain parts of the Apprenticeship);

7. withdrawal from the provision of the initial or continuing vocational education and training.

In some sectors there is evidence that employers sometimes prefer to recruit older apprentices (e.g. hospitality), by which time some apprentices or trainees have acquired exemptions from parts of the Apprenticeship or WPL programme in which they are engaged, because of the previous training received. Other things being equal, this potentially reduces the employer's costs of training and, if the trainee or apprentice has obtained exemptions through undertaking full-time education, potentially places an increased share of the cost on the trainee (via foregone wages) and the State in meeting the total cost of training. Hence, it was important to obtain information about employers' preferences with respect to the age of recruits.

Central to the study is comparison between those employers providing Apprenticeship training to those providing some other type of WPL leading to a qualification at NVQ Level 2 or 3.

2.5 Estimating Employer Payback Periods

As part of the study an estimate has been provided of the period over which employers can recoup their investments in Apprenticeship training. This is limited to those cases where someone is a new recruit rather than including cases where Apprenticeship is being used to accredit existing skills. Section 12.5 sets out why it is is methodologically difficult to use the existing payback calculation in relation to CVET It also suggests how this might be remedied.

In relation to IVET, the payback estimate is based on the method developed in the previous Net Benefits of Training to Employers Study which adopted the following approach:[19]

- it is assumed that the wage increase observed between the start and of the end of the Apprenticeship represents an increase in productive capacity produced as a consequence of training;

- it is further assumed that this increase in productivity represents only part of the gain to the employer since employers will have a mark-up on the wages they pay to their employees (in order to generate a surplus). It is assumed that the increase in productivity is shared between the employer and employee;

- the net present value of the Apprenticeship is equal to the net cost of training an apprentice – minus the increase in productive contribution discounted according to the time preferences of the employer.

In this way it is possible to estimate the time taken for the employer to recoup their investments in Apprenticeship. But please note that the payback periods are indicative and, as can be seen from the above synopsis, a number of assumptions are made in their calculation. Perhaps the most important is that the productivity increases resulting from

[19] See Hasluck *et al.*, 2008, *ibid.* A more technical exposition of the method used can be found in: Gambin, L.; C. Hasluck, and T. Hogarth (2010) 'Recouping the costs of Apprenticeship training: employer case study evidence from England', *Empirical Research in Vocational Training*, Vol. 2,No. 2, pp. 127-146(20)

any training is shared equally between employers and employee. This is considered in more detail in Chapter 12.

2.6 A Note of Caution

The study is based on a limited number of employer case studies. The data should be regarded as indicative of employers' training costs and their rationale for training. Nevertheless, the case studies provide in-depth insights into the rationales which guide employers' decisions regarding their investments in Apprenticeships and WPL, and how employers structure training within a given Framework. And the case studies reported in this, the fifth Net Benefits of Training to Employers study, are consistent with respect to the findings from the earlier studies about how employers structure their training and justify their reasons for investing in vocational education and training.

3. Engineering Sector

3.1 Introduction

The engineering sector has a long tradition of Apprenticeship training. Earlier studies in the Net Benefits of Training to Employers series indicated how engineering employers had tailored their long-established approach to training so that it was compliant with the externally accredited Apprenticeship programme. It is apparent too, from the case studies presented below, that engineering Apprenticeships remain highly structured, training intensive, costly programmes of training. Employers continue to invest in Apprenticeships because they can point to a number of positive outcomes and see little alternative means of obtaining those benefits other than through Apprenticeships. Recruiting fully experienced workers from the external labour market, or university engineering graduates, for instance, were not considered to be suitable substitutes for apprentices. It needs to be borne in mind of course that the case studies are of employers which had decided to make an investment in Apprenticeships; other engineering employers may have a different view of this form of training. That said, the selection of cases studies is not untypical of engineering firms or activities.

The 11 case studies are summarised below (see Table 3.1). All of the case studies were of employers undertaking Apprenticeships mainly leading to a Level 3 qualification, with the Level 2 qualification obtained along the way. Apprentices were recruited with a view to them obtaining a Level 3 qualification, but there were a few instances where training led specifically to a Level 2 qualification. Whilst the other case study sectors have examples of workplace learning (WPL) other than Apprenticeships, it proved difficult to find examples of non-Apprenticeship WPL in engineering, in large part because Apprenticeship has established itself over very many years as the standard initial vocation education and training (IVET) model leading to an intermediate level qualification in the sector.

The case studies are, for the most part, concerned with Apprenticeships in electrical engineering in the engineering sector (either involved in the manufacture of goods or providing engineering maintenance and repair services to other employers). Three of the case studies, which are linked vehicle engineering, provided training in electro-mechanical engineering skills.

Table 3.1: Case Study Employers

Case Study	Level of Apprenticeship	Description
Engineering Case Study No.1	Level 3	Specialist vehicle manufacturer (electrical engineering)
Engineering Case Study No.2	Level 3	Maintenance services to power stations (electrical engineering)
Engineering Case Study No.3	Level 3	Restoration of aircraft (Aeronautical engineering / electro-mechanical)
Engineering Case Study No.4	Level 3	Maintenance and restoration of locomotives (electro-mechanical)
Engineering Case Study No.5	Level 3	Manufacture of electrical control panels for heating industry (electrical engineering)
Engineering Case Study No.6	Level 3	Manufacture of plumbing goods, drinks dispensers, and automotive parts (electrical engineering)
Engineering Case Study No.7	Level 3	Design and manufacture of electrical control panels (electrical engineering)
Engineering Case Study No.8	Level 3	Electrical engineers in a polymer plant (electrical engineering)
Engineering Case Study No.9	Level 3	Transport maintenance (electro-mechanical)
Engineering Case Study No.10	Level 2	Transport maintenance (electro-mechanical)
Engineering Case Study No.11	Level 2	Electrical engineering establishment

Source: IER / IFF The Employer Net Benefit of Training Study 2011

3.2 The Training Decision

The decision to recruit apprentices across the case studies was driven by a need to meet future skill needs at an intermediate level. Employers reported that they had a number of alternatives:

1. training existing staff to an intermediate level (e.g. those already competent to a standard comparable with a Level 2 qualification);

2. recruiting university engineering graduates; or

3. recruiting fully experienced workers from the external labour market.

None of the case study employers reported that they had used Apprenticeships to up-skill or accredit the skills of existing employees. In all cases the aim was to train externally recruited young people aged between 16 and 24 years of age who had recently completed

their full-time education. There was only one example of an employer with a recruit aged over 24 years when they commenced their Apprenticeship. The reason why training was limited to IVET was simply that many of the case study employers did not have a pool of lower skilled craft employees who could be up-skilled via Apprenticeship. This is due in large part to a historical attachment to Apprenticeships which resulted in there being few people employed in engineering jobs below the level associated with the Apprenticeship. For most employers, therefore, the only realistic alternatives to Apprenticeship were the recruitment of fully experienced workers from the external labour market or university engineering graduates.

Employers reported that recruiting university engineering graduates was a theoretical alternative but it would require substantial changes to organisational structures since graduates might well expect jobs at a higher level than those associated with Apprenticeships. Whilst people recruited through Apprenticeships potentially provided a cadre of employees from which future supervisors and managers might be recruited, in practice employers wanted the people recruited through Apprenticeships to fill skilled manual jobs rather than more senior jobs in the organisation. Promotion was a possibility if the apprentice had the motivation and skills to achieve this goal – and employers could point to examples of people who had followed this pathway to senior positions within the organisation – but it was not a typical progression route.

Recruitment from the external labour market was necessary from time-to-time but for many employers it was considered a weak alternative to Apprenticeships. To understand the reluctance to recruit from the external labour market – or substitute apprentices with graduates – requires consideration of the attractiveness of Apprenticeships to employers. In general, the tradition in the sector of supplying IVET through Apprenticeship has survived due to its capacity to deliver successful training outcomes to the employer. That said, several respondents reported that it had become increasingly difficult to make the business case for recruiting apprentices over the recent past due to difficult trading conditions. Whilst many of the case studies were recurrent recruiters of apprentices and had been over many years, a business case still needed to be made every year in order for them to continue with the programme. The impression here is that the decision is about how much to invest each year rather than a decision of whether or not to continue with the Apprenticeship programme and replace it with something else.

Employers reports that Apprenticeships delivered value to the organisation in relation to:

- skills immediately relevant to the needs of the workplace;
- the opportunity it provided to them to shape the work-values of apprentices (where they are relatively young); and
- bringing in new skills to the workplace which could be passed to other ex-apprentices.

A key reason reported by many establishments for taking on apprentices is that they learn ´from scratch´ and gain practical experience with the machinery and techniques the establishment uses. At Engineering Case Study Establishment No.2, for instance, it was reported by the HR manager that the apprentice "... is actually working on the machine we need him to work on. If he didn't know how to do it he can ask ´how does it work´ or ´can

you show me´. Someone who would come in with an engineering degree, for example, would be on a higher salary and would lack the specific practical experience." Furthermore, the benefit of recruiting apprentices is that they can be moulded to a greater degree than an engineering graduate or a fully experienced recruit from the external labour market. Another advantage is that any new learning the apprentice experiences can be immediately cascaded down to colleagues, the large majority of whom will be an ex-apprentice who may well have been with the establishment for a decade or more. This cannot be achieved so readily with graduates who tend to have already acquired their skills, and often at quite a high level.

Being able to mould the apprentice resulted in some establishments having a preference for younger recruits (16 to 19 year olds). It was thought that older apprentices tend to have their own ideas or are more set in their ways. That said, some employers reported that they were willing to take on older apprentices and one expected to be taking on an adult apprentice in the near future. The experience brought by an older trainee was valued by at least one employer. Experience, whether obtained in another job or another firm, was reported as generally helping with progression through the Apprenticeship. The value of this experience was expressed thus: "*It's not about education, but there is something about being used to the application of work, or just applying themselves, that is different... they've [the younger apprentices] got more barriers than someone you pluck that's already been in employment or already been through uni, a lot more barriers, even if it's 'how do I get to work?' barriers...it's different*". Sometimes, this particular employer reported, there could be as much as 10 years' difference between a school leaver and an older trainee in the business. This was echoed by another employer who said that older apprentices had much to offer: they were more likely to turn up on time and have a better attitude generally. But the evidence is that with one exception all apprentices were aged between 16 and 24 years of age at the start of their Apprenticeship.

3.3 Recruitment and Retention

The general picture to emerge is that companies were looking for well qualified school leavers – typically with GCSEs at Grade C or higher in Mathematics, English, and science / technology subject – and an interest or aptitude for engineering. Whilst many of the case study workplaces reported that a given level of educational attainment was an entry requirement, others said they were prepared to be flexible and willing to take on someone who had an aptitude for engineering but who might not fit the preferred qualification profile. In many cases, the case study establishment wanted a good fit between the individual apprentice and the organisation, where 'good fit' referred not just to the capacity of the individual to successfully complete the Apprenticeship, but also being able to get along with other employees in the workplace.

Many of the case study companies had a well established reputation in their local labour market and this assisted with ensuring that there were a sizeable number of applicants for each Apprenticeship place. Whilst training providers sometimes approached companies with a list of candidates, employers reported that they received the bulk of their applications directly from applicants. Word-of-mouth was an important source of applications. The timing of recruitment was important because the relatively good candidates tended to obtain employment relatively quickly upon leaving school or college.

The general picture to emerge was that recruitment in most of the case study companies had not proved a problem. Engineering Case Study No.4 exemplifies what many employers were looking for (see box).

Engineering Case Study No.4

Locomotive restoration

Ideally the establishment wants to attract an apprentice who stays with the company on completion of the training and wants to grow with the company, taking advantage of the various training opportunities the company offers. The company prides itself in *"nurturing"* the employees and investing in them. According to information from the training provider, progression from the National Certificate of Engineering to an engineering degree is possible when successfully completing a three-year HNC, and a one-year HND. Ideally, though, the company wants to attract someone who becomes a brilliant engineer without necessarily wanting to go on to study at university. Given that apprentices learn fairly specialised engineering skills during the training programme, the hope is that they are more likely to stay with the company after completion of the training as there are fewer companies to choose from when changing employers.

Source: IER / IFF The Employer Net Benefit of Training Study 2011

Employers tend to have a rigorous recruitment process to ensure that they obtain a person who satisfies exactly what they are looking for, including multiple interviews and, in the case of younger recruits, speaking with their parents as well. The success of the recruitment process is reflected in the fact that the level of drop-out reported by employers was relatively small. Many employers had had problems with completion rates in the past and had learnt from this to ensure that people who were recruited successfully completed their training. At least one case study establishment reported that they attempted to claw-back some training costs where trainees left before the end of their training.

The example in the box above might suggest that there is limited progression beyond the Apprenticeship. This is not strictly true. If the apprentice shows good progression through their Apprenticeship and displays a particularly good aptitude for engineering, then there are pathways open to them in the company to progress as far as they want, including going on to university and gaining a senior management role. The reality of the situation is that employers are often recruiting to populate a given strata within their organisation: typically that of technician level which they expect many recruits to stay in and prosper at.

3.4 The Structure of Training

The evidence points to training leading to completion of an Apprenticeship at Level 3 being highly structured with individual employers having relatively little input into the design of the training outside of on-the-job training. This vocational education and training element is largely driven by the training provider. Typically, apprentices will be engaged in either block or day release at local colleges over the first eighteen months of the training

programme leading to the completion of a Level 2 and gaining an ONC or equivalent qualification.

Once the Level 2 has been completed – typically apprentices are expected to seamlessly progress from the Level 2 to the Level 3 training since the target in nearly all cases was to achieve a Level 3 – and this will also involve continued day release at college leading to the award of an OND or equivalent qualification. Depending upon the size of the organisation there is scope for the apprentice to increasingly specialise over the latter stages of the Apprenticeship depending upon where the company intends to place the apprentice once they have completed their training.

The duration of the training lasts, on average, between three and four years with one employer reporting that it took five years to complete the combined Level 2 and Level 3 Apprenticeship. As is reported in greater detail below, apprentices were not regarded as fully productive at the end of their Apprenticeship. It was thought that they still needed a few years' experience in the workplace before their productive capacity was equal to that of a more experienced worker. One case study establishment said that an apprentice taken on at 16 or 17 years of age would not be fully proficient at their job until they were in their mid 20s.

Employers relied quite heavily upon their training providers to deliver large elements of the Apprenticeship. In many instances there was a longstanding relationship with the training provider and it was expected that this relationship would continue into the future. Other employers tended to occasionally test the market to see if there was a better arrangement to be obtained. In these cases there was evidence of employers needing to closely monitor the relationship with the trainer. One company reported that it kept a close eye on the performance of the training provider. The company not only observed training provision, but also prompted the provider if they felt standards were slipping. They regularly reviewed provision and, they reported, were willing to change providers if they felt it necessary. This was evidenced by their recent change from their long-term provider to their current one.

3.5 The Costs and Benefits of Training

Table 3.2 shows the costs borne by employers in delivering an Apprenticeship at Level 3 and the benefits they derive from the increasing productive capacity of the apprentice as they progress through their training. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice over the training period (i.e. the percentage of the tasks of the fully experienced worker which the trainee can undertake in each year of the Apprenticeship which is then multiplied by the wage of the fully experienced worker), and subtracting from the supervisory and other costs which the employer needs to meet in delivering an Apprenticeship. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs have been standardised over a three and a half year period for purposes of comparison. The case studies were more or less evenly split between those where an Apprenticeship took three years to complete and those where it took four years. In addition there was one workplace where the Apprenticeship took five years to complete. In practice the end of the Apprenticeship is difficult to gauge since employers tend to

report that though the apprentice has formally completed all elements of their Apprenticeship they are not fully productive at the end of the formal training period. There is some evidence that where employers report that their Apprenticeship is of relatively long duration their apprentices are relatively more productive at the end of their formal training. Employers – and their training providers – have a degree of choice over how long they want to the Apprenticeship to last. Nevertheless, for comparative purposes a three and half-year training period has been used to estimate the costs and benefits to the employer.

The general picture to emerge is that of the costs of training falling away over the Apprenticeship as the amount of formal training away from the shop floor decreases along with the amount of supervision provided by line managers and supervisors. At the same time the productive capacity of the trainee increases. Nevertheless even in the final year of training there is still a net cost to the employer of providing training perhaps bearing out employers' claims that the apprentice is not fully productive – and working autonomously – until a further period has elapsed in the workplace.

Overall the net cost to the employer over the training period is £36,292 which increases to £ £39,582 once the costs of drop-out are accounted for. Whilst the costs of training in the engineering sector are the highest of all the sectors included in this report, the evidence suggests that the increase in training costs since the first Net Benefits of Training study was undertaken has not kept pace with inflation. This is an indicative finding given that all studies in the series are based on a limited number of case studies. That said, this may suggest that efficiencies have been found by employers in the delivery of training.

Table 3.2 provides an average cost of training leading to completion of a Level 3 Apprenticeship in engineering, but the average disguises considerable variation in training costs. At a relatively high cost Apprenticeship can cost around £45,000 per Apprentice compared with a low cost estimate of around £30,000; the modal range appears to be around £30,000 to £40,000 per trainee. In many respects the differences are accounted for by the duration of training (whether it lasts for three or four years) and the amount of off-the-job training where the apprentice is unable to make a productive contribution. Hence the high cost employers tend to have more block release to local colleges during the first year of training leading up to the award of the Level 2 qualification, whereas the lower cost employers tend to rely more on day-release and learning on the job. The costs also relate very much to what constitutes the end of the Apprenticeship with some employers being reluctant to sign-off on the Apprenticeship until the apprentice is near 100 per cent productive relative to the fully experienced worker. But as Table 3.3 reveals one of the principal differences which can affect the costs of training is the salary paid to the apprentice which, in the examples in the table below, is substantially higher in the high cost Apprenticeship example.

Table 3.2: Employers' Costs and Benefits of Apprenticeship Training

	Year 1	Year 2	Year 3	Year 3.5	Total
Background Information					
Drop out rate (%)	11	9	9	0	29
Apprentice salary (£ p.a.)	£11,423	£13,369	£15,492	£7,975	£48,259
Salary of Fully Experienced Worker + NI (£ p.a.)	£24,831	£24,831	£24,831	£12,415	£86,908
Trainee productivity (% of skilled workers tasks undertaken by trainee)	28%	54%	69%	78%	
Supervision (per trainee)					
% of Training Manager's time spent training (in each year)	7%	7%	7%	7%	
% of Line Manager's time spent training (in each year)	9%	6%	4%	1%	
% of Supervisor's time spent training (in each year)	15%	11%	10%	2%	
Training Manager's Salary (£ p.a.)	£41,750				
Line Manager's Salary (£ p.a.)	£29,600				
Supervisor's Salary (£ p.a.)	£25,800				
Total labour costs of supervision (including employer NI contributions)	9,515	7,739	6,642	1,867	25,764
Total training costs per apprentice or trainee (£)					
Costs of recruiting the apprentice	750	0	0	0	750
Course fees	£558	£558	£536	£1,081	£2,734
Supervision costs	£9,515	£7,739	£6,642	£1,867	£25,764
Administrative costs / Other costs	£500	£389	£389	£563	£1,840
Total cost	£22,747	£22,055	£23,060	£11,486	£79,348
Total Cost / Benefit to the Employer per Trainee					
Trainee product	£6,299	£12,347	£15,622	£8,787	£43,055
Other income (please specify)					
Total benefit per apprentice	£6,299	£12,347	£15,622	£8,787	£43,055
Net cost per apprentice	**£16,448**	**£9,709**	**£7,438**	**£2,699**	**£36,292**
Net Cost including drop out	**£18,179**	**£10,591**	**£8,114**	**£2,699**	**£39,582**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 3.3: Examples of Relatively High Cost and Low Cost Apprenticeships

	High Cost				Low Cost			
	Year 1	**Year 2**	**Year 3**	**Total**	**Year 1**	**Year 2**	**Year 3**	**Total**
Background Information								
Drop out rate (%)	50%	0%	0%		0%	0%	0%	
Apprentice salary (£ p.a.)	£12,708	£16,520	£20,332		£7,800	£10,400	£13,000	
Salary of Fully Experienced Worker + NI (£ p.a.)	£27,947	£27,947	£27,947		£19,144	£19,144	£19,144	
Apprentice productivity	25%	45%	80%		0%	50%	75%	
Supervision (per trainee)								
% of Training Manager's time spent training (in each year)	2%	2%	2%		0%	0%	0%	
% of Line Manager's time spent training (in each year)	6%	5%	4%		0%	0%	0%	
% of Supervisor's time spent training (in each year)	13%	8%	8%		15%	15%	15%	
Training Manager's Salary (£ p.a.)	£40,000	£40,000	£40,000					
Line Manager's Salary (£ p.a.)	£38,000	£38,000	£38,000					
Supervisor's Salary (£ p.a.)	£30,000	£30,000	£30,000		£23,400	£23,400	£23,400	
Total labour costs of supervision (including NI)	£6,925	£4,950	£4,475	£16,350	£3,510	£3,510	£3,510	£10,530
Total training costs per apprentice (£)								
Costs of recruiting the apprentice	£1,250				750			
Course fees					550			£550
Supervision costs	£7,678	£4,955	£4,480	£17,113	£3,848	£3,513	£3,513	£10,875
Apprentice salaries (including employer NI)	£13,486	£17,824	£22,162	£53,471	£7,900	£10,859	£13,818	£32,578
Total cost	£22,414	£22,779	£26,642	£71,835	£13,048	£14,373	£17,331	£44,753
Total Cost / Benefit to the Employer per Apprentice								
Apprentice product	£3,177	£7,434	£16,266	£26,877	£0	£5,200	£9,750	£14,950
Total benefit per Apprentice	£3,177	£7,434	£16,266	£26,877	£0	£5,200	£9,750	£14,950
Net cost per apprentice	£19,237	£15,345	£10,376	£44,958	£13,048	£9,173	£7,581	£29,803
Net Cost including drop out	£38,474	£15,345	£10,376	£64,195	£13,048	£9,173	£7,581	£29,803

Source: IER / IFF Employer Net Benefit of Training Study 2011

3.6 Sensitivity to Costs and Loans

Table 3.4 provides an indicative estimate of the total cost of Apprenticeship training. In order to undertake a Level 3 Apprenticeship the total cost is the sum of the employer contribution plus the notional cost to the training provider of delivering the necessary training as part of the Apprenticeship contract. This has been calculated as the cost met by the employer from Table 3.3, plus the cost the State pays where 100 per cent of the training provider's costs are met by the State. This indicates that the total cost of the training to level is £62,822 where the apprentice is aged 16-18 years at the start, and £49,759 where they are aged 19-24 years of age. If the trainee is aged between 16 and 18 years old at the start of their Apprenticeship the State will meet all of the training providers costs, but if the apprentice is aged 19- 24 years of age at the start the State will meet approximately 50 per cent of the cost with an expectation that the remainder will be met by the employer or the training provider, and where the apprentice is aged 24 or over at the start and working towards a Level 3, the costs, in future, will need to be met by some combination of the employer and the training provider, or the apprentice. Table 3.4 excludes 25 plus apprentices because none were observed in the case studies. Where the State does not meet the full cost of training, there is evidence that the cost is met by the provider since no employer reported that they paid the provider anything for delivering training to apprentices aged 19-24 years of age at the start of their training.

Table 3.4: Estimate of the Total Cost of Training Met by the Employer

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-19 year olds	£39,582	£23,240 (£14,403 for a Level 3 and £8,837 for a Level 2)	£62,822	63	37
19-24 year olds	£39,582	£10,177	£49,759	79	20

Source: IER / IFF Employer Net Benefit of Training Study 2011

In table 3.4, it has been assumed that the full cost of training an apprentice in the 19-24 age group is met, notionally by the training provider if the employer is not meeting that cost. Under these conditions the employer meets about two thirds of the total cost of training. If the employer were to meet 50 per cent of the training providers notional full costs as specified in the 2010/2011 funding arrangements, then the share of the costs borne by the employer increases to around 80 per cent, (see final row of Table 3.4).

It should be noted that the total percentage of training costs met by the employer in Table 3.4 is based on the average situation. Employers were often unaware of the total cost of an Apprenticeship (i.e. the sum of the training provider and employment elements), though there was often an implicit recognition that the training provider was bearing some of the cost. There was no general sense of surprise at the share of the costs borne by the employer. Where employers were presented with an estimate of the total costs of training and the extent to which they were meeting those costs there was a degree of uncertainty

about how they would react if they were required to meet more of the cost currently met by the State. The example of Engineering Case Study No.1 is fairly typical of how employers responded (see box).

Engineering Case Study No.1

Specialist Vehicle Manufacturer

The company produces customised refuse trucks and provides a maintenance service for their vehicles. The establishment, part of a larger multinational, at which the case study was conducted, assembles the final parts of trucks and services them as part of the after sales service. It employs around 60 people.

When asked about meeting an increased share of the total cost of training, the respondent considered a number of options of how it, the apprentice, or the training provider, might absorb the costs. Lowering the apprentice's wages was not considered a viable option because the company wants to attract the best students and recognises that it has to offer relatively good wages.

Changes in duration of training or type of training were not seen as an option in engineering. The existing training is required to ensure that the company has the skills it needs, especially in relation to its public liabilities. One option might be to recruit University graduates but that has costs attached to it too. Similarly, there are costs attached to recruiting fully experienced workers, especially the immediate wage costs whilst they are still learning the ropes. So the company may just have to absorb the costs of training. This might be offset by the apprentices working productively as possible during their training.

In the current environment – especially in the light of the recent redundancies – the company is watching costs closely, so there might be scope to negotiate costs with the training provider.

A clear decision about what the company would do, would only be made at the time when any changes were introduced and after gauging how other engineering companies would react.

Source: IER / IFF Employer Net Benefit of Training Study 2011

From the responses received a number of conclusions can be drawn:

- there was a reluctance to pass on the training costs to the apprentice through lowering wages. This took two forms. First, some employers reported that they paid relatively high wages – in their opinion – to recruit people particularly well suited to completing an engineering Apprenticeship and so were reluctant to reduce starting wages in case it affected the quality of recruits. Where employers reported that they were recruiting people with relatively low level qualifications with commensurate starting wages – such as Engineering Case Study No.7 – they felt there was little scope for further reducing the wages of apprentices;

- where there was a long-standing established relationship with a training provider there was a reluctance consider, as a first resort, getting the training provider to absorb the costs. In other cases, where employers sampled the market for training providers, more consideration was given to how training providers might be expected to absorb at least some of the cost;

- there was an initial reluctance to reduce the duration of training which was considered to be optimal given the balance of off-the-job training, working towards externally accredited qualifications, and practising newly acquired skills in the workplace;

- alongside considerations as to whether the duration of training might be reduced, some employers gave consideration to how the productive capacity of the apprentice might be increased over the duration of their Apprenticeship;

- some thought was given to ensuring that the Apprenticeship was effectively managed and ensuring that apprentices successfully complete. The overall level of drop-out in the case study establishments was low, but employers mentioned that if they were picking up more of the training cost, this might focus more attention on ensuring that apprentices completed.

As the above summary illustrates there was no clear view as to whether the extra costs employers might be expected to bear would have a major impact on training activities given that no employers reported, spontaneously, that this would have a dramatic affect on their training activities. None, for example, said they would stop training apprentices. The general impression was that in the first instance, if push came to shove, employers would see what scope there was for passing the costs on to the training provider and / or trying to increase the productivity of the apprentice whilst training (e.g. by spending more time in productive work). But there was some recognition that depending upon the level of contribution the employer may have to make whilst this might not affect the decision to engage in Apprenticeships it might well affect the number of apprentices taken on.

3.7 Further Education Training Loans

Employers were asked to respond to how they would react to their apprentices needing to take out an FE loan to cover the costs of training – as is currently envisaged with reference to Level 3 for people aged 24 years and over. This was explained to employers that it would likely be along the lines of the current higher education system with a loan being provided to the apprentice, from a loans organisation, and then this being paid back over a number of years after completing the training, once a threshold salary had been reached Despite providing this explanation some employers still thought about the process in terms of the employer providing the loan which would then be paid back directly out the apprentice's wages at some point.

In nearly all cases, the FE loan system would not apply to the employers involved in this study since they recruited people aged under 24 years. Nevertheless, they gave their views on an FE loans system in general.

Responses to the loan issue were divided between a few employers who warmed to the idea, and those who were somewhat confused about how it would work in practice and

what it would do to the employment relationship between apprentice and company. Some thought that it might work for older apprentices who generally recognised the need to make investments themselves in their training, but not for the younger ones recruited straight from school (who it would not affect).

One of the employers which thought loans could be made workable provided the following rationale (see box).

Engineering Case Study No.10

Transport Engineering

The workplace is part of a large construction company and is charged with running the transport division and providing engineering skills to support that division.

When the issue of loans to apprentices was broached, the respondent initially took this to mean loans provided by the employer, rather than State loans. He was cautiously positive about this idea, but thought it would be difficult to sell to the business as there would be no way to ensure the trainee paid them back if they left. When introduced to the idea of State loans – the respondent thought this was an appealing idea – from the business perspective. It would make the job of selling the training internally much easier. It should also have the impact of making the apprentice care more about the training – which might mean that less people applied in the first place, but the ones who would have a better attitude or would be quality candidates. If apprentices were to take out a loan, they should be more likely to behave well and put the effort in to their training and work.

Source: IER / IFF Employer Net Benefit of Training Study 2011

Another employer commented that shifting over to a loan system would be consistent with their policy of trying to persuade trainees in general to meet some of the costs of their training. The respondent at Engineering Case Study No.5 reported that they had started to introduce ways in which trainees in general met some elements of their training costs. For example, clauses had been put into employment contracts that if the trainee left within a certain span of time after completing their training, then they would have to pay us back a percentage of the training*: "We would try to get back just the actual cost of the course - the £3,200 that we would be paying towards it"*[20]. This company, however, had a preference for older trainees and recognised that more experienced trainees better understood the need to pay for some of their own training.

The views expressed here are in contrast to those expressed below by other employers who were worried about: (a) the social consequences of introducing loans and how this might affect some social groups; and (b) the effect on retention rates. At Engineering Case Study No.3, the respondent commented*: "I would say to you the type of people that you're employing …they're lower educated, they're from poorer families, and I'd say it would be a barrier really for them….That social group that we're aiming at, I think it would*

[20] This employer reported paying no training costs currently for its apprentices

be a huge barrier". Asked specifically about the possibility of an FE loan, the MD said again that this would deter this particular group from the Apprenticeship: *"I think the whole idea of the Apprenticeship would be a no"*. There was also a concern that the trainee might move on elsewhere after training in order to increase their ways to help pay off the loan. They also felt that there would be a different relationship between the trainee and the employer which might affect retention rates after completion.

Another employer remarked when asked if there was scope for the apprentice to contribute to overall training costs, hesitated, and said: *"Well, it's an interesting one... if you met some of our apprentices; they're always trying to find a way of putting in an expense claim. They're just not programmed mentally to think about paying for their own education…"* When asked about the possibility of them taking out a loan, he said *"I can't see it... Down at the sites where they're very expenses-oriented, you know, the older guys would be saying 'have you tried claiming for this?' 'Have you read your contract properly?' You know, you get all that sort of problem".*

As can be seen there is no clear view from employers about how an FE loan scheme would work though there is some evidence that for older apprentices – at which the proposed FE loan scheme is aimed - it might work, given that this group might better understand the need for the individual to invest in their training and see their training through to completion. But where employers tended to recruit younger apprentices they were more resistant to the idea because it might deter some applicants – especially from poorer backgrounds - and might affect retention rates. These findings need to be seen in the light of the fact that the employers included as case studies appeared to have a preference for recruiting people in the 16-24 year old age range typically taken on straight from school or college, and as such, these apprentices would have no need to take out the loan since all of their training costs would be met by the State and the employer.

3.8 Conclusion

The study reveals that there is wide variation in the net costs encountered by employers in delivering Engineering Apprenticeships to Level 3. The variation is driven in large part by the wages paid to apprentices and the amount of supervisory time required to ensure that the apprentice obtained and practised new skills in the workplace. The degree of variation provides prima facie evidence that there may be scope for employers to further rationalise their training costs. But it needs to be reiterated that employers have developed their Apprenticeship training programmes over a long period of time in many instances and have designed training structures which work for them in the sense that it provides them with the skills they need.

When asked how they would react if they were expected to meet a larger share of the cost currently met by the State, employers recognised that there were a number of ways in which those costs could be defrayed without it having a significant impact on the volume of apprentices taken on each year (such as expecting the training provider to absorb some of its additional cost). Nevertheless, employers were sensitive to cost issues and whilst meeting an increased share of the Apprenticeship training bill might not affect the decision of whether or not to train, because in many instances employers saw no alternative to providing Apprenticeships if they wanted a future supply of the skills their businesses needed, it might well affect the volume of training or the willingness to take on older apprentices (given that the up-front costs are relatively higher for this group). The recent past reveals that employers have not had to meet a share of the costs of training even where they have taken on an apprentice where they might be expected to contribute up to

50 per cent of the total cost of direct costs of training, which suggests that training providers have absorbed these costs or that the employer contribution has been waived.

4. Construction Sector

4.1 Introduction

The construction sector has a long standing history of involvement in Apprenticeships which have come to be the norm in terms of developing the next generation of skilled workers in the industry through combining off-the-job training and practical on-the-job experience. Construction Apprenticeships are highly structured, often costly and take several years to complete. It is also often the case that employers recruiting apprentices began their career as apprentices themselves and have a wish to give something back to the industry. As such there is rarely a consideration of alternatives to, or ceasing, the training that is provided.

The 10 case studies are summarised in Table 4.1. The vast majority of companies were undertaking Apprenticeships, mostly to Level 3 incorporating a Level 2 qualification, whilst one case study delivered a workplace learning (WPL) programme. The dominance of Apprenticeship case studies simply reflects the fact that this is the long established industry standard for training young people.

Table 4.1: Case Study Employers

Case Study	Apprenticeship (APP) or Workplace Learning (WPL)	Level of Apprenticeship	Description
Construction Case Study No.1	Apprenticeship	Level 2+3	Plumbing firm
Construction Case Study No.2	Apprenticeship	Level 2+3	General contractor and manufacturer - fencing supplies and timber components
Construction Case Study No.3	Apprenticeship	Level 2+3	General contractor - residential and commercial developments
Construction Case Study No.4	Apprenticeship	Level 2+3	General contractor - office refurbishment
Construction Case Study No.5	Apprenticeship	Level 2+3	Lead contractor on building services projects
Construction Case Study No.6	Apprenticeship	Level 2+3	Provide domestic and commercial heating and plumbing installations
Construction Case Study No.7	Apprenticeship	Level 2	Building services organisation specialising in heating, ventilation and air conditioning
Construction Case Study No.8	Apprenticeship	Level 2	Scaffolding contractor
Construction Case Study No.9	Apprenticeship	Level 3	A firm of electricians
Construction Case Study No.10	WPL	Level 2	Painters and decorators

Source: IER / IFF The Employer Net Benefit of Training Study 2011

Most of the case studies concerned Apprenticeships focusing on the skills and qualifications required in the specific sub-sectors of the companies interviewed, covering general contractors in fields such as plumbing, painting and decorating, electricians and scaffolding. Some larger firms were interviewed including one large multinational lead

contractor. The size of the organisations ranged from 11 to 200 staff directly employed in the UK, with most employing around 20-50 staff. The number of apprentices taken on by each company was typically around two to five.

4.2 The Training Decision

The decision to recruit apprentices across the case study employers was driven by the following considerations:

- bringing younger workers into the industry;
- a need to meet future skill needs in the industry;
- developing staff for the specific skills needs of the business;

Constantly evolving construction techniques with changing industry requirements, including a drive to improve health and safety, has meant that training is considered essential in the construction industry. This, coupled with the problems associated with an ageing workforce, has meant that the recruitment and up-skilling of younger workers is seen as crucial to the future of the industry, especially so with employers recalling the significant skill shortages which followed the last recession when Apprenticeship training was cut significantly. For many companies the Apprenticeship programme is the main method for recruitment and training their staff.

A scaffolding firm interviewed described how they used Apprenticeships to expand their business and recruit new staff to their specific sub-sector of the industry. By training staff through the Apprenticeship programme it has enabled employers to develop staff to their exact requirements thus creating a pool of skilled labour for future management positions. Investing in staff through Apprenticeships has enabled employers to improve retention rates and so create this cadre of skilled staff. This had led to a preference for younger recruits (16-19 year olds) who were then able to be built-up from scratch. Taking on pre-trained staff is seen as too expensive and does not provide the same level of investment in the future generations of the industry. There was also a sense that ready qualified, and older staff, were ‘set in their ways’.

Another firm described how developing their younger staff through Apprenticeship had allowed them to develop staff within the business, build working relationships with clients, and teach them all the necessary key skills. They had looked at hiring ready qualified staff or foreign workers but found that they would not have the exact skill set they required, lacked long-term commitment, and may demand higher wages. By taking on younger workers it had also brought in fresh ideas and creativity with the new recruits able to disseminate the knowledge of new practices and techniques to the wider workforce.

Gaining accreditation and qualifications necessary to tender for projects or work on most construction sites was another key benefit of the Apprenticeship programme. An alternative that some employers had mentioned was to run a ‘mate’ system whereby the new recruits are mentored by fully qualified staff and learn through experience. This would be a cheaper option than Apprenticeships and would involve similar levels of supervision in their staff. But the need for qualification and accreditation is too great to make this a viable option.

Other employers had considered stand-alone NVQs as an alternative to the Apprenticeship programme but they felt that this would result in an insufficient level of training. Construction Case Study No.6 explained how, with an NVQ, staff would be only half way trained to the necessary standard required to do the job and they would need additional training in order to gain the relevant qualifications and skills. Employers also felt that by offering NVQs it would have an impact on retention rates as they would not be seen to be giving the same level of investment or time to build loyalty. Although NVQs were a cheaper option over the short-term, employers preferred the longer term benefits which Apprenticeships conferred upon their businesses.

4.3 Recruitment and Retention

For many employers the most important criteria for selecting apprentice recruits was the attitude of applicants and their willingness to learn. Recruiting staff with the 'right fit' for the company was important when they would end up working closely with other staff, and the majority of companies did not have strict requirements for prior experience or academic qualifications. Taking on apprentices with no prior experience and with no qualification requirements meant they would not need to be paid high wages and enabled the employers to train staff 'from scratch' to their exact requirements.

There were some exceptions to the informal requirements of many employers in the sector. The large multinational company interviewed required five GCSEs including mathematics, and also had a preference for experience in construction and an understanding of the working environment. Nonetheless, even here, beyond these formal criteria the attitude of the recruit was a key consideration so that they would fit the culture and be unlikely to drop out during or after the programme was completed.

Construction Case Study No.4 exemplifies what many employers were looking for and their reasons for selecting candidates with the right attitude.

Construction Case Study No.4

General contractor- office refurbishment

The company's most important recruitment criteria are attitude, work ethic and the ability to work as part of a team. The objective is to take on an apprentice who stays with the company on completion of the programme and develops with the exact requirements of their industry and company. They prefer recruits to the electrical Apprenticeship programme to have a C grade in GCSE mathematics as the final year does include equations. They do not require prior experience. They prefer to recruit 16 year olds as it has allowed them to teach them 'the company ways'

The position is not advertised as there is no shortage of recruits through word of mouth.

The goal is very much to retain and develop the apprentice after they complete the two years, and nine times out of ten the apprentices have stayed on with the company. They have a specific policy in place to retain people once trained. The only time they struggle to offer a full time position would be if there was a dip in the work available. In the past when they have been unable to offer a full time position they have offered to help with CVs and applying to other firms. This had been a particularly pertinent issue with the recent downturn in the economy.

Source: IER / IFF The Employer Net Benefit of Training Study 2011

Recruitment tended to come via one (or a combination of) three methods; (i) through word of mouth; (ii) through family or friends of existing staff; or (iii) through a training provider. To some extent this depended on the size of the company, with smaller firms often likely to recruit apprentices via family of staff members. There were no examples of construction firms needing to formally advertise the positions.

No problems with recruitment were reported by any companies and most reported that an over-supply of applicants for Apprenticeship positions. Many of the employers interviewed were well established in their local labour market and would receive a large number of applicants for each position available; as one employer said 'the difficulty is turning them away'. This over-supply was in part due to the downturn in the economy with a lot of companies closing or no longer offering the same volume of Apprenticeships combined with a large number of unemployed school leavers.

The selection process tended to involve a formal interview, during which they look to assess the applicant's attitude. Construction Case Study No.1 explained how the high number of applicants had led to the need for a more formal pre-interview assessment. During each wave of recruitment they had as many as 30 people apply to the programme and the employer had aimed to reduce this to 10 to 15 by vetting the applicants first via a pre-interview BTEC-approved in-house exam and a basic practical task to assess the candidates. This process has been successful in improving the quality of applicants and reducing the level of drop-outs.

Opportunities for career progression after the Apprenticeship was completed were generally good but most companies mentioned that it depends a lot on the work available

at the time of completion. Most want to take on staff full time because of the investment they have made and out of a responsibility to develop the next generation of construction workers.

One example of an employer with a different approach to retention of apprentices was a large lead contractor firm that has a policy not to employ any full time staff below the level of supervisor. They therefore found work for their newly qualified apprentices with sub-contractors. Once they reach the age of 22 (the minimum age to become a supervisor) they would then be considered for a full time position with the company.

4.4 The Structure of Training

Most of the case studies involved Apprenticeships leading to a Level 3 qualification with apprentice's first working towards a Level 2 qualification. Training was structured with either a day or block release element, and then supplemented by on-the-job training. The majority of employers opted for day release as this allowed them to maximise their learning through experience whilst complementing the off-the job learning. Respondents were generally satisfied with this structure of training: one employer described how too many training courses simply taught students how to pass exams, but with the on-the-job training element it enabled trainees to apply what they had learnt in the classroom. This on-the-job training tended to focus on shadowing qualified members of staff. Construction Case Study No.1 described how mentoring would involve apprentices spending time with a number of different qualified staff to develop experience in a number of different areas and working methods. This variety of work within the organisation helped the apprentice to gain broader experience and to keep their options open for any areas of specialism. It also reduced the burden of supervision on one member of staff.

The evidence suggests that employers had little say in the structure of the off-the-job training and there were numerous examples of dissatisfaction with the inclusion of certain modules of the training programme. A construction firm specialising in heating, ventilation and air conditioning was dissatisfied with the IT element of the course as it was not applicable to their business and had actually caused apprentices to drop out in the past after struggling to complete this module. A plumbing company (Case Study No.6) also mentioned how the inclusion of a lead work module was no longer relevant and could be replaced with more applicable and up-to-date modules such as sustainability or renewable energy.

The duration of the training was typically around two to four years. Most employers felt even after this time apprentices do not tend to operate at the fully competent level. Most newly qualified staff still required supervision and further experience to achieve the expected levels of productivity.

Training providers were typically local further education colleges, with some companies occasionally opting to use private training providers or the National Construction College. The key consideration for most companies in selecting a provider was their geographical location because most of the young apprentices would not be able to drive and so would need to use public transport. Therefore to minimise the costs and difficulties in travelling, employers would opt for conveniently located providers for each apprentice. Some employers had used their training provider for a long time and saw no reason to consider an alternative. In one example an employer described this relationship as 'better the devil you know' because although they had encountered some 'glitches' they felt that other providers may well end up even worse. This dissatisfaction tended to focus on unsuitable

modules on offer or being provided and with overbooking of courses or under-subscribed courses being cancelled.

4.5 The Costs and Benefits of Training

Table 4.2 shows the costs borne by employers in delivering an Apprenticeship at Level 2 and 3 and the benefits they derive from the increasing productive capacity of the apprentice as they progress through their training. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice over the training period (i.e. the percentage of the tasks of the fully experienced worker which the trainee can undertake in each year of the Apprenticeship which is then multiplied by the wage of the fully experienced worker), and subtracting the supervisory and other costs which the employer needs to meet in delivering an Apprenticeship. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs have been standardised over a three and a half year period for purposes of comparison. The case studies were more or less evenly split between those where an Apprenticeship took two years to complete and those where it took four years. In addition there was one workplace where the Apprenticeship took five years to complete. In practice the end of the Apprenticeship is difficult to gauge since employers tend to report that although the apprentice has formally completed all elements of their Apprenticeship they were not fully productive at the end of the formal training period.

Net costs of training each year tend to fall away over the Apprenticeship as the trainee product increases with the improved productivity and the amount of supervision time required falls. Despite this improved productivity employers still incur a net cost to the training in the final year as the trainee is still only able to operate at around 70 per cent. This highlights the continued need for supervision after the Apprenticeship has been completed as discussed earlier in section 4.4.

The average overall net cost to the employer over the training period is £23,932 which increases to £26,074 once the costs of drop-out are accounted for.

Table 4.2: Employers' Costs and Benefits of Level 2+3 Apprenticeship

Construction, Apprenticeship, Level 2 + 3	Year 1	Year 2	Year 3	Year 3.5	Total
Background Information					
Drop out rate (%)	12	9	5	0	
Apprentice salary (£ p.a.)	£10,306	£13,745	£15,155	£11,500	
Salary of Fully Experienced Worker + NI (£ p.a.)	£25,687	£25,687	£23,436	£14,036	
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	28%	46%	70%	73%	
Supervision (per apprentice)					
% of Training Manager's time spent training (in each year)	2%	2%	1%	1%	
% of Line Manager's time spent training (in each year)	2%	3%	1%	1%	
% of Supervisor's time spent training (in each year)	16%	12%	5%	1%	
Training Manager's Salary (£ p.a.)	£44,500	£44,500	£44,500	£22,250	
Line Manager's Salary (£ p.a.)	£31,418	£31,418	£31,418	£15,709	
Supervisor's Salary (£ p.a.)	£27,218	£27,218	£27,218	£13,609	
Total labour costs of supervision (including employer NI contributions)	£6,584	£4,838	£2,198	£516	£14,137
Total training costs per apprentice (£)					
Costs of recruiting the apprentice	£490				
Course fees	£0	£0	£0	£0	
Supervision costs	£6,584	£4,838	£2,198	£516	
Administrative costs / Other costs	£200	£117	£70	£50	
Apprentice salary (including Employer NI)	£10,752	£14,665	£16,271	£12,599	
Total cost	£18,026	£19,620	£18,539	£13,165	£69,351
Total Cost / Benefit to the Employer per					
Apprentice product	£7,064	£11,773	£16,406	£10,176	
Other income (please specify)	£0	£0	£0	£0	
Total benefit per apprentice	£7,064	£11,773	£16,406	£10,176	£45,418
Net cost per apprentice	**£10,962**	**£7,847**	**£2,134**	**£2,989**	**£23,932**
Net Cost including drop out	**£12,278**	**£8,566**	**£2,240**	**£2,989**	**£26,074**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 4.2 provides an average cost of training leading to completion of a Level 3 Apprenticeship in construction, but the average disguises considerable variation in training costs. At a relatively high net cost Apprenticeship it can cost around £46,000 per Apprentice compared with an extreme low cost estimate of around £2,000. In many respects the differences are accounted for by the differences in wages whilst training and the relative productivity of apprentices. The costs also relate very much to what constitutes the end of the Apprenticeship with some employers being reluctant to sign-off on the Apprenticeship until the apprentice is near 100 per cent productive relative to the fully experienced worker. One employer described a 'golden period' when apprentices were not yet fully trained (and so not earning a full salary) but were independent, required less supervision, and so were very cost effective. This lasted for around a year until the apprentices became fully qualified. But as Table 4.3 reveals one of the principal differences which can affect the costs of training is the salary paid to the apprentice which, in the examples in the table below, is substantially higher in the high cost Apprenticeship example.

Table 4.3: Examples of Relatively High Cost and Low Cost Level 2+3 Apprenticeship

	High Cost Apprenticeship					Low Cost Apprenticeship			
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Total**	**Year 1**	**Year 2**	**Year 3**	**Total**
Background Information									
Drop out rate (%)	0	0	0	0		0	0	0	
Apprentice salary (£ p.a.)	£12,000	£20,000	£22,500	£24,000		£6,057	£8,187	£9,867	
Salary of Fully Experienced Worker + NI (£ p.a.)	£29,807	£29,807	£29,807	£29,807		£17,96	£17,96	£17,960	
Apprentice productivity	10%	25%	60%	85%		30%	55%	75%	
Supervision (per apprentice)									
% of Training Manager's time spent training (in						2%	1%	1%	
% of Line Manager's time spent training (in						N/A	N/A	N/A	
% of Supervisor's time spent training (in each	16%	12%	5%	6%		5%	5%	2%	
Training Manager's Salary (£ p.a.)						£35,00	£35,00	£35,000	
Line Manager's Salary (£ p.a.)						N/A	N/A	N/A	
Supervisor's Salary (£ p.a.)	£27,050	£27,050	£27,050	£27,050		£20,80	£20,80	£20,800	
Total labour costs of supervision (including NI)	£4,650	£3,636	£1,528	£1,788	£11,602	£1,912	£1,391	£767	
Total training costs per apprentice (£)									
Costs of recruiting the apprentice	£550					£500			£500
Course fees	£350	£350	£350	£700					
Supervision costs	£4,650	£3,636	£1,528	£1,788		£1,912	£1,391	£767	
Apprentice salaries (including employer NI)	£150	£150	£150	£150		£6,057	£8,341	£10,253	
Administrative / other costs	£12,680	£21,784	£24,629	£26,336		£1,000	£250	£100	
Total cost	£18,380	£25,921	£26,657	£28,974	£99,932	£9,469	£9,982	£11,119	£30,57
Total Cost / Benefit to the Employer per Apprentice									
Apprentice product	£2,981	£7,452	£17,884	£25,336		£5,388	£9,878	£13,470	
Total benefit per apprentice	£2,981	£7,452	£17,884	£25,336		£5,388	£9,878	£13,470	
Net cost per apprentice	**£15,399**	**£18,469**	**£8,772**	**£3,639**	**£46,279**	£4,081	£104	-£2,351	£1,834
Net Cost including drop out	**£15,399**	**£18,469**	**£8,772**	**£3,639**	**£46,279**	£4,081	£104	-£2,351	£1,834

Source: IER / IFF Employer Net Benefit of Training Study 2011

4.6 Sensitivity to Costs and Loans

Table 4.4 provides an indicative estimate of the total cost of Apprenticeship training. In order to undertake a Level 3 Apprenticeship (incorporating a Level 3) the total cost is the sum of the employer contribution plus the notional cost to the training provider of delivering the necessary training as part of the Apprenticeship contract. This has been calculated as the cost met by the employer from Table 4.2, plus the cost the State pays where 100 per cent of the training provider's costs are met by the State. This indicates that the total cost of the training to Level 3 is £55,527 where the apprentice is aged 16-18 years at the start, £40,136 where they are aged 19-24 years of age, and £37,326 where they are aged over 25. If the trainee is aged between 16 and 18 years old at the start of their Apprenticeship the State will meet all of the training providers costs, but if the apprentice is aged 19-24 years of age at the start the State will meet around 50 per cent of the cost with an expectation that the remainder will be met by the employer or the training provider, and where the apprentice is aged 24 or over at the start the full costs, in future, will need to be met by some combination of the employer, the training provider, or the apprentice.

Table 4.4: Estimate of the Total Cost of Training Met by the Employer, Level 2+3, Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£26,074	£29,453	£55,527	47	53
19-24 years*	£26,074	£14,062	£40,136	65	35
25+ years*	£26,074	£11,252	£37,326	70	30

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: Two employers had any apprentices aged 25+ years
* Assuming State meets only 50% of funding rate

It should be noted that the total percentage of training costs met by the employer in Table 4.4 is based on the average situation. Employers were mostly unaware of the State funding but some did acknowledge that it would probably be significant as they felt that there would be a lot of course costs.

The example of Construction Case Study No.5 is fairly typical of how employers responded (see box).

Construction Case Study No.5

Lead contractor on building services projects

The company is a large multinational lead contractor in mechanical and electrical aspects of construction with divisions in IT, marine and shipping, industry and building services. They employ around 200 staff.

When asked about meeting an increased share of the total cost of training, the respondent outlined a number of options for reducing costs but with each cost saving measure they explained why it would not be an ideal solution.

Reducing the wages of trainees was one of the first areas mentioned for reducing costs, but they explained how they were guided by the relevant trade bodies and had to operate within a certain company-wide pay structure. They could look to bring more training in-house with a monitoring officer rather than external agents, but they felt that this would not be possible for the relatively small scale of training they currently undertake. Another option they identified was to achieve economies of scale by sending all staff to one provider and seeking competitive rates. Because of the variation with geographical location this might cause difficulties for staff. An alternative might be to consider block release rather than day release.

They concluded that if State funding was reduced they would still take on trainees but would consider reducing the programme to the technical training course and cut out all other core skills components which would be covered in-house. They would also consider much more carefully who they take on and that they have the right aptitude and capability for longer term employment. This is because the long term benefit from the investment made in the trainee would need to be considered.

More than the direct impact on their own company they were concerned with the wider impact on the industry. They felt it would lead to a preference for older, pre-trained workers, a reduction in training within the industry and long term issues of skills gaps. The construction industry was attracting insufficient younger workers as it was, so changing the funding would only exacerbate the situation.

Source: IER / IFF Employer Net Benefit of Training Study 2011

From the responses received a number of conclusions can be drawn as outlined below.

- Passing on training costs to apprentices was not felt to be an option for most companies due to low wages and young age of recruits. Lowering wages for apprentices in their final year was also an unlikely option as it would impact on retention rates. This would only leave the possibility of lowering wages in the middle phase of the Apprenticeship which some felt was a possibility. The National Minimum Wage for apprentices set a floor for reducing wages.

- Some costs could perhaps be covered by trainees but it was difficult to find a discrete element they could cover.

- Most did not think that training providers should cover the costs, but they could perhaps look for more competitive rates.

- Shortening the courses was not considered an option ('It would be moving in the wrong direction'): there was a sense that due to the skilled nature of the work it takes a set amount of time to reach full productivity and if the programme was shortened it would simply lengthen the period after the Apprenticeship where they were qualified but not yet fully skilled and still required supervision.

- Reducing the number of apprentices taken on would be a likely step taken by most of the companies interviewed in response to increasing costs of the Apprenticeship programme.

If recruits did have to cover more costs employers felt it would impact on the relationship with apprentices. This could have an impact on retention rates and loyalty which are both important to employers as losing trained staff would represent a loss in investment. Most of the case study employers felt that they would simply reduce the number of apprentices they took on or attempt to make cost cutting measures before passing any direct costs onto their staff. Possible alternatives that might be explored were stand-alone NVQs or a 'mate' system, but both of these would be seen as less attractive options. There was a sense that regardless of the costs, the training would continue in some form to maintain the skills levels within the industry.

4.7 Further Education Training Loans

Employers were asked their reaction to the concept of apprentices or trainees needing to take out loans to cover the costs of training on the Higher Education model system of a loan being taken out from a loan organisation, with the loan paid back over a number of years once they had completed their training and reached a certain earnings threshold (£21,000 a year). The FE loans system is intended to apply only to those aged 24 years or over at the start of their Level 3 Apprenticeship. Accordingly it did not apply to most employers in the study, but they gave their views in any case.

Most employers' first reaction was that this would not work because Apprenticeships are not as highly regarded as degrees and individuals would be unlikely to be willing to end up in debt for something that might not be as useful in the long term. On further consideration some employers mentioned that perhaps employees would see it as an investment in their future and it would encourage the highly dedicated individuals to apply.

If FE loans were introduced some employers did feel that it would have the greatest impact on the younger workers who, with lower salaries and uncertainty about the work available in the future, might be put off training. But as noted above it is only intended to apply to older apprentices at Level 3. Nearly every respondent felt that if apprentices or trainees were required to take out loans then it would have an impact on retention rates as staff would feel less loyalty to the company, and they would be more likely to seek out the highest paying employer. This is a particularly sensitive issue in the construction industry where some employers invest heavily in training whilst others do not do so. Most felt that it would work better for older recruits as they were likely to be on higher salaries. Clearly this could have implications for the number of younger workers coming into the industry.

One of the more positive responses is provided overleaf (see box)

Construction Case Study No.6

Domestic and commercial heating and plumbing installations

The company are a relatively small firm who are highly committed to training and have won training awards for their practical learning offering.

If State funding was reduced then cuts to the training programme would have to be made. Ideas included reducing wages in the first year, cutting down the four year course to three years, and bringing some training in-house. When the issue of loans for apprentices was discussed, the respondent was initially unsure that this would be possible as they would be reluctant to encourage young people to enter into debt. On further consideration though, they felt that it would be reasonable to expect young people to invest in their own future as they would be able to pay the loan back once they were fully qualified. They felt a loan of around £10-£12,000 would be appropriate.

Given the current economic climate and cuts to Government spending reductions in funding for Apprenticeships could seem understandable. There may also be positive outcomes to requiring apprentices to take out loans in that only the most dedicated would apply and would work harder during the programme as it would be their own money they were spending.

In the long term there would be issues with retention rates and loyalty which could lead to difficulties in maintaining a skilled workforce.

Source: IER / IFF Employer Net Benefit of Training Study 2011

But as noted above, most employers were discussing the issue of FE loans in a general sense rather than the specific policy suggestion that is should apply to 24 year olds at the start of their Level 3 Apprenticeship.

4.8 Conclusion

The net costs encountered by employers in delivering construction Apprenticeships to Level 3 show wide variation across the case studies. This variation in costs is largely due to differences in the salaries and the level of supervision required. Due to the skilled and technical nature of the work undertaken by construction companies full proficiency does take time to achieve so cutting costs is limited to a certain degree, but employers were able to identify some areas for efficiency savings that would not compromise the quality of the programme on offer.

Awareness of the State funding for training was low though employers generally estimated that the amount of funding would be fairly high. If State funding was decreased and employers were expected to cover more of the costs of training then a number of concerns were raised about the impact this would have on the construction industry. The number of apprentices taken on would be likely to decrease and the length of the programme may have to be shortened. Very few would consider alternatives to Apprenticeships, but some

mentioned that it might lead to more companies taking on older, pre-trained workers. Apprentice loans were a possibility that some employers would consider, but there were concerns over what this might mean for retention rates. Most felt that any reductions in the funding of the Apprenticeships, the employers reported, would have long term negative impacts on the industry in the future.

5. Retail Sector

5.1 Introduction

This chapter considers the evidence gathered from employers delivering Apprenticeships and other workplace learning (WPL) in the retail sector. In total, nine detailed case studies were completed and the interviews covered a variety of different types of retail employers including: large supermarkets and department stores employing thousands of staff across a national network of branches; specialist retailers of various sizes who distribute gardening and textile products, cosmetics and toiletries, bicycles and automobile accessories; as well as charity organisations with retail branches.

Most employers had a relatively long standing history of arranging training for their employees in one form or another. Some employers reported being committed to learning and staff development as a key business priority that was firmly anchored in their companies' core values; this included employers who had signed up for the Skills Pledge in the past, or were accredited Investors in People, or who pointed towards previous awards they had won for the quality of their training programme, e.g. the Apprenticeship of the Year award. At the same time, some employers had only recently changed some of their training practices, for example, from previously arranging informal training towards formally recognised NVQs, or from engaging with NVQ training towards piloting Apprenticeships.

The nine case studies are summarised in Table 5.1 overleaf. In four case studies the retail employers offered WPL in the form of externally recognised NVQs at Level 2 and in one case at Level 3. Apprenticeships were offered in four cases: all offered this at Level 2 one of whom also offered a Level 3 Apprenticeship.

Table 5.1: Case Study Employers

Case Study	Apprenticeship or Workplace Learning (WPL)	Level	Description
Retail Case Study No.1	Apprenticeship	Level 2	Supermarket chain
Retail Case Study No.2	Apprenticeship	Level 2	General retailer
Retail Case Study No.3	Apprenticeship	Level 2	Gardening and horticulture specialist retailer
Retail Case Study No.4	Apprenticeship	Level 2	Independent department store
	Apprenticeship	Level 3	
Retail Case Study No.5	WPL	Level 2+3	Charity shop (local branch of a national charity)
Retail Case Study No.6	WPL	Level 2	Cosmetics and toiletries retailer
	WPL	Level 3	
Retail Case Study No.7	WPL	Level 2	Supermarket chain
Retail Case Study No.8	WPL	Level 2	Specialist furniture retailer
Retail Case Study No 9.	WPL	Unaccredited	Specialist retail chain

Source: IER / IFF the Employer Net Benefit of Training Study 2011

5.2 The Training Decision

All of the retail case study employers had long standing programmes of delivering their own in-house training programmes to new and existing staff, including induction training, statutory health and safety training and any other generic or job-specific training that was arranged by employers themselves, i.e. this includes any informal and not externally accredited training.

They key drivers to engage in externally accredited learning and training (WPL in the form of NVQs and Apprenticeships) amongst employers in this sector were:

- to reduce high levels of staff turnover;
- to attract a higher quality of recruits because of the offer of subsequent training; and
- to develop additional skills, increase productivity, and generate cadres of staff who would progress to more senior positions within the organisation.

Typically, retail employers offered Apprenticeships and stand-alone NVQs to existing staff as a vehicle to increase their confidence, morale and loyalty. This differentiates retailers from employers in other sectors, where it is more common for employers to specifically recruit young people from the external labour market, for example, into an Apprenticeship programme as a prerequisite for candidates to become fully productive employees once they completed their training.

Employment in the retail sector is characterised by relatively low paid (minimum wage or only slightly above), often part-time jobs on the shop floor. As a result of this and other factors, retail businesses often reported that one of their specific challenges is how to accommodate and manage high levels of staff turnover. For example, one specialist retailer (with around 8,000 staff in total, of which 4,500 were working flexible hours) reported that they have to recruit in the region of 4,000 new staff each year to make up for the continuous loss. These businesses tended to regard training in general, and accredited training in particular, as a useful way to try and reduce staff turnover. By organising training for their existing staff the employer benefits from employees who will feel more engaged, gain confidence and become more loyal to their workplace.

In addition, the prospect of training was used as a feature to make the employer attractive to would-be recruits and to reach out to a high quality pool of candidates in the labour market. Some employers highlighted training and staff development opportunities, often in conjunction with career progression paths, in their job advertising and interview processes with the aim of appealing to a larger pool of suitable candidates, as Retail Case Study No.6 illustrates (see box).

Retail Case Study No.6

Cosmetics and toiletries retailer

The large, national toiletries retailer reports being committed to training and offers NVQ Level 2 and Level 3 qualifications to existing staff. As a typical example of the business benefits of training, one employee's trajectory was discussed. She was hired and originally completed a Level 2 module, which then led her to completing some more advanced management training courses. Many who go on these management training programmes are then promoted to assistant managers and then store managers. "We like to grow our own if we can. It's not always possible, but we want to be known as a company where you can come in and start at the bottom, and that there are opportunities for everyone if you want to do it."

The respondent confirmed that *"obviously there are real business benefits from arranging training for our teams. Morale has improved; retention has improved, so people tend to stay with us because they see it as an investment."*

Source: IER / IFF the Employer Net Benefit of Training Study 2011

Of course, in addition to the benefits for staff recruitment and retention that training is thought to deliver, the case study research also found evidence of justifications for delivering this training that related to improved skills and productivity.

It is worth noting that the training decisions of retail employers were often influenced by options put forward by training providers. For example, retailers who previously only arranged for informal, in-house training were approached by a provider who was able to offer fully funded NVQ accredited training. This has also been reported to be the case where employers previously engaged in NVQ training but were then convinced by a provider to switch to a more comprehensive training package including Apprenticeships. In both scenarios employers tended to be persuaded by the offer of 'free' training at no or little additional direct cost for them.

5.3 Recruitment, Retention and Career Progression

The retail employers covered by the cases study research tended not to recruit candidates from the external labour market directly into a training programme, but rather offer WPL to existing staff. As long as candidates passed the general recruitment criteria of the company (which for entry level positions tend to be 'softer' criteria such as general work ethic, reliability and motivation rather than formal minimum qualifications) they were, in principle, eligible to participate in the training on offer once they are hired. In this sense, there were no rigorous recruitment processes in place for trainees to be accepted for a training place.

Many of the larger retailers emphasised that their training programmes were open to all existing staff, and that there were no particular selection criteria in place, such as the employee's age, prior qualifications, seniority or length of service. There were some employers where staff needed to have worked at least 12 weeks at the company, i.e. having passed the initial probation period, in order to be eligible for training, and they also needed to work a minimum number of weekly hours. But employers' overall view of training was clearly that it should be open to all staff to the extent that it being available to all, and the effect this can have on morale, was a key reason for offering WPL.

"Well, we're not recruiting into Apprenticeship positions. All of our trainees are existing staff. It's open to all, whatever their age, length of service, etc. We have training policies for everyone, they are all employees, so there is nothing specific for people who do Level 2 or Level 3 Apprenticeships. It's up to them to volunteer. We're not forcing anybody, it's their choice. It's a culture we have here: If you want to train as an employee, we will try and provide opportunities."

(Retail Case Study No.4)

At the same time, employers tended to have a preference for putting forward employees in the younger age brackets for NVQ or Apprenticeship training. This is because there was a perception that younger learners attracted more funding, or that funding could be more easily secured.

As discussed above, accredited training was considered to deliver real benefits in terms of improving staff retention and reducing turnover. This is, in part, achieved by making employees feel that the company is investing in them and by offering them a clear career path with opportunities to progress on to more senior roles. There was clear evidence of trainees benefiting from improved career progression prospects, as one retail employer confirmed:

"The career track here is clear: team member, supervisor, department head, department manager and then store manager. Staff here have a sense that they are on this path. We had a few people who have worked themselves up through the ranks, yes. In fact, all the people who have gone through their NVQs with us have moved on to higher positions. This proves that the NVQ skills they've learnt are being put into practise and bring added value to our organisation."

(Retail Case Study No.7)

In most cases the completion of a training programme did not automatically lead to a promotion. Retail employers often regarded accredited training as a 'nice to have' rather than a 'need to have' in the sense that training certainly brings benefits to the business (for example, in terms of generating a cadre of employees for future senior management positions) and for trainees (in terms of improving their career prospects), but in many cases it was reported that staff could also progress within the company without necessarily having completed the training.

"Employees don't need a qualification to get on, it's a nice to have, not a need to have. Perhaps in engineering or accountancy, yes, but in retail you don't need it to progress – there are plenty of CEOs with no qualifications."

(Retail Case Study No.4)

5.4 The Structure of Training

The case studies in the retail sector indicate that WPL was structured almost exclusively around in-house delivery. Training tended to be substantially shorter compared to other sectors.

Retailers engaging in NVQ training tended to organise it in such way so as to minimise the employee's time spent away from the workplace. One retailer, for example, arranged for NVQ training one-day each week at work where an external trainer came in to deliver the course. Another retailer had started to do all of the NVQ training in-house by themselves, which was delivered by an internal team of trainers and mentors, and even the assessment was conducted by an internal (qualified) assessor. The typical duration of a Level 2 was around eight months and for a Level 3 around 12 months.

Apprenticeship training followed similar patterns compared with other sectors, in that it was delivered in part by on-the-job training elements at the workplace, and in part by classroom-based College training days and assessments off-site. The balance of on-the-job versus off-the-job elements appears to be firmly biased towards the former. One retailer reported, for example, that their apprentices only spent half a day each month at the college, and another estimated the on-the-job element to account for 90 per cent of the entire Apprenticeship programme. One of the large national retailers was delivering the entire Apprenticeship exclusively in-house, including basic skills provision, key retail specific modules, and accreditation. On average, retail Apprenticeships lasted between eight to 12 months at Level 2 and between 12 and 18 months at Level 3.

5.5 The Costs and Benefits of Training

Table 5.2 shows the costs borne by employers in delivering an Apprenticeship at Level 2. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs have been standardised over a one-year period for purposes of comparison. Most of the case studies included Level 2 Apprenticeships were of 12 months duration, bar one where this was reported to take eight months. One particular characteristic of the model for the retail sector is that the productivity of apprentices is assumed to be 100 per

cent since apprentices tended to be existing employees already working to the same level of productivity compared to experienced staff.

The average overall net cost to the employer over the training period was £2,838 which increases to £2,977 once the costs of drop-out are accounted for.

Table 5.2: Employers' Costs and Benefits of Level 2 Apprenticeship in Retail

Retail, Apprenticeship, Level 2	Year 1 (Total)
Background Information	
Drop out rate (%)	5
Apprentice salary (£ p.a.)	£11,056
Salary of Fully Experienced Worker + NI (£ p.a.)	£11,795
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	100%
Supervision (per trainee)	
% of Training Manager's time spent training (in each year)	1%
% of Line Manager's time spent training (in each year)	5%
% of Supervisor's time spent training (in each year)	13%
Training Manager's Salary (£ p.a.)	£19,000
Line Manager's Salary (£ p.a.)	£19,667
Supervisor's Salary (£ p.a.)	£12,400
Total labour costs of supervision (including employer NI contributions)	£3,028
Total training costs per apprentice (£)	
Costs of recruiting the apprentice	£0
Course fees	£0
Supervision costs	£3,028
Administrative costs / Other costs	£0
Apprentice salary (including Employer NI)	£11,605
Total cost	£14,633
Total Cost / Benefit to the Employer per Apprentice	
Apprentice product	£11,795
Other income (please specify)	£0
Total benefit per apprentice	£11,795
Net cost per apprentice	**£2,838**
Net Cost including drop out	**£2,977**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 5.3 shows the costs borne by employers in delivering NVQs at Level 2. Again, the costs have been standardised over a one year period to accommodate for differences in duration (between 6 and 12 months). The average overall net cost to the employer over

the training period was £1,574 which increases to £1,652 once the costs of drop-out are accounted for. These are a little lower than the net costs of the Level 2 Apprenticeship.

Table 5.3: Employers' Costs and Benefits of Level 2 WPL

Retail, WPL Level 2	**Year 1**
Background Information	
Drop out rate (%)	5
Trainee salary (£ p.a.)	£9,130
Salary of Fully Experienced Worker + NI (£ p.a.)	£11,212
Trainee productivity (% of skilled workers tasks undertaken by trainee)	85%
Supervision (per trainee)	
% of Training Manager's time spent training (in each year)	1%
% of Line Manager's time spent training (in each year)	1%
% of Supervisor's time spent training (in each year)	2%
Training Manager's Salary (£ p.a.)	£26,000
Line Manager's Salary (£ p.a.)	£25,000
Supervisor's Salary (£ p.a.)	£15,500
Total labour costs of supervision (including employer NI contributions)	£989
Total training costs per apprentice or trainee (£)	
Costs of recruiting the apprentice	£450
Course fees	£250
Supervision costs	£989
Administrative costs / Other costs	£0
Trainee salary (including Employer NI)	£9,414
Total cost	£11,104
Total Cost / Benefit to the Employer per Trainee	
Trainee product	£9,530
Other income (please specify)	£0
Total benefit per trainee	£9,530
Net cost per apprentice	**£1,574**
Net Cost including drop out	**£1,652**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 5.4 provides an example of high and low cost of training leading to completion of a Level 2 Apprenticeship in retail. At a relatively high net cost an Apprenticeship can cost slightly above £2,000 per apprentice compared with a low cost estimate of around a little under £2,000. The difference between high and low cost Apprenticeships is therefore minimal in the retail sector, which is clearly driven by the uniformity of their duration (as opposed to larger variations in cost and duration of Apprenticeships in other sectors).

Table 5.4: Examples of Relatively High Cost and Low Cost Level 2 Apprenticeship

	High Cost	Low Cost
	Year 1 (Total)	Year 1 (Total)
Background Information		
Drop out rate (%)	11	0
Apprentice salary (£ p.a.)	£12,000	£8,667
Salary of Fully Experienced Worker + NI (£ p.a.)	£13,249	£8,887
Apprentice productivity	100%	100%
Supervision (per apprentice)		
% of Training Manager's time spent training (in each year)	N/A	N/A
% of Line Manager's time spent training (in each year)	5%	5%
% of Supervisor's time spent training (in each year)	10%	5%
Training Manager's Salary (£ p.a.)	N/A	N/A
Line Manager's Salary (£ p.a.)	£20,000	£19,333
Supervisor's Salary (£ p.a.)	£15,000	£15,333
Total labour costs of supervision (including NI)	£2,699	£1,875
Total training costs per apprentice (£)		
Costs of recruiting the apprentice	£0	£0
Course fees	£0	£0
Supervision costs	£2,699	£1,875
Apprentice salaries (including employer NI)	£12,680	£8,887
Administrative / other costs	£0	£0
Total cost	£15,379	£10,762
Total Cost / Benefit to the Employer per apprentice		
Apprentice product	£13,249	£8,887
Total benefit per apprentice	£13,249	£8,887
Net cost per apprentice	**£2,130**	**£1,875**
Net Cost including drop out	**£2,366**	**£1,875**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 5.5 provides a high and low example for the cost of training leading to completion of a Level 2 NVQ in retail. A relatively high net cost NVQ can cost around £3,400 per trainee, while the low cost estimate is just over £1,000. The differences are again a product of variation in the trainees' salary and required supervision time, and in addition, the different assumptions made with regard to the trainees productivity and to course costs met by the employer.

Table 5.5: Examples of Relatively High Cost and Low Cost Level 2 WPL

	High Cost	Low Cost
	Year 1 (Total)	Year 1 (Total)
Background Information		
Drop out rate (%)	0	10
Trainee salary (£ p.a.)	£12,500	£5,760
Salary of Fully Experienced Worker + NI (£ p.a.)	£16,663	£5,760
Trainee productivity	70%	100%
Supervision (per trainee)		
% of Training Manager's time spent training (in each	2%	1%
% of Line Manager's time spent training (in each	N/A	1%
% of Supervisor's time spent training (in each year)	2%	N/A
Training Manager's Salary (£ p.a.)	£30,000	£22,000
Line Manager's Salary (£ p.a.)	N/A	£25,000
Supervisor's Salary (£ p.a.)	£15,500	£0
Total labour costs of supervision (including NI)	£886	£515
Total training costs per apprentice or trainee (£)		
Costs of recruiting the trainee	£900	£0
Course fees	£0	£500
Supervision costs	£886	£515
Trainee salaries (including employer NI)	£13,249	£5,760
Administrative / other costs	£0	£0
Total cost	**£15,035**	**£6,775**
Total Cost / Benefit to the Employer per trainee		
Trainee product	£11,664	£5,760
Total benefit per trainee	£11,664	£5,760
Net cost per trainee	**£3,371**	**£1,015**
Net Cost including drop out	**£3,371**	**£1,117**

Source: IER / IFF Employer Net Benefit of Training Study 2011

5.6 Sensitivity to Costs and Loans

Table 5.6 provides an indicative estimate of the total cost of Apprenticeship training. In order to undertake a Level 2 Apprenticeship the total cost is the sum of the employer contribution plus the notional cost to the training provider of delivering the necessary training as part of the Apprenticeship contract. This has been calculated as the cost met by the employer from Table 5.2, plus the cost the State pays where 100 per cent of the training provider's costs are met by the State.

This indicates that the total cost of the training to Level 2 is £7,179 where the apprentice is aged 16-18 years at the start, £5,085 where they are aged 19-24 years of age, and £4,663 where they are aged over 25.

If the trainee is aged between 16 and 18 years old at the start of their Apprenticeship, the State will meet all of the training providers costs, but if the apprentice is aged 19- 24 years of age at the start the State will meet roughly 50 per cent of the cost with an expectation that the remainder will be met by the employer or the training provider, and where the apprentice is aged 24 or over at the start the costs, in future, will need to be met by some combination of the employer, or training provider, and the apprentice.

Table 5.6: Estimate of the Total Cost of Training Met by the Employer, Level 2, Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18	£2,977	£4,202	£7,179	41	59
19-24*	£2,977	£2,108	£5,085	59	41
25+ years	£2,977	£1,686	£4,663	64	36

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: * 50 % of the full funding of training

The data in Table 5.6 shows that for 16-18 year olds the employer meets 41 per cent of the total cost of training. For 19-24 year olds, the employer meets 59 per cent in part because the State meets only 50 per cent of the notional cost of the training provider's costs of delivering a Level 2 qualification. In relation to those aged 25 years or mote the employer meets 64 per cent.

If the State was meeting the full cost of the training providers' notional costs, the percentage of overall costs met by the employers for 19-24 year old, and 25 years or older, apprentices at the start of their Apprenticeships, would be similar to that for the 16–18 year old group.

Table 5.7 provides an indicative estimate of the total cost of NVQ training at Level 2. Here, the total cost of training to Level 2 is at £2,238 where trainees are aged 19-24 years of age, and £2,238 where they are aged over 25 years.

Table 5.7: Estimate of the Total Cost of Training Met by the Employer, Level 2, WPL

	(a)	(b)	(c)	(d)	(e)
Age of learner at start	**Employer Costs**	**Costs of NVQ training met by State**	**Total cost of NVQ training (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
19-24	£1,652	£586	£2,238	74	26
25+ years	£1,652	£586	£2,238	74	26

Source: IER / IFF Employer Net Benefit of Training Study 2011

When retail employers were presented with the contribution of State funding during the interview, a majority were not aware of the extent to which their training was being

subsidised. This tended to be the case with most retailers where the training provider had approached them in the first place with the offer of 'free' training and it was the provider who took care of securing the funding.

Employers were asked what scope there is for them to reduce training costs in principle; and what impact a potential reduction of State funding by 50 per cent or 100 per cent would have. The quote below illustrates how one employer articulated a range of possible implications and mitigating strategies:

"There is not much leeway to accommodate extra costs or gain efficiency savings, other than perhaps using our intranet for in-house training and doing more distance learning, which would perhaps lower the price by about 1 per cent or 2 per cent. If state funding decreases, we'd have to look for other funding in the first place, for example, through our Sector Skills Council. We'd also look to renegotiate external training costs and our College would have to significantly drop their fees. We'd also look into compressing the length of our training programmes, so as to pay employees less in total wages during training; and also possibly to reduce apprentices wages back to the minimum wage. Ultimately, though, we're likely to reduce Apprenticeship numbers."

(Retail Case Study No.3)

In all cases, retailers tended to report that there was limited scope for making additional cost savings since the training they currently arrange is already put under a lot of scrutiny in terms of getting the best value for money. One retailer, for example, reported that the internal training team had already been drastically cut in recent times, and another reported a very limited training budget of around £30,000 to fund all the training for their 1,000 staff across all their department stores.

At the same time, retailers considered a number of possible strategies to cut down the cost of training, including the following:

- some employers said they would look into ways of renegotiating costs with their training providers, or possibly revisit their current arrangements and 'shop around' with other providers for a better deal;

- some would consider compressing the length of their training programmes to save costs, but this was not felt to be appropriate by other retailers, who were concerned about how shorter training would affect its quality and put more pressure on their staff;

- reducing the wages of trainees was another option put forward by a number of retailers, but some retailers were already paying a reduced salary to staff who were on a training programme. And there is limited scope to achieve significant savings by way of reducing wages, since many employees are already being paid at or just above the minimum wage.

In summary, when prompted to comment on the potential 50 / 100 per cent reduction of funding scenarios there was a tendency for retailers to assume a partial or complete withdrawal from externally accredited training provision in the form of NVQs or Apprenticeships. This would entail a reduction of training places offered across the board, starting with cancelling training for those age groups where less funding becomes

available in the first place. Any cancelled external training would then be replaced by alternative forms of in-house training, where possible.

"The only option would be to shift to sustainable models of unaccredited in-house training. Training would have to be evidenced by internal certification, workbooks and portfolio achievement, essentially replicating an NVQ but without an external accreditation at the end of it."

(Retail Case Study No.8)

In this context it is worth exploring indications of the levels of potential deadweight in the retail sector. As observed, retail employers valued accredited training as a means to develop skills, but above all they tended to use it as a recruitment and retention tool. Most tended to regard accredited training as a 'free' good organised for them by their training provider. Even though this training tends to be relatively short in duration and not as expensive as training in other sectors, most retailers would be reluctant to accommodate the extra costs resulting from any reduction of State funding. Instead, they would, in all likelihood, reduce the number of people trained, or withdraw from accredited training altogether and replace it with more of their existing in-house training programmes. It appears to be the case that a reasonable proportion of the State funded NVQ and Apprenticeship training is considered as a welcome addition or extension of the training that retail employers could also be offering themselves, rather than something for which there would be no alternatives (as is the case with vocational training programmes in the engineering or construction sectors, which are heavily structured and often have to abide by strict legal requirements to prepare trainees for the workplace). This was summarised by one retailer thus:

"The thing with all this is that the business isn't going to fall apart if we stopped doing Apprenticeships or NVQs. It's not that the people are short of skills beforehand. It helps productivity, yes, but it is as much about the culture, aiding the individuals and their confidence, etc. There are a lot of people in who go into retail with no qualifications, so they don't necessarily need a qualification, since they have all been working here before without it, but it does increase their confidence. We survived perfectly well before. We'd concentrate on our own trainee manager programme instead."

(Retail Case Study No.4)

5.7 Further Education Training Loans

FE loans would only apply to those aged 24 or over at the start of their training for a Level 3 qualification. This would not apply to the employers who took part in the study, since they trained almost exclusively at Level 2. But they gave their views generally on the idea of FE loans.

Employers generally rejected the idea of shifting some of the costs by way of trainees taking out an FE loan to pay for their training – the idea being similar to the recent changes to the higher education system whereby a loans organisation would provide a loan to learners who would only have to start paying it back once they had completed the training programme and were paid around £21,000 a year.

There was one retail employer who felt that this could, potentially, be appropriate, but only for older groups of employees who would see the value of training more and consider contributing towards some of the costs. Two other employers gave the idea of charging trainees for some of the costs of training – possibly a small charge for examinations which might help increase learner commitment – but they too quickly abandoned this as an unrealistic option.

Apart from these exceptions, there was near universal agreement that providing learners with a loan would not be a desirable or even a viable option. In support of this view employers highlighted the fact that many staff were already being quite poorly paid, so asking them to absorb any additional expenses towards their training would simply not be affordable for many, or would be met with considerable resistance.

"The idea of loans, I think, in retail it is very hard. The pay is so low. I can't see it working."

(Retail Case Study No.4)

The scepticism about using FE loans to cover the cost of training was also grounded in the perception that learners would not buy in to this idea since a qualification in the retail sector would not guarantee future career or salary progression in the same way as it may in other sectors.

"Introducing loans in the retail sector is more difficult, because the qualification you are going to get is not going to get you a very highly paid job. Whereas in other sectors are more business oriented, such as solicitors, the finance industry, accountants; so an accountancy course could get you into a good accountant clerk position."

(Retail Case Study No.3)

Employers also feared that a loan system would seriously undermine the appeal of their current training programme to current and potential future employees. One of the key features of the training arranged by retailers is that it is positioned as being open for everybody and 'free'. If a loan were to be attached to future training opportunities, then the benefits of using training as a recruitment and retention tool would diminish.

5.8 Conclusion

Generally, in retailing, employers often offered Apprenticeships and other forms of WPL to existing staff rather recruiting young people straight into training. The retail case studies show that the net costs encountered by employers delivering accredited WPL tended to be substantially lower compared with some of the other sectors covered by the study. There were also much less variation between the net costs of arranging different qualifications, as the comparison of the costs associated with different NVQ and Apprenticeship programmes show.

Retail employers tended to be unaware of the current levels of State funding. Overall, they were reluctant to defray additional costs for training to make up for any reduction in State funding. While some considered a number of options to accommodate such a reduction, for most the only option would be to reduce or cancel their engagement with accredited training altogether. This would then have to be replaced by informal in-house training organised and funded by employers themselves.

6. Hospitality Sector

6.1 Introduction

This chapter describes the costs and benefits of Apprenticeship and workplace based training (WPL) in the hospitality sector. The sector is a diverse one, including restaurants, hospitality services, pubs; bars and nightclubs, hotels, food and service management, holiday centres, self-catering accommodation and hostels, although the case studies covered here tend to be hotels, restaurants and public houses.

It is important to put workplace training in hospitality into a sector context. The sector has grown significantly over the past two decades and employs over 1.6 million people. The composition of employment in the sector has been changing with the number of restaurant, food and service management establishments increasing whilst the number of pubs, bars and nightclubs and hotels decreased. The sector is dominated by small businesses (99 per cent of businesses employ less than 250 people) although large chain and even international businesses are present in areas such as hotels and restaurants.

The hospitality sector suffers from the highest rate of labour turnover of all sectors in the UK economy and this is a reflection of the relatively low wages, unsociable hours and working conditions that exist in many hospitality establishments. This results in constant need to replace leavers and high levels of skills gaps. One recent response to this high labour turnover has been to recruit workers from overseas, especially from Eastern Europe, who are prepared to accept the working conditions on offer and bring skills with them. That said, there is a long-tradition in the sector of people from Europe, especially Germany and France, coming to the UK to gain experience of working in English before returning home.[21] An alternative response has been to offer training as a means to increase loyalty to the business and reduce labour turnover. The high labour turnover within hospitality businesses also offers opportunities for competent staff to be promoted quickly and increase their pay accordingly.

While there is variation across the case studies that follow, there is a common theme that training (whether an NVQ or an Apprenticeship) is something that is offered to employees (new or existing) in order to promote or reward loyalty, provide a source of future supervisors and managers and, by those means, to reduce employee turnover. There is, however, a tension between the offer of training, on the one hand, and retention on the other. Some managers in the case study establishments were convinced that the training offer had reduced turnover and therefore was a good investment. In contrast, at least two employers said they were reluctant to invest in training because their high staff turnover meant that they had insufficient time to recoup their investment in training.

The 10 case studies are summarised below (see Table 6.1.) All of the cases claimed to have a past record of offering training to their staff, although the actual form of such a previous training offer varied somewhat. Now, they offered either Apprenticeships or NVQs leading to a Level 2 qualification, although in some instances a Level 3 was a future

[21] Hogarth, T. *et al.* (2004) *Exploring Local Areas Skills and Unemployment: Synthesis Report*, Department for Education and Skills Research Report.

possibility for the business or the individual. Whether they offered an Apprenticeship or workplace NVQ training seems to be partly a reflection of past practice and connections with training providers, and partly, a reflection of the specific occupation and needs of the business.

The case studies are, for the most part, concerned with Apprenticeships and NVQs in kitchen skills (chefs), and customer service or reception skills, though other areas of training were being undertaken, especially within the establishments that were part of a larger business group. Establishments that formed part of a larger business group also undertook training that was outside of the NVQ or Apprenticeship system and was purely internal to the organisation.

Table 6.1: Case Study Employers

Case Study	Apprenticeship or Workplace Learning (WBP)	Level	Description
Hospitality Case Study No.1	WPL	Level 2	A café and cake shop in a tourist location
Hospitality Case Study No.2	WPL	Level 2	A luxury hotel and spa, part of an international hotel and leisure group
Hospitality Case Study No.3	WPL	Level 2	A large hotel, part of a small UK-based hotel group
Hospitality Case Study No.4	WPL	Level 2	A large public house and restaurant, part of a chain of public houses
		Level 3	
Hospitality Case Study No.5	WPL	Level 2	Family owned city-centre cafe
Hospitality Case Study No.6	Apprenticeship	Level 2	A large hotel, part of a private, family run hospitality group
Hospitality Case Study No.7	Apprenticeship	Level 2	A large hotel, part of an international hotel group
Hospitality Case Study No.8	Apprenticeship	Level 2	Fast food restaurant, part of an international chain
Hospitality Case Study No.9	Apprenticeship	Level 2	A large hotel attached to a golf course and spa
Hospitality Case Study No.10	WPL	Level 3	Privately owned public house

Source: IER / IFF: The Employer Net Benefit of Training Study 2011

6.2 The Training Decision

While all establishments had some history of employee training, there was something of a distinction as to how that had come about. Small businesses tended to train on an ad hoc basis according to what the needs of the business were at the time. This could be contrasted with establishments that were part of a larger business group where a strategic group decision had been taken to encourage training, often in the interest of maintaining service quality as well as promoting the business 'brand'. This strategic commitment commonly manifested itself in the form of encouragement to businesses within the group

to offer training, provision of common group frameworks and training materials and engagement with the learning and training system. One case study felt they had a partnership relationship with the Skills Funding Agency with which they had contracted directly to provide a large number of Apprenticeships. The same organisation had set up a separate company to promote Apprenticeships within its establishments, this being a particular issue as many of these establishments were franchised and the franchise holders were not always enthusiastic about staff development but needed to be supported.

Regardless of whether there was a strategic decision to train or not, decision making was generally highly decentralised and it was left to departmental heads within individual establishments to determine their own training needs. Decisions by departmental heads (such as the Head Chef or Head of Reception) seldom appeared to require authorisation above that of a more senior line manager within the same establishment. A number of case study establishments had a manager responsible for training but that role often did not involve decisions about who to train in what, or at what level, but they were primarily concerned with the administration of training (liaison with training providers and assessors, funding issues, etc.) within the establishment. One factor permitting such decentralisation was that training of 16-24 year olds imposed little or no direct financial cost on employers. Only in the case of training people aged 25 years and over (where there was a direct financial cost to the business) did it appear necessary to refer decisions upward to group headquarters.

While the headquarters of larger business groups encouraged their constituent businesses to undertake training, in small businesses or single establishments such encouragement generally came from local training providers. Several employers said they had decided to provide an Apprenticeship or other training leading to an NVQ after being approached by a training provider. Many reported contacts from several different training providers offering to provide training for their employees. Some providers appeared to put considerable resources into pitching for work, being prepared to visit an establishment and make presentations, although others relied on telephone cold-calling. Several respondents said they only now, after being made aware of the level of state funding for training, understood why they had received so many contacts from providers.

The training decision in hospitality case study establishments tended to be driven by immediate business needs within the organisation and facilitated by the decentralised nature of decision making. Employers reported that they had provided training in order to:

- meet an existing skill shortage (especially so in regard to chefs);
- to encourage and motivate existing staff;
- to prepare staff for progression to supervisory roles within the establishment;
- to accredit existing skills;
- to reduce staff turnover.

Skill shortage was most likely to be cited in connection with chefs (although in one instance it was to accredit existing skills where a chef had experience but no qualifications). In the case of chefs, most employers recruited young people on the

external market, often school leavers, for an Apprenticeship. In most other cases, training was provided to existing employees to meet specific gaps in experience or knowledge, to 'quality assure' staff in areas such as customer service, or even to provide a form of benefit to employees as a reward and to encourage loyalty to the business. Training employees in the way that the particular business did things was a common theme in training decisions. Above all, there was a fairly common view that training was an important means to reduce staff turnover, although some employers felt that staff turnover was so high amongst new recruits that training should be restricted to those employees who had stayed for a minimum period of time with the organisation, such as six months, otherwise the investment in training would not be recovered.

As indicated earlier, the case studies covered employers offering both Apprenticeships and non-Apprenticeship training leading to an NVQ. In most instances it was not apparent why one type of training rather than another was adopted, although there was some evidence of inertia, that is, employers offered what they had tended to offer in the past. Training providers appeared to play a key role in a number of instances with employers following the recommendations of the provider rather than undertaking an assessment of the form of training that was best suited to their needs. In part this reflects some employers' lack of knowledge of the training system, but there was also evidence that employers were becoming better informed both about the training options open to them and to the competitiveness of different providers. There were several examples of employers changing training provider where it was felt that the new provider was better able to provide training that met the needs of the business.

One key factor affecting the training decision was whether or not it could be delivered in-house or required periods of training outside the workplace. Case study employers were attracted to training that could be undertaken in-house with training providers coming to the establishment rather than requiring employees to take time out from the workplace at college or training centre. Where training required attendance at college this was usually on a day release basis and, in at least one instance, the employer did not pay staff for time spent at college (i.e. the employee was meeting some of the costs of training through foregone wages).

6.3 Recruitment and Retention

The relatively informal and flexible nature of the training decision is mirrored in the recruitment practices of the sector. Only one case study employer mentioned specific qualifications (five 'good' GCSEs) as being required by recruits and even they qualified that by saying that attitude, motivation and a willingness to work long and often anti-social hours were equally important. Attitudes and motivation were the key qualities sought by the other case study employers, most of whom did not even require previous experience but just an interest in the hospitality sector. Some employers offered employment on a trial basis with the option for the recruit to 'walk away' if they felt the work was not suited to them.

In any case, employers in this sector rarely recruited people to a specific training place but offered training to existing employees who had proved to be hard working and had the potential to learn. In effect, employers were requiring a trial period to be completed before committing to training an employee. The length of time varied with examples of just a few weeks before the training offer was made to several years. Even the large restaurant chain that had offered large numbers of Apprenticeships since launching its Apprenticeship programme had restricted Apprenticeships to existing employees, though it

was reported that this would change in the future and people would be recruited specifically to an Apprenticeship. The exception to this was apprentice chefs where employers advertised and recruited to a specific training place. Such recruits tended to be young and were often school leavers, although one employer said that recruits needed to be at least 18 years old for kitchen work because of the sharp tools and other risks associated with kitchen work.

The nature of recruitment and subsequent entry to training meant that staff could be of any age since they were drawn from existing employees. As the hospitality workforce tends to be fairly young (one employer estimated that the average in their hotel was 22 years of age) this meant that those undertaking training also tended to be young but trainees aged 25 years or above were not uncommon. One employer estimated that while half of its trainees were 18 years or under, as many as one in eight were aged 25 year or above.

All case study establishments mentioned recruitment problems and high staff turnover rates. One employer indicated that annual staff turnover had been around 40 per cent, while another estimated that the average length of service was around 14 months and just eight to ten months in the hotel kitchen. Employers reported that high labour turnover, was, in fact, related to relatively low wage rates; most employers indicated that they paid little over the National Minimum Wage. Several establishments, typically luxury hotels and spas, were located in rural areas with poor public transport links. Those poor links combined with the working hours required of staff often meant that access to a car and holding a driving license were essential, posing a further restriction on recruitment.

It is worth noting that one employer who had three staff training towards an NVQ had considered taking on an apprentice but had been unable to recruit one (there had been no applicants). This inability to recruit was attributed to a lack of understanding of Apprenticeships by young people, the relative attractiveness of studying for an NVQ while earning a full wage rather than an Apprenticeship at a lower trainee wage, and the socio-economic composition of the area such that local young people felt that work in a café/restaurant was beneath them.

Low wages and long hours (including split shifts and evening and weekend work) together were factors leading to recruitment difficulties. Such recruitment difficulties were not always manifest in terms of quantity but in terms of the quality of applicants who were sometimes perceived as lacking the right attitudes and motivation. Perhaps for that reason, many of the case study establishments had a significant proportion of foreign workers amongst their workforce, with Portuguese and Polish ones being especially prominent. Many of these employees had skills and qualifications from their home country although these were not always recognised in the UK.

All the case study employers regarded training – both Apprenticeship and NVQ training – as a means to reduce staff turnover. Some saw it in terms of ‘growing’ employees with the right qualities; qualities that they seemed unable to recruit from the external job market. Others saw training as a means to reward existing employees, to motivate them and to encourage them to stay with the business because it opened up the prospect of promotion to supervisory and managerial positions. A number of employers reported that staff turnover had fallen significantly since they had introduced Apprenticeships or offered NVQ training with one estimating that their 90-day turnover had fallen from 20 per cent to just 5 per cent. A belief that training reduced turnover was a strong incentive for employers, as a lower labour turnover rate meant a lower risk of losing the training investment made in the

employee. Senior management, however, needed to be convinced that this was so, and at least one employer was unwilling to train kitchen staff because staff turnover was too high to allow the costs of any training to be recouped. Some employers limited the training offer to employees who had been with the business for at least six months.

6.4 The Structure of Training

Training in the hospitality case studies covered a range of area including:

- kitchen skills;
- food and beverages;
- customer service; and
- fitness and beauty.

Of these kitchen skills (commis chef) and customer service were the most common although this may be a function of the particular businesses forming the case studies.

In general training normally led to an NVQ at Level 2. There were examples of opportunities to progress to Level 3 if the employee demonstrated the capability to do so but these were the exception. There was one example of someone training towards a Level 3 in the case studies. The duration of training, both for WPL and Apprenticeship appeared to be very much driven by the capabilities of the employee and there was considerable variation in the time expected to complete training. Some Level 2 training was expected to be completed in just six months (front of house customer service), and Level 2 kitchen skills commonly required 12 months. There were, however, examples where Level 2 training was expected to take far longer. The time taken to complete was often said to depend on the ability of the trainee to progress. One employer said that their Level 2 Apprenticeship could be completed in anything between six months and two years with an average of 11 months being taken in practice. The time taken also depended on the employment status of the employee with those in full-time jobs taking, on average, eight months and those in part-time jobs taking 12 months.

The training of chefs was the most structured and workplace based of all the hospitality training. Most apprentice chefs worked with a mentor, usually the Second Chef or Head Chef, and undertook a range of tasks under supervision. It was usual for apprentice chefs to be rotated around the different sections of the kitchen covering different functions such a pastry, banqueting, and so on. One large hotel that was part of an international hotel group had arranged for its apprentices to work in the kitchens of other hotels in the chain in order to broaden their experience. It was often the case that the training involved day release to a college but this was by no means universal practice.

Other forms of training were much less formal. Only a minority of those undertaking training received any formal training outside of the workplace at a college or training centre. Commonly the formal element to the NVQ or Apprenticeship took the form of structured learning activities involving e-learning, use of self-learning training material (video and training manuals), the undertaking of projects, and portfolio assembly. Notably, much of the latter learning activities were expected to be undertaken in the employees own time.

Given the nature of the training delivered, it is to be expected that assessment was normally by means of examination of portfolios and observation by assessors.

6.5 The Costs and Benefits of Training

Table 6.2 shows the comparable costs and benefits of delivering an Apprenticeship at Level 2 in the hospitality sector while Table 6.3 shows the costs and benefits for employers in delivering a workplace based NVQ at Level 2.

The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the value of the productive capacity of the trainee over the training period (estimated as the percentage of a fully experienced worker's tasks that a trainee could undertake multiplied by the wage of the fully experienced worker) and subtracting that value from the supervisory and other costs which the employer needs to meet in delivering training. The model is based on capturing those costs and benefits that can be readily identified in the workplace.

The general picture to emerge from Tables 6.2 and 6.3 is that both Apprenticeships and WPL in the hospitality sector are relatively low cost compared with the costs in other sectors, although Apprenticeship training is more costly than WPL. In the case study businesses, the net cost of WPL training was just under £2,000. This low cost arises from the fact that trainees were normally existing employees whose productive value to the business was high (in proportionate terms) because they were already experienced at doing their job, who often undertook learning activities in their own (and not work) time, and who required only modest supervision. Apprenticeships (mainly in kitchen skills and training of chefs) were, in contrast, more expensive because apprentices were normally new recruits who were less productive over the training period (both because they took time out of the workplace and because they were learning new skills) and because they required much greater supervision. Employers, however, offset some of these costs by paying low wages to apprentices (or, in at least one case did not pay for time spent at college). The average cost of an apprentice in the hospitality sector was just over £5,000 per apprentice. Some employers paid course fees to training providers but these were modest in the case of WPL (an average of £195) and negligible in the case of Apprenticeships (£5).

Tables 6.2 and 6.3 below provide average net costs of training leading to completion of a Level 2 WPL NVQ or Apprenticeship in the hospitality sector, but such averages can disguise differences in training costs across case study businesses. Table 6.4 and Table 6.5, below, set out the net costs of training for examples of employers which provided relatively high and low cost training. With regard to WPL, the net costs ranged from just under £4,000 to a negligible £37. The difference results from two related factors. In the high cost case, the trainees were not fully productive during the training period because they were out of the workplace for one day a week (making their productive contribution 80 per cent). In addition the trainees required, either directly or indirectly, more support time from their supervisors and managers. In the low cost case the trainee was 100 per cent productive during the training period and was said to require little supervision.

In the case of apprentices, a relatively high cost Apprenticeship was around £8,000 and a relatively low cost one around £3,500. A key factor contributing to this difference was apprentice salaries. In the high cost example the productivity of the apprentice was

relatively low reflecting the amount of training which was taking place when the apprentice was not productive.

Table 6.2: Employers' Costs and Benefits of Level 2 Apprenticeship in Hospitality

Hospitality, Apprenticeship, Level 2	Year 1	Total
Background Information		
Drop out rate (%)	20	20
Apprentice salary (£ p.a.)	£8,685	£8,685
Salary of Fully Experienced Worker + NI (£ p.a.)	£15,540	£15,540
Apprentice productivity (% of skilled workers tasks)	58%	58%
Supervision (per apprentice)		
% of Training Manager's time spent training (in each year)	3%	3%
% of Line Manager's time spent training (in each year)	2%	2%
% of Supervisor's time spent training (in each year)	13%	13%
Training Manager's Salary (£ p.a.)	£27,000	£27,000
Line Manager's Salary (£ p.a.)	£30,000	£30,000
Supervisor's Salary (£ p.a.)	£23,366	£23,366
Total labour costs of supervision (including employer NI contributions)	£4,672	£4,672
Total training costs per apprentice (£)		
Costs of recruiting the apprentice	£38	£38
Course fees	£5	£5
Supervision costs	£4,672	£4,672
Administrative costs / Other costs	£10	£10
Apprentice salary (including Employer NI)	£8,907	£8,907
Total cost	£13,632	£13,632
Total Cost / Benefit to the Employer per apprentice		
Apprentice product	£9,033	£9,033
Other income (please specify)	£396	£396
Total benefit per apprentice	£9,428	£9,428
Net cost per apprentice	**£4,204**	**£4,204**
Net Cost including drop out	**£5,045**	**£5,045**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 6.3: Employers' Costs and Benefits of Level 2 WPL in Hospitality

Hospitality, WPL, Level 2	Year 1	Total
Background Information		
Drop out rate (%)	0	0
Trainee salary (£ p.a.)	£9,928	£9,928
Salary of Fully Experienced Worker + NI (£ p.a.)	£11,110	£11,110
Trainee productivity (% of skilled workers tasks undertaken by trainee)	92%	92%
Supervision (per trainee)		
% of Training Manager's time spent training (in each year)	2%	2%
% of Line Manager's time spent training (in each year)	0%	0%
% of Supervisor's time spent training (in each year)	5%	5%
Training Manager's Salary (£ p.a.)	£32,800	£32,800
Line Manager's Salary (£ p.a.)	£18,000	£18,000
Supervisor's Salary (£ p.a.)	£18,688	£18,688
Total labour costs of supervision (including employer NI contributions)	£1,631	£1,631
Total training costs per trainee (£)		
Costs of recruiting the trainee	£0	£0
Course fees	£195	£195
Supervision costs	£1,631	£1,631
Administrative costs / Other costs	£0	£0
Trainee salary (including Employer NI)	£10,323	£10,323
Total cost	£12,149	£12,149
Total Cost / Benefit to the Employer per trainee		
Trainee product	£10,193	£10,193
Other income (please specify)	£0	£0
Total benefit per trainee	£10,193	£10,193
Net cost per trainee	**£1,956**	**£1,956**
Net Cost including drop out	**£1,956**	**£1,956**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 6.4: Examples of Relatively High Cost and Low Cost Level 2 Apprenticeship in Hospitality

	Relatively high total cost		Relatively low total cost		
	Year 1	**Total**	**Year 1**	**Year 1.5**	**Total**
Background Information					
Drop out rate (%)	0%		0%	0%	
Apprentice salary (£ p.a.)	£11,101		£5,365	£2,860	
Salary of Fully Experienced Worker + NI (£ p.a.)	£15,593		£20,327	£9,676	
Apprentice productivity	48%		45%	88%	
Supervision (per apprentice)					
% of Training Manager's time spent training (in each year)	3%		5%	3%	
% of Line Manager's time spent training (in each year)	N/A		N/A	N/A	
% of Supervisor's time spent training (in each year)	10%		30%	15%	
Training Manager's Salary (£ p.a.)	£33,000		£28,000	£28,000	
Line Manager's Salary (£ p.a.)	N/A		N/A	N/A	
Supervisor's Salary (£ p.a.)	£22,464		£22,000	£22,000	
Total labour costs of supervision (including NI)	£3,373	£3,373	£8,762	£4,004	£12,766
Total training costs per apprentice (£)					
Costs of recruiting the apprentice	£0		£150	£0	£150
Course fees	£20		£0	£0	£0
Supervision costs	£3,373		£8,762	£4,004	£12,766
Apprentice salaries (including employer NI)	£11,657		£5,365	£2,860	£8,225
Total cost	£15,050	£15,050	£14,277	£6,864	£21,141
Total Cost / Benefit to the Employer per apprentice					
Apprentice product	£6,916	£6,916	£9,147	£8,515	£17,662
Total benefit per apprentice	£6,916	£6,916	£9,147	£8,515	£17,662
Net cost per apprentice	**£8,134**	**£8,134**	**£5,130**	**-£1,651**	**£3,479**
Net Cost including drop out	**£8,134**	**£8,134**	**£5,130**	**-£1,651**	**£3,479**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 6.5: Examples of Relatively High Cost and Low Cost Level 2 WPL in Hospitality

	Relatively high total cost	Relatively low total cost
Background Information		
Drop out rate (%)	0%	0%
Trainee salary (£ p.a.)	£10,816	£12,480
Salary of Fully Experienced Worker + NI (£ p.a.)	£11,333	£13,226
Trainee productivity	80%	100%
Supervision (per trainee)		
% of Training Manager's time spent training (in each year)	N/A	0.08%
% of Line Manager's time spent training (in each year)	0.01%	N/A
% of Supervisor's time spent training (in each year)	5%	N/A
Training Manager's Salary (£ p.a.)	N/A	£41,600
Line Manager's Salary (£ p.a.)	£18,000	N/A
Supervisor's Salary (£ p.a.)	£30,000	N/A
Total labour costs of supervision (including NI)	£1,660	£37
Total training costs per trainee (£)		
Costs of recruiting the trainee	£0	£0
Course fees	£0	£0
Supervision costs	£1,660	£37
Trainee salaries (including employer NI)	£11,333	£13,226
Total cost	£12,993	£13,263
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£9,066	£13,226
Total benefit per trainee	£9,066	£13,226
Net cost per trainee	**£3,927**	**£37**
Net Cost including drop out	**£3,927**	**£37**

Source: IER / IFF Employer Net Benefit of Training Study 2011

6.6 Sensitivity to Costs and Loans

Tables 6.6 and 6.7 provide estimates of the total cost of Apprenticeship and with WPL training respectively. In order to undertake WPL or Apprenticeship at Level 2, the total cost is the sum of the employer contribution plus the notional funding paid to the training provider to deliver the necessary training for the NVQ or Apprenticeship. This has been calculated as the cost met by the employer from Table 6.4 or Table 6.5, plus the State funding for training at Level 2 in the hospitality sector where 100 per cent of the training provider's costs are met by the State. The State funding element of this calculation varies according to the age of the trainee when they commence their training. If the trainee is aged between 16 and 18 years old at the start of their training the State will meet all of the training providers costs, but if the trainee is aged 19- 24 years of age at the start then the State will meet around 50 per cent of the cost with an expectation that the remainder will

be met by the employer or the training provider, and where the apprentice is aged 24 years or over at the start the costs, in future, will need to be met by the employer and / or training provider.

Table 6.6: Estimate of the Total Cost of Training, Level 2, Apprenticeship, Hospitality

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£5,045	£6,397 (Level 2)	£11,442	44	56
19-24 years	£5,045	£3,135 (Level 2)	£8,180	62	38
25+ years	£5,045	£2,508 (Level 2)	£7,553	67	33

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 6.7: Estimate of the Total Cost of Training, Level 2, WPL, Hospitality

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
19-24 years	£1,956	£586	£2,542	77	23
25+ years	£1,956	£586	£2,542	77	23

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 6.6 indicates that the total cost of training an apprentice is £11,442 where they are aged 16-18 years at the start of training, £8,180 if they are aged 19-24 years and £7,553 where the trainee is aged 25 years or over. The reduced level of state funding for Apprenticeships means that the proportion of the cost borne by employers increases from 44 per cent for 16-18 year olds, to 62 per cent for 19-14 year olds, and to 67 per cent for apprentices aged 25 years or above.

Table 6.7 indicates that the total cost of the training for WPL to Level 2 is £2,542 for both 19-24 year olds and trainees 25 years or over, with employers bearing 77 per cent of that total cost.

It should be noted that the total percentage of training costs met by the employer in Tables 6.6 and 6.7 are based on average situations. Employers were often unaware of the total cost of training (i.e. the sum of the training provider and employment elements), though there was often an implicit recognition that the training provider was bearing some of the cost. There was no general sense of surprise at the share of the costs borne by the employer. Where employers were presented with an estimate of the total costs of training and the extent to which they were meeting those costs there was a degree of uncertainty about how they would react if they were required to meet more of the cost currently met by the State.

From the responses received a number of conclusions can be drawn.

- The low level of costs of training in the sector, a tendency to consider only costs resulting in a monetary payment (ignoring internal staff costs) and the general lack of awareness of the extent of State funding of training (since they paid little or no course, assessment or other fees to training providers), meant that employers had little appreciation of the total cost of training.

- Many employers expressed surprise at the scale of funding potentially available to training providers Several indicated that should State funding be reduced in the future and training providers seek to recoup revenue by introducing fees for training, they would request their training provider to absorb some of the costs. If increased fees were unavoidable, then the employer would 'shop around' to find providers who could offer the most competitive cost for providing training.

- Passing on increased training costs to employees/trainees, for instance by asking them to pay course or assessment fees, was considered feasible but undesirable. In the first place, employees tended to regard it as the employers duty to provide the specific training they needed. Second, many employees were on low wages and would find it difficult to afford to pay such fees. In practise, since most employees earned less than £21,000 a year and nearly all training was at Level 2, there would be no requirement for their employees to take out FE loans.

- Employers in hospitality were reluctant to pass on the training costs to trainees through lowering wages. This was for two main reasons. First, many WPL trainees and some apprentices were existing employees and the training was regarded as a means of reducing employee turnover. Reducing wages during training was seen as inconsistent with this aim and a disincentive to remain with the same employer. Second, where young people were recruited to Apprenticeships their wages were low already, (often at the minimum rate for apprentices.) In some instances they were paid a low 'trainee' wage (and were thus already bearing some of the costs of their training) but even where apprentices were paid a standard wage for their job, that wage was already relatively low, often at or close to the level of the National Minimum Wage, so that the scope for wage reduction was limited.

- Many employers in the hospitality sector are small establishments and operate on small profit margins. Any increase in training costs was felt to be a deterrent to training for such businesses. Larger establishments or those that were part of a larger group were less likely to regard a small increase in external training costs in such a way. Indeed, most employers indicated that they would be prepared to absorb a "small" increase in training costs, although "small" appeared to be something in the region of £200-300 whereas a larger increase of, say, £1,000 was thought out of the question. Even larger organisations would consider reducing the number of training places. As one employer said in regard to Apprenticeships:

"We pay £300 to train 25 plus employees. If we had to pay £450 I think this would have a big impact. Head office would definitely want more structure in place we would have to decide who it was right for. Same if we had to pay for under 25s. Across 21 hotels costs of a few hundred pounds can really mount up".

(Hospitality Case study No.3)

- At least one case study employer said that if external training costs were to increase they would stop training and simply recruit employees from the external market even though they would be less suited to their business needs and would probably spend less time with the business to the detriment of the quality of service provision:

"…. someone is always willing to work"

(Hospitality Case study No.10)

- Responses to the prospect of an increase in external training costs varied. They included:
    - ceasing to support training for their employees;
    - try to shorten the duration of the training period; and
    - seek to increase the productivity of the trainee during training.

While these responses were mentioned by several employers, many were sceptical about the possibility of actually achieving them. As one employer put it:

"the modules within the training are quite relevant, so no scope there [to shorten duration or increase productivity]. They are cut as fine as they can be"

(Hospitality Case study No.10)

    - bring training entirely in-house (avoiding external training costs). Many case study businesses had a history of providing some form of in-house training, although this generally did not lead to any form of qualification. Reverting to some form of in-house training was seen as a likely alternative by many employers.

As the above summary illustrates there were no clear views as to whether the extra costs employers might be expected to bear in the future would have a major impact on training activities. The general impression was that in the first instance, employers would see what scope there was for passing the costs on to the training provider or, if costs increases were small, be prepared for the business to absorb them. Nonetheless, there was some recognition that increasing the contribution that the employer may have to make towards training costs might well affect the number of trainees or apprentices and, in the case of small employers, smaller numbers could well mean none at all.

6.7 Further Education Training Loans

Employers were asked to respond to how they would react to their apprentices needing to take out an FE loan to cover the costs of training. It was explained to employers that such loans would likely be along the lines of the current higher education system with a loan being provided to the trainee or apprentice from a loans organisation and then paid back over a number of years after completing the training, once a threshold wage of £21,000 a year had been reached.

Even though the FE loans scheme is only meant to apply to those aged 24 or over at the start of their Level 3 training, and therefore did not affect the actual training provided by the hospitality case study workplaces, employers provided their general views on the idea of an FE loans system. Accordingly, they were not responding directly to the proposed policy changes.

Responses to the FE loan issue were divided. Some employers simply felt that it was the employer's responsibility to provide training and the idea of passing training costs on to employees, even if funded through FE loans, was unacceptable. Other employers were more pragmatic and felt that some trainees might be prepared to take out a loan to invest in their training, but also felt that other employees would not be so inclined and thus discouraged from training. Some employers thought that loans might work for older apprentices who recognised the need to make an investment in their training and for whom the increase in costs might otherwise increase beyond what the employer could bear. Nonetheless, there were still concerns that, even with a loan scheme, high quality recruits might be discouraged and the results would be inequitable.

"If I'm 22 and doing an Apprenticeship and have not gone to college and not got any qualifications… There's probably a reason. They need support to achieve it and a loan is unlikely to be the right direction in encouraging this"

(Hospitality Case study No.8)

For many employers training was a vital device to encourage staff retention and many were of the view that charging for training, even if funded by a loan scheme, would make recruitment even harder than it currently was and would be a disincentive to remain with the business:

"They would not have as much loyalty to you if they had to pay for some of the training"

(Hospitality Case study N0.10)

A further concern was that making trainees bear some of the costs of training would result in upward pressure on wages in order to encourage recruitment or to pay back loans.

6.8 Conclusion

The study reveals that the cost of training to Level 2 in the hospitality sector is comparatively low when compared with other sectors. While there is variation across case study employers, such variation is limited and can often be explained by differences in the degree of supervision required of trainees or the level of productivity of trainees during the

training period. There is a significant difference between the drive for Apprenticeship training, which tends to be in areas such as kitchen skills, and WPL which covers a range of activities, most commonly customer service. In the case of Apprenticeship, the decision to take the Apprenticeship route is often driven by the need to address a skill shortage and to recruit young people who can be developed into the kind of employees that the business requires. WPL on the other hand is commonly offered to existing employees (often of any age), partly to improve service quality but also to increase employee loyalty and to reduce staff turnover. This division was reflected in the current costs of training, with WPL entailing a much lower cost to the employer than the Apprenticeship.

When asked how they would react if expected to meet a larger share of the cost of training currently met by the State, employers in the hospitality sector recognised that there were a number of ways in which those costs could be defrayed – such as persuading providers to absorb some of the extra cost, passing on the cost to trainees, modifying the duration or content of the training or, ultimately, of absorbing the additional costs themselves. There was, however, considerable scepticism as to how much scope there was for such adjustment, with formal training currently reduced to a minimum. This suggests that employers in this sector are sensitive to external training costs and whilst many would continue to train their workforce, others would not. Those training through Apprenticeships to meet skill needs would probably be obliged to continue, possibly at a lower volume of training, while those employers training as a means to reduce their staff turnover might decide that the balance of cost had shifted to a point where it was cheaper to bear the cost of frequent recruiting – by adapting some other means of improving staff retention - rather than training for retention.

7. Transport and Logistics Sector

7.1 Introduction

In England, 1.35 million people are employed in the logistics sector and 1.94 million work in logistics occupations across all sectors (including logistics). Compared with the workforce across all sectors in England, logistics is dominated by male employment (76 per cent of the labour force is male in logistics; 54 per cent in all sectors). Less than 1 per cent of Large Goods Vehicle (LGV) drivers are women. The proportion of the workforce in the logistics sectors with less than NVQ Level 2 qualifications is nearly 50 per cent compared with less than 30 per cent across all sectors. For LGV drivers, the level of qualifications is lower with 65 per cent having less than a NVQ Level 2. Around 34 per cent of workers in the logistics sector are qualified to above NVQ Level 2 while across all sectors more than half (55 per cent) of workers have more than a NVQ Level 2 qualification.[22]

The overall provision of training in the logistics sector is relatively low. In the sector, 42 per cent of individuals received training in the previous 12 months compared to 54 per cent of individuals across all sectors. Across the whole economy, only 32 per cent of employers provided no staff training compared with 38 per cent of employers in logistics. The Skills for Logistics Employer Forum Consultation on Training Practices indicated the main obstacles to providing training were: their staff was already sufficiently trained; they could not spare staff time for such training; the costs of training were too high; and they could not find suitable training providers.[23]

Whilst a high number of companies in the logistics sector have indicated their awareness of logistics qualifications (NVQs and Apprenticeships) and a sizeable proportion believe these to be relevant qualifications, a significant share of employers still see these as irrelevant to their business (18 per cent with reference to NVQs; 24 per cent for Apprenticeships).[24]

Recent legislation requires that all drivers of vehicles over 3.5 tonnes undergo appropriate training to receive their Driver Certification of Professional Competence (CPC) by 2014. This requirement will result in increased training activity in the sector as over 300,000 drivers in the UK will need to undertake 35 hours of training every five years to maintain their Driver CPC. This change is reflected in the provision of training described in a number of the case studies carried out in the present study.

Increased engagement in training by employers in the sector may also be expected as a result of the Government's recent plans to further increase the number Apprenticeships.

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[22] Skills for Logistics (2010) England Labour Market Fact Sheet for the Logistics Sector, December 2010. http://www.skillsforlogistics.org/home/research/logistics-factsheets/factsheets/?assetdetesctl5555694=338359

[23] Skills for Logistics (2010) Employer Consultation on 'Training Practices' across logistics companies. http://www.skillsforlogistics.org/home/research/sector-reports/?assetdetesctl5446149=335865

[24] *ibid*.

Given the higher than average proportion of employees in the sector with less than a NVQ Level 2 qualification, the logistics sector is one area which would benefit from this increased provision and support of Apprenticeships. Some of the case study employers have indicated that their involvement with the programme was prompted in part by such Government priorities to up-skill the workforce.

The nine case studies in the transport and logistics sector are summarised below (see Table 7.1). Of the employers interviewed, three were engaged (or had recently been engaged) in Apprenticeships at Level 2 while six were focused on WPL NVQ Level 2 (five employers) and Level 3 (two employers). Amongst the WPL employers, one had recently become engaged in Apprenticeships but did not have data available as the first cohort was still in training.

Table 7.1: Case Study Employers

Case Study	Apprenticeship or Workplace Learning (WPL)	Level	Description
Transport Case Study No.1*	WPL	Level 2	Logistics and freight services (Warehouse and Distribution)
Transport Case Study No.2	Apprenticeship	Level 2	Haulage firm mainly servicing construction (HGV Mechanic)
Transport Case Study No.3*	Apprenticeship	Level 2	Public transport buses (PCV Logistics)
Transport Case Study No.4*	WPL	Level 2 Level 3	National distribution for major retailer (Driving Goods Vehicle)
Transport Case Study No.5*	WPL	Level 2	Transport and logistics also providing warehousing (Driving Goods Vehicles)
Transport Case Study No.6	Apprenticeship	Level 2	Large trucking company (Driving Goods Vehicles)
Transport Case Study No.7	WPL	Level 2	Supply chain services including warehousing, transport and freight (Driving Goods Vehicles; Warehouse and Logistics)
Transport Case Study No. 8	WPL	Level 2	Distribution Centre for major online retailer (Warehousing and Logistics)
Transport Case Study No. 9	WPL	Level 3	Warehouse and distribution services (Warehousing and Logistics)

Source: IER / IFF The Employer Net Benefit of Training Study 2011
Note: * Data for these employers was not used in tables 7.2 and 7.3

The frameworks of interest for four of the nine case studies are driving goods vehicles (or another form of driving framework). Other frameworks considered in the case studies are HGV mechanic (Apprenticeship - one employer) and warehouse/logistics (WPL - four employers; and Apprenticeship – one employer). A number of employers provided Apprenticeship and WPL, as well as other frameworks, such as business administration, and in-house induction training.

It should be noted that the data reported in Tables 7.2 and 7.3 below are based upon only those case studies for which information was supplied by the employer.

7.2 The Training Decision

In the smaller organisations considered, a formal business case was not necessary to justify engagement in training. For a number of employers, an 'off-the-cuff' calculation of the costs and benefits of training was carried out in order to decide upon the degree of involvement in training (e.g. the number of people to train each year). In the larger organisation, with a more structured training department, more formal analysis was set out before undertaking a new training programme and in considering who to train and how many people to train. This included factoring in the level of State funding which would be received.

A number of reasons were given as to why employers engaged in training. One of the main reasons cited was a desire to 'give something back' to employees. In such cases, training can be viewed as a form of reward and recognition. A number of employers felt that the individual trainee, perhaps, obtains the most out of the training as they obtain a qualification which they can take with them if they ever leave the company. As a result, the training is seen as a means of increasing the employability of employees. At the same time, employers recognised that the provision of training acted as an aide to recruitment, retention, and improving skill levels.

The (relatively) low cost nature of the training provision was also considered to be an important factor in a number of employers' training decision. According to one employer:

"It costs us nothing and individuals gain a certificate."

(Transport Case Study No.1)

This view was more prominent amongst those employers with WPL training programmes as opposed to Apprenticeship, and those with lower training volumes.

For most employers, the training provided was considered to improve the skills of the workforce. In one company, Apprenticeships were introduced to improve operational performance amongst warehouse staff. This training was seen to give the employees a new skill set that improved operations in the warehouse which consequently improved overall operations at all sites where it had been implemented. The company intended to continue with this Apprenticeship in future.[25] In a number of case studies, the training had helped to bring new ideas and ways of thinking into operations.

Only one employer (Transport Case Study No. 2) explicitly stated that they recruited apprentices in response to their skills needs over the short to medium term. Another employer (Transport Case Study No. 6) indicated that they needed to train drivers due to *"expansion and growth"* and that the recent reduction in required minimum age for driving

[25] Cost data were not provided for this training programme and was not the main topic of the case study for this particular employer as it was a new initiative and they had other training programmes that had been carrying on for a longer period with available data.

(from 21 to 18 years of age) resulted in access to a new source of labour supply but one that needed more intensive training.

In one organisation (Transport Case Study No. 7), with multiple sites, they used training as a tool to bring relatively poorly performing sites up to standard. The company administered a survey to employees assessing their attitudes towards the company and their jobs as well as their awareness of various issues such as health and safety and efficiency. On the basis of this survey they identify sites that could improve the quality of their staff through training.

In three of the case study organisations (Transport Case Studies Nos. 2, 3 and 6), the company had taken on new recruits as apprentices. For one of these employers, the apprentices were not paid employees until after completion of their training. A fourth employer (Transport Case Study No. 1) offered their training to both existing employees and new recruits but both would be required to work for the company for a three-month probationary period before being eligible to take part in training. In the remaining organisations (Transport Case Studies Nos. 4, 5, 7, 8 and 9) the training was only available for existing employees.

In companies providing driver training and training of warehouse staff, the consensus was that regardless of accreditation, employees required at least some minimum level of training to do the job. All drivers will, by 2014, be required to have a certificate of professional competence (CPC). The CPC requires a number of tests to be passed in the first instance as well as periodic training (35 hours every five years) in order to retain the certificate. With CPC becoming compulsory for all drivers, a number of employers interviewed have integrated CPC training leading to an existing vocational qualification. In this way the CPC contributes to the achievement of the NVQ. One employer, Transport Case Study No. 5, reported that their training provider had approached them with funding available for CPC so long as it was provided alongside an NVQ.

Trainees/apprentices within the case study organisations tended to be at least 18 years of age. This is largely due to the minimum age for HGV Class 1 drivers being 18 years (previously 21 years until recently). In two of the case studies (Transport Case Studies Nos. 4 and 7) the vast majority of trainees were over 24 years of age. Those companies where trainees were existing employees tended to be relatively older. In one company (Transport Case Study No. 5) some of the drivers undertaking Level 2 WPL were in their early 60s.

In the case of the HGV mechanic Apprenticeship (Transport Case Study No. 2), the employer preferred to recruit apprentices aged 18 years and over as they were found to be more mature, took their college work more seriously, and tended to ‘show up…ready for work’. This employer had taken on younger apprentices in the past and had had a negative experience, though he readily acknowledged that maturity and other desirable characteristics in an employee vary by individuals regardless of age.

The largest case study employer (Transport Case Study No. 7) indicated that they had had a comprehensive training programme before engaging in the NVQ programme so that when the prospect of accreditation arose they already had the training in place which largely satisfied the requirements of the NVQ. The main difference is that the training is now accredited.

One employer which provides WPL at Level 2 and 3 for over 800 employees (warehouse and drivers) considered the costs of providing the accredited form of WPL to be significant. They had considered other types of training and had already commenced an Apprenticeship programme for warehouse employees and were about to make a decision on offering an Apprenticeship programme in driving goods vehicles for new recruits who previously were not in education, employment or training, or individuals who had recently left the Armed Forces. This company had a particularly good understanding of funding levels and a strong belief that training was an important part of their business. They felt that their own provision of training was of high quality and that whatever the training route adopted, it was necessary for the company to make additional inputs above the state contributions in order to achieve the best results.

In most of the other cases, the employer was often looking for training which would accredit the driving skills of individuals or which would ensure that they remained adequately skilled to retain their accreditation. Apprenticeships and WPL fulfilled this role for employers.

7.3 Recruitment and Retention

In four case studies where employers are involved in Apprenticeships, the apprentices were new to the business rather than being existing staff. For the HGV maintenance Apprenticeship, the employer preferred to take on recruits who were at least 18 years of age. For the Apprenticeships in driving, one company required a minimum age of 18 years while another required recruits to be at least 21 years of age. In the company where they were currently deciding whether or not to offer a new Apprenticeship programme in driving goods vehicles, the minimum age of recruits to the programme would be 18 years but they were more likely to be 21 years of age or over given that the programme was aimed at NEETs and individuals leaving the Armed Forces.

Across all employers offering WPL in driving goods vehicles and / or warehousing/logistics, existing employees accounted for the majority of trainees. In some companies, the offer of this training was open to new employees but the employers imposed a probationary period (of around three months typically) before the new employee was placed on the formal training programme.

Age was one of the main pre-requisites for entry into the training programmes considered here – particularly for driving qualifications which have minimum age requirements attached to them.

The employers who offered training (Apprenticeship or WPL) to new recruits typically used interviews in order to assess the suitability of candidates for the training. In the case of the HGV maintenance Apprenticeship, the employer assessed potential apprentices' attitudes towards work (i.e. would they be likely to always 'show up' for work) and the occupation itself (e.g. did they have an interest in engine mechanics). A main question they asked of candidates was what they do in their spare time in order to see if they have an interest in working on vehicles and whether they are used to 'getting their hands dirty'. Few recruitment problems had been encountered by the case study employers either for vacancies in general or for apprentice positions. One employer had more than 150 applications for their Apprenticeship within two days of advertising it on their website.

In companies where WPL is offered to existing staff, most employers indicated that they informed staff of the availability of training and then agreed to train most if not all employees who showed an interest. In one company where they combined the WPL Level 2 qualification with CPC training they made participation compulsory for all drivers. Other companies insisted that participation was up to the individual employee and felt that it was counterproductive to force people into training if they really did not want to take part. In these companies the take up of training was generally high across the target group of employees.

For existing employees who wanted to undertake WPL one employer indicated that the only deciding factor for the company was the individual's previous qualifications. Where an employee already had a qualification at the same level of the training on offer (and thus would not receive State funding) the company considered the subject area and the date the qualification was obtained. If the qualification was felt to be outdated or irrelevant to the current job, then the company would permit the individual to participate in the WPL. To date, this company had not refused any employees who wanted to participate in training.

Most companies indicated that they had good employment retention rates. Those who had been involved in training for a number of years felt that poaching of staff after training was not a significant problem. In the case of the Apprenticeship programmes, there were policies in place in most companies to keep people on for a minimum term after completion of the training period or to clawback some of the training costs the company had incurred if individuals left within a certain period. With respect to WPL, such arrangements were not in place.

Employers indicated that salaries played an important role in retaining staff. In the company offering the HGV mechanic Apprenticeship, they did not have any clawback policies but said that the main tool they used to keep apprentices after completion was to 'pay them right.' Apprentices were also made aware that their wages would increase over time with good performance.

In terms of progression of trainees/apprentices after completion of their training programme, the case study employers differed. For a number of employers offering WPL Level 2 in driving goods vehicles, there was potential for further training (i.e. to Level 3), but this was not typical. Typically, drivers would continue in their current roles with little or no change in their responsibilities.

The situation with Apprenticeships was slightly different with more scope foe apprentices to progress within the organisation. One employer, for example, wanted to use the Apprenticeship programme as a source of managers for the future since it wanted its managers to have practical experience within the company. Accordingly, the employer was keen for apprentices to participate in further training leading to a Level 3 qualification and potentially go on to a Foundation Degree.

7.4 The Structure of Training

The providers of the training programmes undertaken in the case study employers varied according to the type of training being delivered and to who was being trained In the case of Apprenticeships for new recruits, off-the-job elements of training were provided by private training providers or colleges. The HGV maintenance Apprenticeship was delivered by a local college with which the employer had a long-standing relationship - 17

years – and the employer was content to allow the provider to drive provision. The apprentice received off-the-job training at college on day release over a 12-month period.

Another employer, which was just commencing its Apprenticeship programme for 18 year olds and over in goods vehicles driving, used a private training provider but they planned to bring the training in-house after an initial 'pilot' period. Accordingly, the provider would increasingly have to design the provision of training so that it could be delivered at the workplace rather than at the provider's premises. The employer in this case wanted to provide in-house training because this gave them a more substantial input into the structure and content of training. At the time of the case studies, off-the job training was delivered on block release over the first 12 weeks of the programme, followed by on-the-job training with a mentor for a further 12 to14 weeks. Only after six months of training would the apprentice make any productive contribution to the employer (as by that stage they would be driving without supervision).

The case study employers with apprentices largely agreed that the content of the programmes they were currently engaged in met their requirements and that most, if not all elements, were economically valuable. The employers felt that they had influence over the non-mandatory elements of the Apprenticeship with training providers willing to tailor programmes to meet the employer's needs in terms of content and delivery (e.g. working around drivers' workloads to carry out assessments).

One of the employers providing WPL for warehouse staff and drivers acted as their own training provider and had made substantial investments in order to do so. They had their own driver-trainers (who work as regular drivers outside of training periods) and their own assessors. This employer also brought in an independent, external assessor in order to validate the quality of their training provision. This company attracted State funding where applicable but was subject to the large company reduction in the amounts it received.

In another of the employers where existing drivers received WPL, there was relatively little formal training with the main component being an assessment (conducted by the training provider) in which the assessor travelled with the driver, with minimal disruption to the working day, in order to assess the skills provided by the employer. This employer also had its own driver-trainer who provided on-the-job and classroom based training.

7.5 The Costs and Benefits of Training

Tables 7.2 and 7.3 show the costs incurred by employers in delivering specific forms of training in the transport sector and the benefits that are obtained from employing the trainee / apprentice. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice over the training period (i.e. the percentage of tasks of the fully experienced worker which the trainee (apprentice) can undertake in each year of the training programme (Apprenticeship) which is then multiplied by the wage of the fully experienced worker), and subtracting from the supervisory and other costs which the employer needs to meet in delivering the training (Apprenticeship). The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs and benefits in Table 7.2 are those associated with delivering WPL at Level 2 in Driving Goods Vehicles to existing employees rather than new recruits. The employer considered here indicated that training could be completed over a 12 week period, but, the costs and benefits have been standardised over one year in order to facilitate comparison with other programmes. As stated above, the employer considered here delivered this training to existing employees and so the productive contribution of 'trainees' is, under this methodology, 100 per cent at the start of their training.

The employer used as an example in Table 7.2 indicated that they have a 98 per cent completion rate for this training programme. Less than 1 per cent of each of the training manager's (the interviewee), the line manager's and the supervisor's time was considered to be directly taken up by each trainee undertaking an NVQ Level 2 in Driving Goods Vehicles. The administrative / other costs in this case include the time of an administrative staff member whose role was solely concerned with running this training programme (the cost of employing this person has been calculated per trainee) and the costs of employing agency staff to cover the 14 days in which trainees are off-the-job over the 12 week training period. The net cost to the employer of providing this training is £2,478 per trainee (including drop out). The employer estimated that 400 trainees go through this programme each year so that the net cost is over £900,000 in total.

The employer considered in Table 7.2 also delivered WPL Level 2 training in Warehousing to existing employees. The employer indicated that the costs/benefits of this programme are much the same as the driver training with the exception that agency staff costs are £90 per day for warehouse staff compared to £110 per day for drivers. The net cost of the warehouse training is £2,186 per trainee.

Table 7.2: Employers' Costs and Benefits of WPL Level 2 in Driving Goods Vehicles

	Year 1	Total
Background Information		
Drop out rate (%)	2	
Trainee salary (£ p.a.)	£28,600	
Salary of Fully Experienced Worker + NI (£ p.a.)	£31,571	
Trainee productivity (% of skilled workers tasks undertaken by trainee)	100%	
Supervision (per trainee)		
% of Training Manager's time spent training (in each year)	0%	
% of Line Manager's time spent training (in each year)	0%	
% of Supervisor's time spent training (in each year)	0%	
Training Manager's Salary (£ p.a.)	£65,000	
Line Manager's Salary (£ p.a.)	£54,000	
Supervisor's Salary (£ p.a.)	£31,571	
Total labour costs of supervision (including employer NI contributions)	£217	£217
Total training costs per apprentice or trainee (£)		
Costs of recruiting the apprentice	£0	
Course fees	£650	
Supervision costs	£217	
Administrative costs / Other costs	£1,561	
Trainee salary (including Employer NI)	£28,600	
Total cost	£31,028	£31,028
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£28,600	
Other income (please specify)	£0	
Total benefit per trainee	£28,600	£28,600
Net cost per trainee	**£2,428**	**£2,428**
Net Cost including drop out	**£2,478**	**£2,478**

Note: This table is based on figures obtained from Transport Employer Case Study No. 7
Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 7.3 shows the costs attached to a Level 2 Apprenticeship in Driving Goods Vehicles (Transport Case Study No. 6). The Apprenticeship programme depicted in Table 7.3 is 18 months long and the wages paid to the apprentice and the direct costs are provided across the full training period. In total, in the first year, the apprentice was paid £12,440 then in the last six months of training, they were paid £7,800 (equivalent to £15,600 per year). Bonuses were also paid at various intervals during the training period but these are included under administrative costs/other costs in Table 7.3.

This employer made additional payments to the training provider and also paid exam fees. There is substantial supervision in the first year and the apprentices productivity is relative low (50% of a fully experienced worker) In the last six months of training however, supervision is considered negligible and the apprentice is fully productive (100% of fully experienced worker). Overall, the net cost of this 18 month Apprenticeship is £6,183.

Data were also collected for WPL at Level 2 and at Level 3 in Warehousing and Logistics. The net cost of WPL Level 3 was found to be £1,213 (on average) and at Level 2 the net cost was £1,602. These types of training were only offered to existing employees.

Table 7.3: Employers' Costs and Benefits of Level 2 Apprenticeship in Driving Goods Vehicles

	Year 1	Year 1.5	Total
Background Information			
Drop out rate (%)	0	0	
Apprentice salary (£ p.a.)	£10,960	£11,499	
Salary of Fully Experienced Worker + NI (£ p.a.)	£25,763	£12,881	
Apprentice productivity (% of skilled workers tasks undertaken by apprentice)	50%	100%	
Supervision (per apprentice)			
% of Training Manager's time spent training (in each year)	5%	0%	
% of Line Manager's time spent training (in each year)			
% of Supervisor's time spent training (in each year)	5%	0%	
Training Manager's Salary (£ p.a.)	£30,000	£15,000	
Line Manager's Salary (£ p.a.)			
Supervisor's Salary (£ p.a.)	£30,000	£15,000	
Total labour costs of supervision (including employer NI contributions)	£3,316	£0	£3,316
Total training costs per apprentice (£)			
Costs of recruiting the apprentice	£1,600	£0	
Course fees	£1,325	£0	
Supervision costs	£3,316	£0	
Administrative costs / Other costs	£0	£0	
Apprentice salary (including Employer NI)	£11,497	£12,597	
Total cost	£17,738	£10,858	£30,335
Total Cost / Benefit to the Employer per Apprentice			
Apprentice product	£12,881	£12,881	
Other income (please specify)	£0	£0	
Total benefit per apprentice	£12,881	£12,881	£25,762
Net cost per apprentice	**£4,857**	**-£284**	**£4,573**
Net Cost including drop out	**£4,857**	**-£284**	**£4,573**

Note: This table is based on figures obtained from Transport Employer Case Study No. 2
Source: IER / IFF Employer Net Benefit of Training Study 2011

7.6 Sensitivity to Costs and Loans

Tables 7.4 and 7.5 provide an indicative estimate sharing of costs of the training discussed above (section 7.5) between the employer and the State. The employer considered in Table 7.4 provided WPL at Level 2 in Driving Goods Vehicles. This employer only offered this training to existing employees and at the time of the study all trainees were aged 19 years and older when they started the training. The training was only open to employees aged 18 years and over so that the figures for 16 to 18 year olds have not been included.

The employer considered here was not surprised to find that they met such a high proportion of the costs though they thought that the amount of the State subsidy per trainee was higher (around £800 after large employer reduction). In any case, they felt that the training programme presented significant costs for the business. This employer was insistent that the current amount of state funding is barely sufficient for them to continue the training and that even a marginal reduction would result in them reverting to providing only non-accredited training that they needed in order to "get drivers on the road."

Table 7.4: Estimate of the Total Cost of Training Met by the Employer, WPL, Level 2, Driving Goods Vehicles

	(a)	(b)	(c)	(d)	(e)
Age of trainee at start	**Employer Costs**	**Costs of WPL met by the State**	**Total cost of WPL (a + b)**	**% costs met directly by employer**	**% of costs met directly by the State**
19-24 years	£2,478	£656	£3,133	79	21
25+ years	£2,478	£656	£3,133	79	21

Note 1) Employer only takes on 18+ drivers and all current aged 19+ at start
Note 2) Costs for warehouse WPL Level 2 at same employer are same in all aspects except costs of agency replacement for training days so that employer costs are £2,186 rather than £2,471.
Source: IER / IFF Employer Net Benefit of Training Study 2011

The employer considered in Table 7.5 provided employees with an Apprenticeship in Driving Goods Vehicles at Level 2. As in the previous example, this employer only took on apprentices aged 18 years or above. The employer costs in this case are more than £6,000 for the 18 month Apprenticeship. For an 18 year old apprentice, the State pays £6,339 so that the employer's contribution is 49 per cent of the total cost of the Apprenticeship. For an apprentice between 19 and 24 years of age, the State funding would be £3,108 and the percentage of total costs borne by the employer would be around 67 per cent. This proportion would increase to 71 per cent for an apprentice aged 25 years or older though the employer indicated that they would not typically take on apprentices older than 24 years of age.

Table 7.5: Estimate of the Total Cost of Training Met by the Employer, Apprenticeship, Level 2, Vehicle Maintenance and Repair (HGV)

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£4,573	£6,339	£10,912	42	58
19-24 years	£4,573	£3,107	£7,681	60	40
25+ years	£4,573	£2,486	£7,060	65	35

Note: Employer only takes on 18+ drivers and all current aged 19+ at start
Source: IER / IFF Employer Net Benefit of Training Study 2011

Considering all of the case study employers (not just those for which cost data are presented in the tables above), when asked about their likely (and possible) responses to a reduction in state funding, a number of employers, as a first response, indicated that they would "stop training". Transport Case Study No. 1 said: "we'd just stop training… we couldn't afford to put our guys through that kind of training." The only exception was the employer with the HGV mechanic apprentice who indicated that they would most likely continue but would look at how they could find efficiency savings so that the cost to the employer was minimised.

With further consideration (and prompting in some cases), a number of employers indicated that the most likely effect would be a reduction in the number of people trained. One employer had a fixed training budget which had to cover all of their training activities, not just the accredited qualifications, so an increase in the costs associated with Apprenticeship or WPL would need to be considered in the light of other demands made on the training budget.

All employers felt that they did not have many options for absorbing additional costs. None could see reducing the wages paid to trainees/apprentices as a possibility as most were already paying either minimum wage or what they felt was the minimum possible in order to attract drivers/staff. In cases where training was provided to existing employees, pay cuts could not be justified over the training period as these employees were already making a 100 per cent productive contribution.

Companies operating longer training programmes (two of the Apprenticeship programmes considered here were two years long) insisted that shortening the training period would be counterproductive and would be detrimental to the quality of training.

Some employers indicated that decreased State funding could see them reverting to their previous training practices – namely, providing the training necessary for employees to do the current job without any accreditation.

Two of the case study employers – providing WPL to existing employees - said that with increased costs they would be much more selective about the employees they trained.

They would need to consider much more closely the business benefits of training a particular individual. One employer felt that they would focus training efforts on more experienced staff to get the most out of it.

Given the regulations for driving licences, none of the employers saw shifting to training younger individuals (who attract more State funding) as a possible alternative. Similarly, none of the employers could think of any cheaper alternatives to their current provision where they used external training providers, though they would 'shop around' for the best offer from providers, or expect their current provider to bear some of the additional costs arising from reduced Government funding.

Two of the larger employers indicated more adverse reactions to changes in government funding. The first of these - Transport Case Study No.7 - was adamant that the current level of funding was already at an absolute minimum level (for both WPL and Apprenticeship). They were currently considering introducing a new Apprenticeship scheme focusing on recruiting NEETs and those leaving the Armed Forces. The training manager said that this programme was already 'on the edge' of being too expensive given that recruits were relatively old. Because both of these employers were their own training providers, they would need to make significant changes to their provision if funding were cut, though it was not clear what these changes would entail.

7.7 Training Loans

Employers were asked how they would react if their apprentices or trainees needed to take out a loan to cover the costs of their training. It was explained to employers that this would likely be along the lines of the current higher education system with a loan being provided to the apprentice, from a loans organisation, and then this being paid back over a number of years after completing the training and upon their wages reaching a certain level.

The response of employers on this issue varied with most taking a negative view towards the introduction of loans. One of these employers, Transport Case Study No.7, dismissed the idea out of hand, saying it was 'ridiculous!' This employer felt that loans to trainees would be at odds with their goal of up-skilling and accrediting the skills of the workforce. The employer was of the view that the individuals taking up the WPL at Level 2 were 'not really interested in qualifications', though it was in their interests to have them, and that they would be even less interested if they had to contribute towards the cost of training. Other employers expressed similar sentiments; that it would not appeal to their trainees or apprentices as most would not be in a position to take on the debt given expected wage levels upon completion of the training and, at age 18 years, many would not recognise the value and importance of acquiring skills and qualifications. There was also concern that training could become more focussed on the needs of the individual trainee rather than the workplace. This might well have the impact of expanding the scope of training – in order to meet the needs of the employer and employee – which might have the effect of making the training more costly to deliver. That said, frameworks are currently designed to meet the needs of trainees and employers.

One employer, (Transport Case Study No.4), felt that it would be unfair to ask individuals to pay for training that is mandatory for the job (e.g. CPC/NVQ or health and safety training) and that it was the employer's responsibility to ensure their employees were suitably equipped with the skills and qualifications required to do the job. This employer also felt that passing costs onto employees, even in the form of a loan, would have a detrimental impact on recruitment. It might also result in more labour turnover.

One of the more negative responses to trainee/apprentice loans is provided below (see box).

Transport Case Study No.1

Work Based Learning, Warehousing

This company uses a private training provider to train existing staff (or new employees after completion of a three-month probationary period). Trainees are typically aged 20- 30 years of age at the start of their training.

The idea of loans for training was not considered realistic for the types of trainees they have currently had undertaking NVQs. This was partly attributed to the low wages of trainees / employees, and the fact that many are "family people, with commitments financially, and to have to think about financially contributing towards something in the future, knowing as well that possibly their wages are not going to rise significantly enough to cover their costs, even in years to come – it's probably going to be more of an off-putting factor." The respondent compared the situation to individuals going to university or investing in an HNC (as this employer had done) which she felt "pays dividends", but felt was much less convinced that the NVQ training the company provided would pay anything like the same level of dividend.

Source: IER / IFF Employer Net Benefit of Training Study 2011

7.8 Conclusion

The case studies explored here reveal that there is much variation in the way employers provide training in the transport and logistics sector. Although limited data on the costs and benefits of training were provided by many of the case study employers, there are some overall indications that WPL tends to be less costly than Apprenticeships (for driving) with there being differences between trainees and apprentices in terms of: wage levels (generally higher for trainees), their productive contribution (trainees tend to be fully productive during the entire training period, while apprentices, because they tend to be new recruits, increase from to low to high productivity over the course of the training); and the duration of the training programme (WPL being measured in weeks or months and Apprenticeships lasting a year or more).

The employers studied were not surprised to find that they contributed a substantial share of the total costs of training, though a number who were relative newcomers to the provision of VET were less aware of the supervision costs attached to training. Where employers had a separate training department within the business and / or where they had been engaged in their training programmes for a number of years, they were more conscious of the implicit costs of training and were also more aware of changes in State funding and the implications of this for their business. Employers tended to regard the training they received from external training providers to be free.

The main responses to reduced State funding for the training provided by the case study employers can be summarised as follows:

- reduce training volumes and be more selective at the recruitment stage;

- revert to non-accredited training which is sufficient to meet regulations and to *"get drivers on the job"*, though it is apparent that there is a need to for people to be certified to work in the industry (e.g. CPC) this does not necessitate the completion of an Apprenticeship or NVQ.

Where training was generally directed at accrediting existing skills, rather than the provision of new skills, or ensuring that employees acquired the required licences to drive, there was some evidence that this training would not take place.

In response to the idea of trainee / apprentice loans, most employers did not believe that such a proposition would be feasible and some felt that it would be unfair to ask trainees to pay for training that is required in order to work in the industry (i.e. CPC training). Most of the case study employers thought that their employees (trainees and apprentices) were not in a position to take on the associated debt, especially so in light of the wages they could expect to be paid in future.

Overall, the data points to employers in transport and logistics being sensitive to the costs of training. For some companies, any increase in costs would result in substantial changes in the way they went about their training. Disengaging from training was not an option since in many cases people require certain certificates to work in the industry, but the mandatory training does not necessarily require an NQV or Apprenticeship to be completed.

8. Financial Services Sector

8.1 Introduction

This chapter discusses findings from case studies of Financial Services employers delivering Apprenticeships. The majority of the case studies are from the insurance industry and relate to Apprenticeships in insurance. There are also two accountancy practices and a pensions consultancy which were offering AAT (Association of Accounting Technicians) training encompassed within an Apprenticeship package.

The Financial Services industry does not have the longstanding association with Apprenticeships that is seen in technical or craft-based sectors, and for many Financial Services employers their entry into this type of training was fairly recent (within the last few years). Also, in contrast with some other sectors, several employers were offering this training to existing staff rather than new recruits.

The nine case studies are summarised below (see Table 8.1). The majority of the case studies were of employers which had at least some trainees undertaking Level 3 Apprenticeships, with the Level 2 qualification gained along the way, but this was not seen as a 'package' and progression was generally decided on a case by case basis, so not all trainees would progress to the Level 3 Apprenticeship. There were also several employers whose current programme was Level 2 only. There were no examples of workplace learning other than Apprenticeships collected in this sector.

Case Study	Level of Apprenticeship	Description
Financial Services Case Study No.1	Level 2	Risk management service – provider to the commercial insurance industry
Financial Services Case Study No.2	Level 2 (also Level 3)	General insurance provider (mutual society)
Financial Services Case Study No.3	Level 2 (also Level 3)	General insurance provider (mutual society)
Financial Services Case Study No.4	Level 2	General insurance broker
Financial Services Case Study No.5	Level 3	Pensions consultancy – specialist for high net worth clients
Financial Services Case Study No.6	Level 3 (also Level 2)	General insurance broker
Financial Services Case Study No.7	Level 3	Accountancy practice
Financial Services Case Study No.8	Level 3	Accountancy practice
Financial Services Case Study No.9	Level 3 (also Level 2)	Commercial insurance broker – specialist for high risk clients

Source: IER / IFF The Employer Net Benefit of Training Study 2011

8.2 The Training Decision

The decision to offer training was quite different depending on whether the training was offered to existing employees or new recruits. For the former (all insurance companies), the main reasons for training were:

- general up-skilling and career development of staff;
- being seen to invest in people, leading to improved motivation, engagement, loyalty and retention.

For this group, many of the perceived benefits to the employer were indirect, in that the employee received direct benefits (in terms of enhanced skills and qualifications), resulting in increased motivation and loyalty which then benefited the employer. In some cases, there was no particular expectation that employees would take on new roles or responsibilities as a result of the training, neither would their wages automatically increase, and productivity was seen to be close to 100 per cent already before the training. Therefore, rather than gaining specific skills required by the employer, the training was aimed more at recognising and accrediting existing capabilities, leading to the secondary benefits mentioned above: increased motivation and loyalty.

Employers training existing staff tended to make their scheme open to any staff who had completed a probationary period (typically six months), with no specific restriction on age – though one had limited the training to people under 25 years of age due to funding restrictions. There was typically no real preference for any particular age group, although some felt it would naturally be under 25s to whom the training would be relevant since they would be at the start of their careers. One employer had recently started their scheme and opened it to all existing staff, with the effect that many trainees were over 25 years and some were in their 40s, but there was an expectation that the proportion of older trainees would drop in subsequent years as the 'backlog' of long-term existing staff would have been trained already, with the training becoming relevant mainly to relatively new staff.

Where existing staff were being trained, there was often no need to make a business case because the costs to the employer were seen as minimal: there was typically no college time, employers paid little or nothing for the training, and in some cases staff were thought to be already close to being fully productive. The salaries paid during training were also often not seen by the employer as a cost associated with the Apprenticeship, since they would be paying these salaries in any case. Employers also tended not to view time spent internally by other staff (such as the training manager) as a financial cost. One HR Director said *"Up until now we have had offers made to us on a free basis so we have not had to make a business case, no one minds investing time and there is no cost to it so we would be a fool not to take it up"*.

For those employers that were training new recruits (accountancy practices, pensions consultancy and one insurance broker), the main reasons for training were:

- to obtain relevant skills, cost-effectively, and to mould staff skills to business needs;
- to bring people in at a junior level to replace staff moving upwards or leaving the company.

For the accountancy and pensions firms, the Apprenticeship was just one way of bringing new, young people into the company, and a relatively minor one, since they also ran graduate recruitment schemes which were much larger in scale. There was an ongoing need for more junior people to undertake relatively basic tasks (e.g. account preparation, database maintenance), and it would be less cost-effective for graduate trainees (or qualified staff) to do these. The accountancy practices typically recruited young people on completion of their A-Levels, so were aged 18 to 19 years, and was regarded as generally unlikely that the training would appeal or be applicable to older people (although there was one instance of an existing member of staff expressing an interest in being trained).

There was also some recognition that Apprenticeships are viewed favourably in the wider community, and therefore could be a way for employers to support their local community and improve their local standing or image. This could contribute to their Corporate Social Responsibility.

Two employers in the case studies mentioned recent increases to higher education fees, which they believed would result in more able young people choosing not to go to university. They saw Apprenticeship training as a way they could benefit from this situation, by gaining high quality trainees cost effectively.

8.3 Recruitment and Retention

As mentioned above, the accountancy practices, which were conducting AAT training within an Apprenticeship 'wrapper', generally wanted young people with A-Levels (there was one instance where a school leaver with GCSEs had been taken on, but this was highly unusual), and ideally with A or B grades. The pensions consultancy (also providing AAT) only required five good GCSEs, although A-Levels were seen as an advantage. The one insurance firm which was training new recruits did not have specific academic requirements. Previous work experience was not expected, but all those recruiting were highly interested in the applicant's attitude, personality, and interest in the area of work.

All of the case study employers who recruited externally had used a formal recruitment channel; this included advertising on their own websites, the websites of relevant professional bodies, the National Apprenticeship Service, Connexions, careers fairs, and local schools. There was also some use of informal methods, such as referrals from clients, though it was emphasised that any such applicants would be judged by the same criteria as anyone else. Generally there was little difficulty with recruitment, but one accountancy firm, based near London, said they had to compete with London firms, paying higher salaries for the best candidates. One insurance firm had also had a shortage of applicants, but they had recently changed their approach to recruitment and expected to have less difficulty in the future.

Selection was via interview which in some cases was two stages. One accountancy firm also conducted verbal and numerical assessments; these were the same tests that applied to graduate trainees, but a lower pass mark was set for the apprentices.

For the accountancy firms, trainees were recruited with a view to moving onto training in chartered or certified accountancy on completion of the Apprenticeship. Thus the AAT was only the first of a series of training programmes, and in general, trainees would be expected to continue to the next stage. An HR Director explained *"We don't need people*

just at AAT level…when we recruit people, we recruit them thinking 'in 10 years' time are they going to make it to partner?". At this firm, trainees were employed on a fixed-term contract for each of the training programmes, with the contract renewed when they moved to the next stage, subject to satisfactory performance. At the other accountancy case study, progression beyond AAT was not seen as essential and there was more flexibility. The pensions consultancy also expected the trainee to progress further and undertake professional (chartered or certified) training, and felt that progression opportunities were good.

All the case study employers saw good retention rates from their training where they had been training for long enough to measure this. Some saw the benefits more generally as increased motivation or engagement since, in their view, they would have good retention anyway with or without the training.

8.4 The Structure of Training

The structure of training varied depending on the qualifications included in the Apprenticeship and the type of staff being trained. For those training new staff towards an AAT qualification, training was highly structured with either a day or block release element, or evening classes. Employers had limited say over these components, beyond choosing between day and block release. The formal elements of the training were driven by the provider and largely determined by the needs of the AAT exam.

Employers which were training existing staff towards the insurance Apprenticeship generally did not have any formal college time in their programme. In these cases, the role of the training provider was to meet regularly with trainees, provide materials, set exercises and conduct assessments. Trainees were expected to study predominantly in their own time, although employers provided a limited amount of work time for such things as assessments or meetings with tutors. Employers might also provide their facilities, such as conference rooms, but the 'burden' to the employer was thought to be small, with most input coming from the trainee.

The duration of the training was typically one year for a Level 2 or Level 3 insurance Apprenticeship, and two years for the AAT qualification. As discussed above, some employers considered their trainees to be already fully productive in their role before the training took place, in which case the training was aimed more at accrediting and recognising their existing skills rather than increasing them. Other employers expected to see significant gains in productivity over the duration of the training. For those training towards the AAT qualification, there was the expectation that trainees would progress to further training (chartered or certified), and in this sense the AAT was seen more the first stage in a series of training programmes, rather than a complete package in itself.

Most employers were satisfied with their training provider (the couple that were less satisfied had no choice as there was only one relevant provider in their local area). Many of the employers had started offering training only in the last few years; as such, they had not yet considered shopping around for different providers, but they anticipated that they might in the future, especially if circumstances changed. Those which had a slightly longer-standing relationship with their provider did not, in general, show particular loyalty and indicated that they would be open to offers. It was emphasised that this was not just about cost as the choice of provider would depend on all aspects of the training, including quality and flexibility or tailoring to the company's needs.

8.5 The Costs and Benefits of Training

Tables 8.2 and 8.3 show the costs borne by employers in delivering an Apprenticeship at Level 2 or Level 3 and the benefits they derive from the apprentice during through their training. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice during the training period (i.e. the percentage of the tasks of the fully experienced worker which the trainee can undertake in each year of the Apprenticeship which is then multiplied by the wage of the fully experienced worker), and subtracting from the supervisory and other costs which the employer needs to meet in delivering an Apprenticeship. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The Level 3 costs have been standardised over a two year period for purposes of comparison. There was a roughly even split between case studies where a Level 3 Apprenticeship took one year to complete and those where it took two years. All the Level 2 programmes were around one year in duration.

Overall, at Level 2, the net cost is £6,650 or £7,250 accounting for drop out. For a Level 3 Apprenticeship the net cost to the employer over the training period is £11,400 (including dropout)

Table 8.2: Employers' Costs and Benefits of Level 2 Apprenticeship

Financial Services, Apprenticeship, Level 2	Year 1	Total
Background Information		
Drop out rate (%)	9.00	
Apprentice salary (£ p.a.)	£15,167	
Salary of Fully Experienced Worker + NI (£ p.a.)	£17,422	
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	79%	
Supervision (per apprentice)		
% of Training Manager's time spent training (in each year)	N/A	
% of Line Manager's time spent training (in each year)	8%	
% of Supervisor's time spent training (in each year)	10%	
Training Manager's Salary (£ p.a.)	N/A	
Line Manager's Salary (£ p.a.)	£24,000	
Supervisor's Salary (£ p.a.)	£17,500	
Total labour costs of supervision (including employer NI contributions)	£3,869	£3,869
Total training costs per apprentice (£)		
Costs of recruiting the apprentice	£0	
Course fees	£120	
Supervision costs	£3,869	
Administrative costs / Other costs	£200	
Apprentice salary (including Employer NI)	£16,284	
Total cost	£20,473	£20,473
Total Cost / Benefit to the Employer per Apprentice		
Apprentice product	£13,821	
Other income (please specify)	£0	
Total benefit per apprentice	£13,821	£13,821
Net cost per apprentice	**£6,652**	**£6,652**
Net Cost including drop out	**£7,250**	**£7,250**

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: data on one employer omitted (outlier)

Table 8.3: Employers' Costs and Benefits of Level 3 Apprenticeship

Financial Services, Apprenticeship, Level 3	**Year 1**	**Year 1.5**	**Total**
Background Information			
Drop out rate (%)	4	0	
Apprentice salary (£ p.a.)	£14,320	£8,017	
Salary of Fully Experienced Worker + NI (£ p.a.)	£19,736	£10,513	
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	76%	90%	
Supervision (per trainee)			
% of Training Manager's time spent training (in each year)	5%	4%	
% of Line Manager's time spent training (in each year)	3%	2%	
% of Supervisor's time spent training (in each year)	13%	10%	
Training Manager's Salary (£ p.a.)	£41,500	£41,500	
Line Manager's Salary (£ p.a.)	£36,667	£36,667	
Supervisor's Salary (£ p.a.)	£25,833	£25,833	
Total labour costs of supervision (including employer NI contributions)	£7,110	£2,666	£9,777
Total training costs per apprentice (£)			
Costs of recruiting the apprentice	£0	£0	
Course fees	£690	£1,050	
Supervision costs	£7,110	£2,666	
Administrative costs / Other costs	£20	£33	
Apprentice salary (including Employer NI)	£15,320	£8,635	
Total cost	£23,141	£12,385	£35,525
Total Cost / Benefit to the Employer per Apprentice			
Apprentice product	£14,999	£9,461	
Other income (please specify)	£0	£0	
Total benefit per apprentice	£14,999	£9,461	£20,056
Net cost per apprentice	**£8,141**	**£2,923**	**£11,065**
Net Cost including drop out	**£8,484**	**£2,923**	**£11,407**

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: In year 1.5, the annual figures were divided by 2 in order to indicate the costs/benefits for 6 months.

Table 8.4 and 8.5 show relatively high and low cost examples of delivering Apprenticeships. At a relatively high cost, a Level 3 Apprenticeship can cost almost £12,000 per Apprentice compared with a low cost estimate of only just over £1,300. The high figure was for AAT training which is considerably more expensive than insurance Apprenticeships. For these, the cost estimates were all less than £12,000. At Level 2 the highest net cost was around £9,600 and the lowest just under £500. The high cost examples is one where a new recruit was being trained whereas the low cost is training

being delivered to existing employees – this is reflected in the productive capacity of apprentices over the duration of their training.

Table 8.4: Examples of Relatively High Cost and Low Cost Level 2 Apprenticeship

	High Cost (New Recruit) Apprenticeship	Low Cost (Existing employee) Apprenticeship
	Year 1 (Total)	Year 1 (Total)
Background Information		
Drop out rate (%)	0	13
Apprentice salary (£ p.a.)	£12,000	£17,000
Salary of Fully Experienced Worker + NI (£ p.a.)	£16,094	£18,370
Apprentice productivity	40%	98%
Supervision (per trainee)		
% of Training Manager's time spent training (in each year)	N/A	N/A
% of Line Manager's time spent training (in each year)	5%	N/A
% of Supervisor's time spent training (in each year)	10%	N/A
Training Manager's Salary (£ p.a.)	N/A	N/A
Line Manager's Salary (£ p.a.)	£23,000	N/A
Supervisor's Salary (£ p.a.)	£17,500	N/A
Total labour costs of supervision (including NI)	£3,154	N/A
Total training costs per apprentice (£)		
Costs of recruiting the apprentice	£0	£0
Course fees	£0	£0
Supervision costs	£3,154	£0
Apprentice salaries (including employer NI)	£12,680	£18,370
Administrative / other costs	£200	£0
Total cost	£16,034	£18,370
Total Cost / Benefit to the Employer per Apprentice		
Apprentice product	£6,438	£18,003
Total benefit per apprentice	£6,438	£18,003
Net cost per apprentice	**£9,596**	**£367**
Net Cost including drop out	**£9,596**	**£416**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 8.5: Examples of Relatively High Cost and Low Cost Level 3 Apprenticeship

	Relatively High Cost Apprenticeship (new recruit)			Relatively Low Cost Apprenticeship (existing employee)	
	Year 1	Year 2	Total	Year 1	Total
Background Information					
Drop out rate (%)	0	0		0	
Apprentice salary (£ p.a.)	£13,100	£14,100		£10,000	
Salary of Fully Experienced Worker + NI (£ p.a.)	£20,077	£21,784		£16,094	
Apprentice productivity	50%	80%		100%	
Supervision (per apprentice)					
% of Training Manager's time spent training (in each year)	N/A	N/A		N/A	
% of Line Manager's time spent training (in each year)	N/A	N/A		5%	
% of Supervisor's time spent training (in each year)	17%	13%		20%	
Training Manager's Salary (£ p.a.)	N/A	N/A		N/A	
Line Manager's Salary (£ p.a.)	N/A	N/A		£35,000	
Supervisor's Salary (£ p.a.)	£30,500	£30,500		£22,000	
Total labour costs of supervision (including NI)	£5,622	£4,217		£6,755	
Total training costs per apprentice (£)					
Costs of recruiting the apprentice	£0	£0	£0	£0	£0
Course fees	£150	£150	£300	£300	£300
Supervision costs	£5,622	£4,217	£9,839	£6,755	£6,755
Apprentice salaries (including employer NI)	£13,932	£15,070	£29,002	£10,404	£10,404
Administrative / other costs	£100	£100	£200	£0	£0
Total cost	£39,804	£19,536	£39,341	£17,459	£17,459
Total Cost / Benefit to the Employer per Apprentice					
Apprentice product	£10,039	£17,427	**£27,466**	£16,094	**£16,094**
Total benefit per apprentice	£10,039	£17,427	**£27,466**	£16,094	**£16,094**
Net cost per apprentice	£9,766	£2,109	**£11,875**	£1,365	**£1,365**
Net Cost including drop out	£9,766	£2,109	**£11,875**	£1,367	**£1,367**

Source: IER / IFF Employer Net Benefit of Training Study 2011

These differences were driven by variations in duration, the amount of off-the-job training and the productive capacity of the apprentice. Employers with higher costs tended to have block or day release at college, whereas some other employers included no college time in their programme and therefore lost very little paid staff time. In general there was a difference between those training new recruits and those training existing staff; the latter often recorded very high productivity (since staff were already doing the job role in question and were experienced in it) and also tended to be using mainly on-the-job training. There is an important general distinction between those doing Apprenticeships in insurance, and those doing AAT training in an Apprenticeship wrapper, since AAT apprentices were considerably higher paid and the training was of longer duration and included more structured off-the-job learning.

8.6 Sensitivity to Costs

Tables 8.6 and Table 8.7 provide indicative estimates of the total cost of Apprenticeship training at Level 2 and Level 3 in the Financial Services sector. In order to undertake an Apprenticeship the total cost is the sum of the employer contribution plus the notional cost to the training provider of delivering the necessary training as part of the Apprenticeship contract. This has been calculated as the cost met by the employer from Tables 8.2 and 8.3, plus the cost the State pays where 100 per cent of the training provider's costs are met by the State. This indicates that the total cost of the training to Level 3 is £19,939 where the apprentice is aged 16-18 years at the start, £15,541 where they are aged 19-24 years of age, and £14,714 if they are aged 25 or older. For Level 2, the total cost is £12,106 where the apprentice is aged 16-18 years, £9,664 where they are aged 19-24, and £9,181 for those aged 25 or older. If the trainee is aged between 16 and 18 years old at the start of their Apprenticeship the State will meet all of the training providers costs, but if the apprentice is aged 19- 24 years of age at the start the State will meet roughly 50 per cent of the cost with an expectation that the remainder will be met by the employer or the training provider, and where the apprentice is aged 24 or over at the start the costs, in future, will need to be met by the employer and / or training provider.

Table 8.6: Estimate of the Total Cost of Training Met by the Employer, Level 3, Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£11,407	£8,532	£19,939	57	43
19-24 years	£11,407	£4,134	£15,541	73	27
25+ years	£11,407	£3,307	£14,714	78	22

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: two employers had any apprentices aged 25+ years

Table 8.7: Estimate of the Total Cost of Training Met by the Employer, Level 2, Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£7,250	£4,856	£12,106	60	40
19-24 years	£7,250	£2,414	£9,664	75	25
25+ years	£7,250	£1,931	£9,181	79	21

Source: IER / IFF Employer Net Benefit of Training Study 2011

The total percentage of training costs met by the employer in Tables 8.6 and 8.7 are based on the average situation. Some employers were unaware of the costs of providing the training supplied by the training provider (although recognising that there was funding), while others were fully aware of funding levels, having investigated these prior to starting the training or (in the case of accountancy firms).

In both Table 8.6 and 8.7 the cost met by the employer where the apprentices were aged 18-24 years and 25 years or over at the commencement of the Apprenticeship are based on the State providing only half the total funding to the training provider for the Apprenticeship. If the State had not met all of the funding cost, the share of total costs met by the employer would be more or less the same as for 16-18 year olds.

Employers were asked about the likely impact of a reduction in state funding of either 50 per cent or 100 per cent. From the responses received, a number of conclusions can be drawn.

- There was a reluctance to pass on the training costs to the apprentice through lowering wages. In some cases this was because wages were already low and it would be either not feasible, or against company policy or ethos, to pay less. For the accountancy practices, there was a need to pay wages comparable with competitors, with whom they competed for the best candidates. For those employers training existing staff, lowering wages would not be an option.

- Some employers expected that training providers might meet some of the additional costs, perhaps via special offers, and that the market would become more competitive. These employers anticipated shopping around more for providers in the event of a reduction in funding. Others thought it unlikely in reality that providers would absorb any cost.

- There was limited scope to reduce the duration of training since most were already running fairly brief programmes (12 months or less). For those doing AAT training the duration was longer, but this is a highly structured programme, over which the employer has limited influence.

- Many employers anticipated that they could reduce costs by being more rigorous about who took part, thereby reducing drop out. This was particularly the case for

employers training existing staff, who had often opened their programme widely to staff with few restrictions. These employers thought that they would be more focussed about who they trained if they were meeting more of the cost themselves.

- Some employers expected that they would structure their training differently, in the event of funding reductions, often by switching to standalone elements and only including the essential ones. For example, insurance firms might adopt the CII exam on its own, and either bring the other elements in-house or discontinue them. Accountancy firms might consider different structures such as extending their chartered training to four or five years but doing away with the preceding AAT training.

- Several employers anticipated a shift towards taking on more qualified staff (those who had already gained the CII qualification or, in the case of accountancy firms, more graduate trainees rather than school leavers). There was some recognition that this could create skills shortages across the industry, given that all employers would be in the same situation.

There were differing views as to whether the extra costs that employers might be expected to bear would have a major impact on training activities. Three of the case study employers expected that they might be forced to withdraw from training in the event of funding reductions. A few, those providing AAT training, thought it likely that they could absorb the cost and carry on without major changes, though they might consider changes to the structure. The remainder anticipated that they would need to make some changes (reducing the number of staff trained in general, being more selective about who they trained, switching to other forms of training such as standalone elements, or benefitting from competition among providers) but did not expect that they would withdraw from training altogether.

The example of Financial Services Case Study No.3 shows some of the issues mentioned by employers (see box overleaf).

Financial Services Case Study No.3

General Insurance Provider (Mutual Society)

The company provides consumer insurance products such as medical insurance and income protection. It was established in the 1920s as a friendly society and continues to operate under this model. The company predominantly trains existing members of staff, with the purpose of general up-skilling and investing in employee's careers to increase motivation and engagement. There are currently 10 apprentices.

The respondent was previously unaware of the extent of state funding (although aware of its existence). Given the amount of state funding, the Training Manager found the idea of having to meet this cost concerning, estimating that this would increase the training budget by 45 per cent. It was not thought feasible that the company could absorb this extra cost, although they might be able to increase the budget a little.

The respondent considered various options of how the company, the apprentice, or the training provider, might meet the additional costs. Lowering the trainees' wages was not a viable option because wages are already at little more than the minimum level. The respondent expected that there would be competition between providers which may bring down costs.

Changing the duration of training was not seen as an option since it was already seen to be at a minimum level. Changing the type of training also did not appeal since this employer believed Apprenticeships to be the best and most suitable option; however the response indicated low awareness of other options and the costs attached, so it is possible that standalone elements would be considered if the costs were found to be manageable.

The most likely approach would be a reduction in the number of staff trained each year, with more rigorous control of who could take part. This might be combined with a small increase to the budget by the company and better value from providers if this was available.

The respondent did not think there was scope for trainees to contribute, since wages are low and trainees would be unlikely to participate if they had to pay. There was also a sense that it is less appropriate for staff to pay for these qualifications (compared with higher education or higher-level professional qualifications), because they get less out of it in terms of career development and the qualifications are not so well regarded. The Training Manager said "A lot of people, if they had been asked to contribute, would not do it in the first place... not everyone wants a high-flying job; they want to be good at what they do. You can't expect them to pay to be qualified when they could just sit here and answer the phone without training".

A clear decision about what the company would do would only be made in the light of more information (such as seeing what different providers were offering) and with feedback from senior management.

Source: IER / IFF Employer Net Benefit of Training Study 2011

8.7 Further Education Training Loans

Employers found the idea of apprentice loans quite new and required some explanation of how this initiative might work. Responses to the idea were fairly negative across the board. Some employers felt that asking trainees to contribute would go against the idea or ethos of workplace learning, with one employer *stating "The whole reason people do work-based learning is because they can't afford to go to University"*. Affordability was a concern, with some employers stating that trainees at this level would not be able to repay a loan due to low pay for their role or in their industry.

Loans for Apprenticeships were thought less appropriate than Higher Education (HE) loans, since Apprenticeships were not held in such high regard as HE qualifications in the industry, and additionally were less transferable from one employer to another, meaning that people would be less willing to invest their own money in them. Some employers also thought the introduction of loans would have a negative impact on loyalty and retention rates. In a wider sense, there was a view that this move would result in less opportunities for young people who were not 'university material', and therefore in more unskilled people in society.

If training loans were to be used, employers thought them more suitable for higher-level qualifications, such as Level 4 to 5 or professional or management qualifications, since people at this level would be earning more and would be more focussed on their long term career goals. Considering what aspects it might be appropriate for trainees to pay for, employers mentioned discrete minor costs such as books and materials or exam fees.

The accountancy firms felt that training loans were not relevant to accountancy, since most firms would continue to pay for their trainees as they always have. It was pointed out that the State funded element is a small amount of their total training costs (therefore the difference would be minimal), and accountancy firms were doing this training for years before the Apprenticeship and State funding were introduced, so without funding they would only be returning to their previous situation.

The insurance employers tended to feel that they would not expect their trainees to take out loans, even if other companies introduced this system, since it would go against their ethos or policy regarding training, or because they viewed the idea as unworkable. If a loan system were to be introduced, they would either fund the training themselves, structure the training differently, or reduce or withdraw from this training. It was stated by some that, while beneficial, the training was not essential to their business and they could manage without it, with one employer stating *"Our Apprenticeship programme is not integral to our business, like Railtrack for example, we could remove ours and our business could still grow so we would think how else we can drive those qualifications....asking our employees to take out loans to fund their Apprenticeships would be way down the list of options".*

While reactions to the idea of FE trainee loans were generally negative, it is worth noting that a couple of the employers providing AAT training currently had in place an arrangement whereby trainees had to pay back a portion of the training fees if they left during the training or within a certain period after it was completed. Therefore there was some recognition that it might be appropriate in certain circumstances for employees to contribute to the cost of training themselves.

8.8 Conclusion

The study reveals that there is wide variation in the net costs encountered by employers in delivering Financial Services Apprenticeships. This variation is predominantly between different types of company (accountancy/pensions and insurance) who are using the Apprenticeship package for quite different qualification types and purposes, and between companies training new recruits and those training existing members of staff. If accountancy firms or insurance firms are considered on their own, the variations within these groups are much smaller. The variations are driven by the wages paid to apprentices, the structure of training, the duration of the Apprenticeship and the productivity of the apprentice.

Some employers are well aware of the costs of training which are currently met by the State via training providers, while others are not. When asked how they would react if they were expected to meet a larger share of the cost currently met by the State, most employers did not anticipate that they would be forced to withdraw from training completely, but equally, most did not expect that they would be able to carry on training at existing levels. For the majority, a reduction in the numbers trained would be a likely response to this situation – along with other possible solutions such as gaining better value from providers and changing the training structure. Unlike some other sectors, some employers did not see Apprenticeship training as integral to their business, and so reducing the level or withdrawing completely would not necessarily be a major problem for these employers.

9. Business Administration Sector

9.1 Introduction

This chapter examines findings among employers delivering Business Administration Apprenticeships. Case studies were conducted in the not-for-profit sector (local authority/councils as well as a small number of FE colleges), though two private sector organisations are also included. The findings concentrate on Apprenticeships which all the not-for-profit employers provided (none of these employers were delivering stand-alone NVQs or other WPL in Business Administration). The two private sector employers were delivering the stand-alone NVQ in Business Administration.

Most employers had only started delivering Apprenticeship training relatively recently, typically within the last four years, though one council had been involved for seven years and another for twelve. One indicated that they had been involved in a planned, systematic way since around 2008 / 2009; before this some individual managers had taken on apprentices but this was on an ad hoc basis rather than part of a centralised human resources strategy.

The delivery and modus operandi for Business Administration Apprenticeships in the not-for-profit sector was characterised by:

- a relatively large number of apprentices (reflecting the fact that these were large employers – the smallest public sector organisation had 800 staff, and most councils had a number of thousand staff). Councils and providers generally employed 10-25 Business Administration apprentices, though one council had just over ninety. One council had just one Business Administration apprentice;

- individuals being recruited to the programme (rather than it being provided to existing employees);

- the individuals generally being on a fixed-term (usually 12 months) contract with no guarantee of employment at the end of this contract; and

- an emphasis on training to Level 2.

The eleven case studies are summarised below (see Table 9.1). All the not-for-profit employers provided Apprenticeships leading to a Level 2 qualification, and around half also had individuals who had completed the Level 2 and were working towards the Level 3 qualification. In all but one of the cases, the Level 3 was a follow-up – i.e. no employers reported recruiting individuals direct to the Level 3 Apprenticeship. For example one urban council took on apprentices on a two-year contract: all undertake the Level 2 as a minimum, and while there was no formal programme in place once the Level 2 was completed, apprentices are encouraged to continue their learning, and some go on to complete at Level 3. The funding for any further learning was considered on a case-by-case basis. Another council took young people on a 12 month fixed-term contract; they would be expected to achieve the Level 2 in Business Administration before the 12 months and if the training provider suggested that they move on to the Level 3 this would be considered. Similarly another council took on apprentices on a 12-month fixed-term contract. They had 25 apprentices undertaking the Level 2 and three doing the Level 3;

the Level 2 typically took nine months to complete but, if someone completed it within six months, they would consider putting them on the Level 3 if they were confident they would complete the Level 3 while with them.

The two private sector employers delivering stand-alone Business Administration NVQs each had two trainees. One provided the training to existing employees, the other recruited school leavers age 16 or 17 as trainees (though in their second year while they undertook their Level 3 they moved from trainee status to being permanent employees, albeit paid the minimum wage).

Table 9.1: Business Administration Case Study Employers

Case Study	Apprenticeship (APP) or Workplace Learning (WPL)	Level for which detailed cost information obtained	Sector
Business Administration Case Study No.1	Apprenticeship	Level 2	Council
Business Administration Case Study No.2	Apprenticeship	Level 2	Council
Business Administration Case Study No.3	Apprenticeship	Level 2	College
Business Administration Case Study No.4	Apprenticeship	Level 2	College
Business Administration Case Study No.5	Apprenticeship	Level 2	Council
Business Administration Case Study No.6	Apprenticeship	Level 2	Council
Business Administration Case Study No.7	Apprenticeship	Level 2	Council
Business Administration Case Study No.8	Apprenticeship	Level 2+3	Council
Business Administration Case Study No.9	Apprenticeship	Level 3	Council
Business Administration Case Study No.10	NVQ	Level 2+3	Retailer
Business Administration Case Study No.11	NVQ	Level 2+3	Finance

Source: IER / IFF The Employer Net Benefit of Training Study 2011

9.2 The Training Decision

It was noticeable that the reasons for involvement in Apprenticeships cited by the not-for-profit employers often emphasised the wider social benefits of training, such as up-skilling and supporting the local community, and tackling youth unemployment. One urban council for example had started a large Apprenticeship programme in 2009, an initiative of their elected mayor, with three years of funding committed. Some councils put this specifically in terms of Apprenticeships being something that they ought to be involved in as a large (often the largest) local employer. Similarly both of the training providers interviewed felt

that they were 'pushing' the Apprenticeship agenda and trying to encourage local employers to offer Apprenticeships ('We should be leading by example').

It is also evident that councils were influenced by commitments made by senior management. One indicated that the drive to increase the number of apprentices came in 2008 when they signed the Skills Pledge, and another said the same for their signing an agreement to increase apprentice numbers.

Another specific reason cited by a number of the councils was recruiting apprentices as part of a specific drive to lower the average age of the workforce (one council had found just 4 per cent of its workforce was aged under 25 years). While this clearly related to having an ageing workforce, this was not the same point as employers in other sectors using Apprenticeships as a way of producing the 'next generation' of skilled employees. It is different because in nearly all cases, councils were taking on the apprentices for a fixed-term contract (usually of 12 to 18 months) with no guarantee of them eventually becoming permanent employees. Where part of the push to increase Apprenticeship numbers related to a conscious effort to bring the average age of the workforce down, a number had found these younger apprentices brought not only a certain energy, but also specific skills especially in new media. One council for example had set up Facebook and Twitter pages with the assistance of their young apprentices.

The following two quotes from councils on the reasons for taking on apprentices demonstrate both the altruistic and ageing workforce issues:

"We have an ageing workforce, and we wish to grow our own and inspire young people to look at the local authority as an employer of choice. We want to assist local school leavers with employment, and replace people who have left. An ever ageing workforce is the main reason, to bring in young people. We have young keen workers who we can mould to our way of thinking."

"For us as a local authority we have an ageing workforce, so it's about succession planning, about supporting the local community, growing your own skills, about bringing people on, and about our duties and responsibilities as a local authority for the economic welfare of the borough."

While the reason given for involvement in Apprenticeships was not usually explicitly about meeting skill needs, the actual number of apprentices taken on does relate specifically to the skill needs within the organisation. Hence while councils and training providers were offering Apprenticeships in part because they felt they ought, the numbers taken on need to be justified on a case-by-case basis. In councils this decision was left to the individual departments. While senior management may actively encourage and promote the council's involvement in Apprenticeships, there was never any overall target for the number to be recruited each year, and it was left to individual departments to decide the number they required to meet their staffing requirements, based on their extent of their skill needs.

Apprentices were sometimes described as offering an alternative to taking on temporary staff, with the advantage for each department being that the individuals could be selected from a pool of candidates which had been vetted and quality assured centrally via their rigorous recruitment and selection process. One council also commented that apprentices were a way of meeting short term skill gaps within the organisation to the extent that

although, following redundancies, there was a recruitment freeze, apprentices on fixed-term contracts could still be taken on as it is regarded as a training programme.

None of the case studies reported that they had used Apprenticeships to up-skill or accredit the skills of existing employees (a number specifically stated that if they wanted to up-skill existing employees they would use stand-alone NVQs). Rather the aim was to recruit young people to the Apprenticeships; this was predominantly school leavers aged 16 to 18 years, or those aged 16-24 years. While for the councils this was in part because they were often specifically aiming to tackle youth unemployment, funding also played a role for some. One council stated that they did not take on those aged over 24 years because of the lack of funding, and another had taken over 24s in the first year of their programme but dropped this in the second year when funding arrangements changed. On the other hand, another council pointed out that while those aged 16-18 years were fully funded, but they had to contribute to the funding of apprentices aged 19-24 years ('the provider needs an employer contribution'), which of the two age brackets the applicant fell into had never influenced their choice of candidate. They did not recruit those aged 25 years and over to Apprenticeships because a key reason for their involvement in the programme was to increase the number of young people in the workforce.

9.3 Recruitment and Retention

The case study employers were relatively evenly split between those setting no minimum academic qualification requirements, and those which stipulated a certain number of GCSEs. Examples of the latter included:

- a council required a minimum of four GCSEs A-C including mathematics and English (though rejected those that had qualifications at Level 3 or higher, and noted, as did a number of employers, that they received and rejected applications from graduates);
- a council requiring GCSEs grade A-C in mathematics and English, or functional skills at Level 2 in English and mathematics;
- a council delivering a Level 3 Business Administration Apprenticeship requiring five GCSEs including mathematics and English, or a Level 2 qualification.

Even if no qualifications were required, the councils tested for mathematics and English / basic skills once the candidates were shortlisted, as they needed to be convinced that the person would have the ability to complete the NVQ and Technical Certificate.

Beyond a minimum level of mathematics and English, enthusiasm, potential, willingness to learn, and interpersonal skills, were the key requirements that employers were seeking. Councils often stipulated that the individual had to live in the borough.

No employers reported difficulty recruiting apprentices of the calibre they required. One urban council reported receiving 1,000 applicants for its 30 places in the first year, and another reported anything from half a dozen to 50 applications per position with this quite dependent on the time of year (a higher number of applicants at the end of the academic year).

The means of advertising the Apprenticeship vacancies usually centred around a mix of advertising on their own website and / or in the local media, councils informing local providers, and sometimes local schools, and their working with organisations such as Jobcentre Plus, recruitment agencies and sometimes specific agencies (e.g. one working with 'looked-after'); and the National Apprenticeship Service / the Apprenticeship Vacancy System.

Once shortlisted, individuals were interviewed and, if applicable, sat a mathematics and English test. Councils tended to work on the basis of recruitment to a central pool from which departments then selected those to interview. Hence the initial interview was with central HR personnel (e.g. the Apprenticeship co-ordinator) and then subsequent interviews were undertaken by the departments that were recruiting. One council had a policy that if someone had been rejected three times they were then removed from the pool.

In terms of retention it is important to bear in mind that the Business Administration Apprentices taken on by the councils and providers were usually on fixed term contracts (typically of 12 months, though sometimes up to two years) with no expectation that there would be a permanent position at the end of the contract. Indeed a number of the councils mentioned that they had a freeze on recruitment for permanent positions (though they could take on apprentices because these were training, not employment, contracts).

That said, while there may be no expectation or promise of permanent employment for the apprentices ('our hope and aspiration is that we will be able to secure employment there is no guarantee' and another 'there is no target on this but we have invested in them and we do want some to stay'), most employers reported that some of their apprentices had found permanent positions, and a number commented that if a relevant permanent position came up then an apprentice would be very well placed to be successful, though within councils it would be open to external applicants. One council (taking on around half a dozen apprentices a year) said last year around 80 per cent stayed on in permanent positions. Another indicated that of 14 apprentices taken on in 2009 on a fixed term 12 month contract, six were still with the council (in mid 2011).

One council was something of an exception and takes on apprentices as permanent employees; hence the recruitment of apprentices was directly linked to vacancies for permanent positions. Having been involved in Apprenticeships for 12 years, some of their apprentices had moved on to junior management positions. It is interesting to note that this council, for reasons of cost and flexibility, was looking to change its model away from taking apprentices on as permanent employees and moving to an Apprenticeship Training Agency (ATA) model where the apprentice is employed by the ATA with the council offering the work experience element.

9.4 The Structure of Training

Delivery of the Business Administration Level 2 Apprenticeship takes one of two basic forms:

- no time at all at a provider, with the Apprenticeship being undertaken entirely in-house. Apprentices would be allowed a certain amount of time during their week to work on their portfolio. No off-the-job training was reported by three councils;

- day release at college, typically for a day a week, or a day a week at the start of the training, and then less frequently towards the end.

Even if no off-the-job training was provided as part of the Apprenticeship, employers often indicated that apprentices had the option to access all of the short course training programmes provided to their employees, with examples being IT training and generic skills (assertiveness, influencing skills, etc.).

Most employers indicated that the Apprenticeship involved selecting units relevant for the area of activity within the department they worked for: 'the flexibility allows us to tailor the qualifications in line with the work they are involved in, so no two apprentices will be working on exactly the same units.'

It was generally expected that the Level 2 Business Administration Apprenticeship would be completed within 12 months, with some citing nine months as typical and others saying it was often achieved within six months. Time frames cited for the Level 3 ranged from nine to 18 months.

Few employers had reviewed the structure of training, in part because their involvement in providing Apprenticeships was relatively recent, and others were happy that the ability to choose units / modules applicable to the job area gave them the flexibility they wanted. A few, though, simply saw themselves as having to stick to the letter of the Apprenticeship framework.

On the other hand a number of employers were willing to shop around in relation to the actual provider they worked with. In some cases this related to value for money (for example where their usual provider had run out of funding for apprentices aged over 19 years in that academic year), and in some cases it related to quality (one was on their third provider in seven years of involvement in the Apprenticeship programme). One used two providers to encourage 'healthy competition' (though admitting they often sub-contracted elements of training to each other).

They regularly reviewed provision and, they reported, were willing to change providers if they felt it necessary. This was evidenced by their recent change from their long-term provider to their current provider.

9.5 The Costs and Benefits of Training

Table 9.2 shows the costs borne by employers in delivering an Apprenticeship at Level 2 and the benefits they derive from the increasing productive capacity of the apprentice as they progress through their training. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice over the training period (i.e. the percentage of the tasks of the fully experienced worker which the trainee can undertake in each year of the Apprenticeship which is then multiplied by the wage of the fully experienced worker), and subtracting from the supervisory and other costs which the employer needs to meet in delivering an Apprenticeship. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs have been standardised over a one year period for purposes of comparison, this is the most common fixed term contract period for the apprentices (even if in some organisations the expectation was that the qualification would be completed in less time).

Overall the net cost to the employer over the training period is £4,075 which increases to just over £4,500 once the costs of drop-out are accounted for. On average apprentices were seen as operating at just over half (56 per cent) the level of a fully experienced worker. Their average salaries were also just over half (54 per cent) of a fully experienced worker, hence what they cost in pay was very close to their product / value. Given that fees to providers were minimal (an average of just under £200 per apprentice) most of the balance of the net costs are a result of the costs of supervision.

Table 9.2 provides an average cost of training leading to completion of a Level 2 Apprenticeship in Business Administration, but the average disguises some variation in training costs.

At the higher end of the scale (though still low relative to some other frameworks covered in the research) the net cost of a Level 2 Apprenticeship can be around £8,500 per apprentice, while at the low end, some employers receive a net gain. The variation in the net costs in part results from whether the apprentice has a contract of more than 12 months or not, but another significant factor is differences in apprentice pay. One council which took on apprentices as permanent employees paid their apprentices around £18,000 a year, a figure they realised was much higher than other boroughs (some were known to pay £80-£100 a week), but if they were to move away from the permanent employee model which was being proposed they may then have to offer a lower training allowance rather than a salary. Another paid their apprentices around £14,300 a year, the agreed minimum council salary, and a figure they realised was higher than other employers paid. One other paid an annual salary of £13,600. Most others paid £5,000 to £7,000 a year.

Table 9.2: Employers' Costs and Benefits of Level 2 Business Administration Apprenticeship

Business Admin, APP, Level 2	**Year 1 (Total)**
Background Information	
Drop out rate (%)	11
Apprentice salary (£ p.a.)	£8,336
Salary of Fully Experienced Worker + NI (£ p.a.)	£15,444
Trainee productivity (% of skilled workers tasks undertaken by trainee)	56%
Supervision (per apprentice)	
% of Training Manager's time spent training (in each year)	1%
% of Line Manager's time spent training (in each year)	2%
% of Supervisor's time spent training (in each year)	12%
Training Manager's Salary (£ p.a.)	£32,350
Line Manager's Salary (£ p.a.)	£33,167
Supervisor's Salary (£ p.a.)	£19,150
Total labour costs of supervision (including employer NI contributions)	£3,555
Total training costs per apprentice (£)	
Costs of recruiting the apprentice	£273
Course fees	£193
Supervision costs	£3,555
Administrative costs / Other costs	£259
Apprentice salary (including Employer NI)	£8,510
Total cost	£12,790
Total Cost / Benefit to the Employer per Apprentice	
Apprentice product	£8,715
Other income (please specify)	£0
Total benefit per apprentice	£8,715
Net cost per apprentice	**£4,075**
Net Cost including drop out	**£4,539**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 9.3: Examples of Relatively High Cost and Low Cost Level 2 Apprenticeship

Business Admin, Apprenticeships at Level 2	Low Cost	High Cost		
	Year 1 (Total)	Year 1	Year 2	Total
Background Information				
Drop out rate (%)	10	14	0	
Apprentice salary (£ p.a.)	£4,810	£14,350	£15,115	
Salary of Fully Experienced Worker + NI (£p.a.)	£14,956	£20,077	£20,077	
Trainee productivity (% of skilled workers tasks undertaken by trainee)	50%	75%	80%	
Supervision (per trainee)				
% of Training Manager's time spent training (in each year)	n/a	1%	1%	
% of Line Manager's time spent training (in each year)	n/a	5%	5%	
% of Supervisor's time spent training (in each year)	10%	n/a	n/a	
Training Manager's Salary (£ p.a.)	n/a	£35,000	£35,000	
Line Manager's Salary (£ p.a.)	n/a	£45,000	£45,000	
Supervisor's Salary (£ p.a.)	£14,000	n/a	n/a	
Total labour costs of supervision (including employer NI contributions)	£1,496	£2,706	£2,706	£5,412
Total training costs per apprentice or trainee (£)				
Costs of recruiting the apprentice	£0	£10	£0	
Course fees	£0	£1,000	£1,000	
Supervision costs	£1,496	£2,706	£2,706	
Administrative costs / Other costs	£0	£10	£10	
Apprentice salary (including Employer NI)	£4,810	£15,354	£16,225	
Total cost	£6,306	£19,080	£19,941	£39,021
Total Cost / Benefit to the Employer per apprentice				
Apprentice product	£7,478	£15,058	£16,062	
Total benefit per apprentice	£7,478	£15,058	£16,062	£31,119
Net cost per apprentice	**-£1,172**	**£4,023**	**£3,879**	**£7,902**
Net Cost including drop out	**-£1,290**	**£4,597**	**£3,879**	**£8,476**

Source: IER / IFF Employer Net Benefit of Training Study 2011

9.6 Sensitivity to Costs

Table 9.4 provides an indicative estimate of the total cost of Apprenticeship training. This total cost is the sum of the employer contribution plus the notional cost to the training provider of delivering the necessary training as part of the Apprenticeship contract. This has been calculated as the cost met by the employer from Table 9.2, plus the cost the State pays where 100 per cent of the training provider's costs are met by the State. This indicates that the total cost of the training to Level 2 is £9,097 where the apprentice is aged 16-18 years at the start, and £6,813 where they are aged 19-24 years of age. If the trainee is aged between 16 and 18 years old at the start of their Apprenticeship the State will meet all of the training providers costs, but if the apprentice is aged 19-24 years of age at the start the State will meet roughly 50 per cent of the cost with an expectation that the remainder will be met by the employer or the training provider, and where the apprentice is aged 24 or over at the start the costs, in future, will need to be met by the employer and / or training provider. Where the State does not meet the full cost of training, the cost is sometimes met jointly by the provider and employer, since some employers reported having to contribute to the provider's costs of training apprentices aged 19-24. One for example paid nothing for 16-18s and £300-£500 for those aged 19-24. Another had a slightly different arrangement with the provider paying for the Level 2 (whatever the age), and the employer and provider splitting the costs of the Level 3.

Table 9.4: Estimate of the Total Cost of Training Met by the Employer, Level 2, Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs (including drop out)**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18 years	£4,539	£4,558	£9,097	50	50
19-24 years	£4,539	£2,274	£6,813	67	33
25+ years	£4,539	£1,820	£6,359	71	29

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: only one employer had any apprentices aged 25+ years (9 apprentices)

If the State paid the full cost of training for 19-24 year olds and those aged 25 years and over, the share of costs met by the employer would be more or less the same as for 16-18 year olds.

The total percentage of training costs met by the employer in Table 9.4 is based on the average situation. When told of the typical level of state contribution / support for the training supplied by the training provider (and how this varies by age of the apprentice) councils were generally not surprised by the figures (and clearly the training providers interviewed had an excellent understanding about the funding regime).

When employers were asked how they would react if the state support for the Apprenticeships was cut by 50 per cent or fully, with these costs having to be met by themselves or the provider it was clear that none could continue running their

Apprenticeship programme unchanged. Among the options that would be considered were the following:

- reducing the number of apprentices taken on;
- reducing the length of the apprentice's contract (for example reduce the 18 months of the Level 3 to 12 months), but those where the Level 2 was being completed in six to nine months felt it would be difficult to reduce the period of the Apprenticeship to less than it was currently;
- reducing apprentices' pay, for example to the minimum wage (though some were paying the minimum anyway, and one was restrained by an agreed minimum council wage);
- looking to the provider to reduce their fees, or looking to switch provider;
- making the off-the-job training less intensive. One employer said it would look to reduce the current 36 days of day release a year, and switch to more workshop based delivery, though it pointed out that there was a minimum guided learning hours to be undertaken. Another employer felt switching to more e-learning was an option. It also raised the possibility of recruiting higher skilled candidates who would be exempt from elements of the Apprenticeship training, but they felt this goes against what the whole Apprenticeship programme is trying to achieve.

A number felt in these circumstances they would need to reconsider whether Apprenticeships were viable, as they could see no way of absorbing any additional costs in the current financial circumstances, nor could some see how they could pass any additional costs on (for example to the provider). The main alternative cited would be a stand-alone NVQ without any Key Skills or Technical Certificate. One council said they would need to do this as they had a commitment to train their staff to Level 2. Another felt they would be unlikely to deliver Level 2 training in Business Administration if Apprenticeship funding was withdrawn or greatly reduced as it is not a qualification that they particularly valued internally in terms of it being a requirement to do the job, rather it was provided mainly for the benefit of the young people (c.f. the council's responsibility to its community).

9.7 Further Education Training Loans

The proposal to introduce FE loans is limited to those who are aged 24 years or over working towards a Level 3 qualification. Accordingly, the FE loan scheme would not affect any of the employers providing Business Administration Apprenticeships. Nevertheless, employers provided their views on the idea of loans in general.

Employers were asked how they would react if their apprentices needed to take out a loan to cover the costs of training. It was explained to employers that it would likely be along the lines of the current higher education system with a loan being provided to the apprentice, from a loans organisation, and then this being paid back over a number of years after completing the training, upon a certain threshold salary being reached (£21,000 per year).

Most employers struggled to see how the approach would be beneficial either from the apprentice or from society's point of view. The following points were made:

- many of the councils were, in part, offering Apprenticeships to reduce the number of young people not in employment, education or training (NEET) and to provide a benefit to the community. Accordingly, FE loans would not be applicable;
- Apprenticeships were aimed at younger people, so again loans would not be applicable;
- some Business Administration apprentices are very low paid during their training, often on the minimum wage, with relatively low wages thereafter, so again loans would not be relevant in this context
- a number of employers were offering Apprenticeships that involved no off-the-job training at a provider. If loans were applicable, apprentices might wonder what they were paying for;
- many employers were taking on Business Administration apprentices without an expectation that there would be employment at the end of the contract period. A number of employers felt that this made their situation different from say the case of plumbers, electricians and engineering where employers take on a certain number with the view to them becoming permanent employees, and where achieving the qualifications is essential to progress in that career. Without a guarantee of employment after completion, people might be risk averse in taking out an FE loan

This is not to say some employers felt that a loan approach along the HE model may have mileage. One felt it might work with the employer paying the salary and the trainee paying for the college element via a loan. Another could see the trainee paying for specific elements such as the Technical Certificate.

While one employer saw the loan as potentially operating through it coming out of the apprentice's salary while training (bringing their pay down towards the level of the minimum wage), another thought the loan idea would lead to employers having to pay apprentices more. They put this in terms of their 'deal' or contract with apprentices currently being that of being paid the minimum wage and in return being trained at no direct cost to the apprentice. If loans were introduced then the basis of this contract would be undermined and, hence, paying the minimum wage would no longer be appropriate.

9.8 Conclusion

The average cost of delivering Business Administration Apprenticeships, and the variation in these costs between employers, is far lower than in most other sectors. The variation is driven in a large part by the wages paid to apprentices, which varied from the minimum wage up to levels dictated by agreements on minimum pay levels within councils.

Employers are generally aware of the broad scale of the costs of training which are currently met by the State via training providers. When asked how they would react if they were expected to meet a larger share of the cost currently met by the State, employers recognised that while there were a number of ways in which the impact of these additional

costs could be reduced, ultimately it would likely lead to fewer apprentices being recruited, and some would seriously consider withdrawing from delivering Apprenticeships.

10. Social Care Sector

10.1 Introduction

National Vocational Qualifications (NVQs) have become the standard qualification in social care since they were first introduced in the second half of the 1980s. Following the introduction of the National Minimum Standards (NMS) in early 2000 uptake of NVQs has increased over the years, with more than 80 per cent of regulated service providers having met or exceeded the regulatory requirements in 2008/09.[26] Although NMS were superseded by outcome based indicators in 2010, NVQs and their replacement, the new Diplomas for Health and Social Care launched as part of the new nationally introduced Qualifications and Credit Framework (QCF), will continue to play a key role. Over the last couple of years the Government has promoted Apprenticeships training in all areas, including social care with support from Skills for Care.[27] As a result, the number of Apprenticeships in social care has risen substantially over the years (reported to be 5,025 between January to November 2009),[28] with further increases expected for 2011.[29]

This chapter draws on eight case studies, with some of them exploring more than one type or level of qualification in health and social care (for further details see Table 10.1). Six case studies focus on employers currently undertaking workplace learning (WPL), with four delivering both Level 2 and Level 3 qualifications, and two at Level 2 only. Three case studies focus on employers currently undertaking Apprenticeships, with all of them delivering Level 2 qualifications. While Level 2 is the entry qualification, Level 3 is either offered for personal development or more selectively to train a member of staff who has taken up or prepares to take up a senior care worker position or equivalent.

The case studies include four domiciliary care providers and four care homes. Two organisations also provided day care. Most are independent providers, including three registered charities. The providers were small establishments or independent companies, employing between 38 to 110 people and one organisation had over 100 employees across a number of establishments. Care case studies typically had a high proportion of staff who had either already completed at least an NVQ Level 2 or who are currently working towards one. Many of the employers in the study were proud of offering training well above the level required by regulatory standards, often through their own in-house training. One organisation had won a training award. The interviews were conducted at a time when some staff were still completing their NVQs while others had recently embarked on the new Diploma.

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[26] Skills for Care (2010). The State of the Adult Social Care Workforce in England, 2010. http://www.skillsforcare.org.uk

[27] Skills for Care (2011) Capable, Confident, Skilled - A workforce development strategy for people working, supporting and caring in adult social care. http://www.skillsforcare.org.uk

[28] Skills for Care (2010) 'Taking on an apprentice made a real difference'. Apprenticeships 2010 – advice and guidance. http://www.skillsforcare.org.uk.

[29] Skills for Care News (1 June 2011). http://www.skillsforcare.org.uk

Table 10.1: Care Sector Case Study Employers

Case Study	Apprenticeship (APP) or Workplace Learning (WPL)	Level	Description
Social Care Case Study No.1	WPL	Level 2 / Level 3	Domiciliary care (private company)
	Apprenticeship	Level 2	
Social Care Case Study No.2	WPL	Level 2	Residential care, with rehabilitation unit (private company)
Social Care Case Study No.3	WPL	Level 2 / Level 3	Residential care, with day centre (public sector organisation)
Social Care Case Study No.4	WPL	Level 2 / Level 3	Day care with respite care unit and domiciliary care (registered charity)
Social Care Case Study No.5	WPL	Level 2 / Level 3	Domiciliary care (registered charity)
Social Care Case Study No.6	WPL	Level 2	Domiciliary care (private company)
Social Care Case Study No.7	Apprenticeship	Level 2	Residential care with respite care unit (private company)
Social Care Case Study No.8	Apprenticeship	Level 2	Residential care (registered charity)

Source: IER / IFF The Employer Net Benefit of Training Study 2011

10.2 The Training Decision

In the case study employers, entry level posts (Level 2) were open to people without any relevant qualifications and employers are willing to take them on if they had the right attitude (for more details see section 10.3). In fact, employers saw an advantage in recruiting this group as they can be trained to do the job according to the standards of the organisation without having to potentially unlearn practices, obtained elsewhere, which would not be deemed acceptable in the organisation. Since willingness to embark on Level 2 training was often a requirement of the job offer, people undergoing Level 2 training were typically new recruits rather than existing staff (who will have already been trained to this level).

Level 3 qualifications were offered to both internal and external candidates. Some employers offered it generally to employees to enhance their personal development, whilst others only to staff who have been pre-selected for senior posts. An example of the former is a residential care provider who commented: “Once they have been here quite a while and agreed to a more senior role we do like them to do the threes. But most of them we do ask as soon as they have done the twos they can do the threes.” Others applied different progression routes depending on level the of service provided and the degree of autonomy at work, as the following example shows: staff providing domiciliary care or other community based services can progress to Level 3 after a minimum of 12 months experience on completion of Level 2, taking into account aptitude, as they work in jobs with a greater degree of autonomy. Similar conditions applied to staff working in day centres but in contrast to the former group they will only start on Level 3 once they are in a role where they take on supervisory or management tasks (e.g. assistant manager).

An example of more restricted access to Level 3 qualifications is a residential care provider who only offered it to staff who showed potential to become supervisors and currently had the opportunity to lead other people, even if it was only occasionally. These were predominantly care assistants who were effectively embarking on an Apprenticeship which would put them in a good position to apply for a more senior post when the opportunity arose as "they will have already proved themselves". At any one time there would be people who showed potential and had the "enthusiasm to occasionally act up as duty manager" as this helped with both covering sickness absence and their career development and was considered a "fairly safe" way of developing people. In contrast, a domiciliary care provider offered only Level 3 qualifications when a post became vacant or the company needed an additional senior carer. This was largely because of cost issues, but the requirement of relevant work experience (supervising staff) and the need to provide access to confidential records also played a role in the owner's decision. She would usually approach a specific member of staff who she thought would do the job well.

The standard employer decision would be to opt for WPL rather than Apprenticeship training route given their familiarity with the former, due to its predominance in the sector, and the age structure of those undergoing training, who will often be mature people without, or thought to be without, an interest in Apprenticeship training. Among those employers interviewed it was largely the employee who had opted for the Apprenticeship, partly because this potentially opened up a pathway into nursing. Some employers endorsed their choice or had indicated a particular interest in Apprenticeships, such as one employer who had for the first time recruited a young person and thought the Apprenticeship was the best way to give this person a good foundation in caring. Similarly, one employer argued that the Apprenticeship was particularly useful for a young person without any experience in a caring environment so that they understood the reasons for doing things in a certain way. Another employer saw Apprenticeships as a way of attracting younger people into the sector as, currently, this happened only occasionally when the offspring of current staff applied for jobs. The literacy and numeracy element of the Apprenticeship training (see Case Studies No.4 and No.6 in the box below) was considered a benefit given the demands of the job for report writing and dealing with medication. While all employers had long been involved with NVQs, the first apprentices at the employers involved with Apprenticeships – at the employers with apprentices currently - only started between three to four and a half years ago, and the apprentices were all aged 19 years or older.

Care Case Study No. 4

Domiciliary Care and Day Care

The employer has an interest in pursuing Apprenticeship training in the future as it would attract a new group of people into a sector who could not be reached otherwise. Drawing on their own experience of training people from different organisations the sector was perceived to experience too much churn and this was not considered to be *"that good"* for the sector. There may also be a financial benefit of recruiting apprentices due to the low hourly rate. On the other hand apprentices from colleges were expected to require a lot of support and possibly additional training which has to be factored into the costs.

The literary and numeracy element of the Apprenticeship training was seen as a benefit given the importance of recording, reporting, and dealing with medication, particularly in the light of deficits that emerged when putting their own staff on training programmes. Currently, these deficits needed to be addressed outside of the training programme by *"pushing"* people in the direction of local support programmes.

Care Case Study No. 6

Domiciliary Care

The employer has recently recruited a young person straight from college and saw the Apprenticeship as the natural choice of training to start the person's career in this sector. The owner explained that this is how she would start with somebody of his age, seeing the Apprenticeship as *"a stepping stone for him"*, that would get him *"into the swing of studying"* and enable the company to get more of "an understanding of their abilities". The company normally attracts mature people, who were not thought of as wanting to do an Apprenticeship.

Source: IER / IFF The Employer Net Benefit of Training Study 2011

Since all new staff in the Social Care sector without a relevant Level 2 qualification needs to register for one, employers adopt one or more of a number of strategies if free training places are currently unavailable: switching training provider if the current one has run out of free funding places or begins to start charging; postponing the start of the training until free training places become available; or, if time is running out, looking for a low cost provider. With respect to Level 3, a similar strategy emerges, but there is more latitude as some may offer Level 3 for personal development rather than to meet the specific skill needs in the business. The case study employers often had a long-standing relationship with the training provider in place. It is only when the training provider could not offer access to the required number of free training places within a given period that there was need to source an alternative provider, a process some employers described as time consuming. Often the employers found the new training provider to be less satisfactory, both in terms of their responsiveness and the quality of the training provided and, subsequently, employers went back to their previous, long-standing provider.

Employers reported that they had no preferences for training particular age groups. Some observed that mature people may initially question the need to undertake training but they eventually began to enjoy it. This group may have been a bit more apprehensive because

they have not partaken in any learning for a long time. Others felt that mature people (45 years and older) may be more difficult to train because they had been carrying out the job for years and accumulated a lot of experience and knowledge, so found it difficult to explore new ways of working through training. Similarly, older people, it was felt, could be resistant to taking guidance and support from people much younger than themselves. Whilst young people may be more responsive to training, they lacked experience, it was reported, which was particularly important in nursing homes. One employer said that there was recognition that 18 and 19 year olds have to learn a lot ("may be a bit green in the skills department") but they were also seen to be more eager to learn and had the IT skills sometimes lacking in older workers. The employer said that they needed a mix of staff, drawn from across the age groups. Other employers found no differences across age groups with one employer saying that you can train anybody if you are prepared to put in the time to achieve successful outcomes.

Training decisions at Level 2 were largely driven by regulatory requirements. Apprenticeships and WPL, often in conjunction with mandatory training, was seen to deliver a number of benefits:

- staff obtain a better understanding of what care entails and they work towards the same standards;
- as a result, staff are more confident and more capable of delivering good levels of care;
- investment in training particularly beyond Level 2 offers (personal) development opportunities which keep staff interested in the job and help to retain them (although some may inevitably move on);
- when senior care worker posts become vacant, there will already be a pool of suitably trained internal candidates for promotion.

10.3 Recruitment and Retention

Where people were being recruited to fill entry level care jobs no formal qualifications or experience were required, though they were considered to be beneficial. Instead the essential criteria are people's attitudes and their personality and that they fit into the workplace environment. Employers often emphasised that they were looking for people who had a passion for care and who could be relied upon to support and care for vulnerable adults. One respondent commented: *"You can't do it for money. It is a vocation"*. A willingness to embark on the NVQ or the new Diploma Level 2 was an essential prerequisite because of the regulatory requirements placed on the employer.

People were recruited via word of mouth as a result of the good reputation of the employer, advertisements on the employer's website, the Jobcentre, and local newspapers. Some also use advertisements in shops and GP surgeries. Employers required completed application forms and invited short-listed candidates (or, in one case study employer, all applicants) for an interview. Some invested more time at the interview stage, opting for a two stage selection process. As part of the interview candidates may be given a set of pre-formulated questions focusing on how they would react in certain circumstances while caring for someone, or gauging their understanding of care.

There are opportunities for staff to progress from care worker to senior care worker, team leader or equivalent positions and eventually to (deputy) senior management positions. In small organisations or where staff turnover is low opportunities may be limited and staff would need to look elsewhere to gain promotion. This appeared to be readily accepted by employers. While representing a cost to the particular employer, this contributed to the pool of trained care workers which, ultimately, every employer is dependent upon.

10.4 The Structure of Training

Before new staff embarked upon training - especially those on the NVQ only route - they would have already undertaken some mandatory training and gained some practical experience. A typical pathway of training would be as follows: new staff start on the common induction standards; attend the mandatory training required by the Care Quality Commission; and then progress onto NVQ Level 2 at the end of their initial probation period. While staff undertake their NVQ Level 2 they continue with the mandatory training required to meet the current regulatory requirements. The mandatory training is a pre-requisite for the NVQ qualification as the NVQ cannot be undertaken without that training. As one employer commented: *"You can't send staff out without having certain skills that have already been certified and safe to do".*

The time which elapsed before the employee commenced their NVQ training was between one and ten months after initial recruitment. Starting WPL a couple of months into the job was felt to allow for a degree of self-selection to take place before people commit to WPL as the employer only wanted to enrol those who had settled into the job.

When staff start on the WPL programme there would usually be a meeting with all key parties concerned, explaining the process and the obligations of each party (which are also signed in a contract). Training is usually undertaken on-the-job (other than that which the trainee needs to access specialist equipment at a contracted agency). The candidate will meet the NVQ assessor at regular intervals for one-to-one sessions that provide support and guidance on where the candidate needs to focus. Intervals for meetings with NVQ assessors ranged from once a month to every six weeks. In addition candidates are expected to spend a certain number of hours learning on their own (estimated by one employer to be in the region of one to two hours a week for Level 2 qualification and 2-2.5 hours at Level 3). In some organisations this was partly undertaken during working hours (with time allocated accordingly) and partly at home.

Whilst the time taken to complete Level 2 varied according to the aptitude of the individual and the characteristics of the employer, on average it took between six and 14 months for WPL. For the Apprenticeship the duration is a little longer: between eight and 18 months. Undertaking further training to Level 3 would take on average, a further year upon completion of the Level 2.

The employer had some scope in the WPL programme to influence the training programme by choosing the optional units most relevant to the workplace or by persuading the trainee to select those options which were likely to prove valuable in the workplace.

Social Care Case Study No.10 shows the typical structure of training associated with a Level 2 Apprenticeship.

Social Care Case Study No.10

Apprenticeship, Domiciliary care

While the trainees are awarded the qualification on completion of the NVQ, Apprenticeships include three additional elements: (a) the Employee Rights and Responsibilities, (b) the technical certificate and (c) the numeracy and literacy certificate. The underpinning knowledge is provided by the Training and Development Manager during the first five days when new staff join the company. Some providers will offer refresher training on the underpinning knowledge and this was seen as a bonus. The other elements of the Framework are delivered by the provider, with the company specifying the level of support required for the numeracy and literacy certificate. All the training for the Apprenticeship is provided on-the-job, except for the numeracy and literacy test which is carried out in a quiet environment on the computer. All four elements of the Apprenticeship Framework were found to be "really important", the employer reported, particularly for a younger person without any experience of working in a care environment so that they understand the reasons for doing things in a certain way.

Source: IER / IFF The Employer Net Benefit of Training Study 2011

10.5 The Costs and Benefits of Training

Tables 10.2 to 10.4 show the costs borne by employers in delivering (a) WPL Level 2, (b) WPL Level 3 and (c) Apprenticeship Level 2, respectively. The basic model used to derive the cost/benefit estimates is described in detail in Chapter 2. The essential elements of the model are based on identifying the productive capacity of the apprentice over the training period (i.e. the percentage of the tasks of the fully experienced worker which the trainee can undertake in each year of the Apprenticeship which is then multiplied by the wage of the fully experienced worker), and subtracting from the supervisory and other costs which the employer needs to meet in delivering an Apprenticeship. The model is based on capturing those costs and benefits which can be readily identified in the workplace.

The costs for WPL Level 2 have been standardised over 12 months. Note though that the modal value for completion is six to eight months for WPL at Level 2, and nine to 12 months for WPL at Level 3. With reference to Apprenticeship, the training period has also been standardised at one year.

The benefits employers derived from training are captured through the increasing productive capacity of the trainees as they progress through their training. By the end of the programme all candidates will have achieved 100 per cent productivity. As regards Apprenticeships at Level 2, initial productivity figures varied at the start but again apprentices were considered to be 100 per cent productive by the end of training period.

Overall the net cost to the employer for WPL at Level 2 and 3 were £1,270 and £1,212 respectively. The corresponding figures for Apprenticeship training at Level 2 were higher at £3,816.

Table 10.2: Employers' Costs and Benefits of Level 2 WPL

Social Care, WPL, Level 2	Year 1	Total
Background Information		
Drop out rate (%)	3	
Trainee salary (£ p.a.)	£12,087	
Salary of Fully E10perienced Worker + NI (£ p.a.)	£13,497	
Trainee productivity (% of skilled workers tasks undertaken by trainee)	90%	
Supervision (per trainee)		
Total labour costs of supervision (including employer NI contributions)	£252	
Total training costs per trainee (£)		
Costs of recruiting the trainee	£439	
Course fees	£0	
Supervision costs	£252	
Administrative costs / Other costs	£0	
Trainee salary (including Employer NI)	£12,779	
Total cost	£13,471	£13,471
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£12,169	
Other income (please specify)	£67	
Total benefit per trainee	£12,236	£12,236
Net cost per trainee	**£1,234**	£1,234
Net Cost including drop out	**£1,270**	£1,270

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 10.3: Employers' Costs and Benefits of Level 3 WPL

Social Care, WPL, Level 3	Year 1	Total
Background Information		
Drop out rate (%)	6	
Trainee salary (£ p.a.)	£15,855	
Salary of Fully E10perienced Worker + NI (£ p.a.)	£18,335	
Trainee productivity (% of skilled workers tasks undertaken by trainee)	89%	
Supervision (per trainee)		
Total labour costs of supervision (including employer NI contributions)	£372	
Total training costs per trainee (£)		
Costs of recruiting the trainee	£222	
Course fees	£0	
Supervision costs	£372	
Administrative costs / Other costs	£0	
Trainee salary (including Employer NI)	£17,067	
Total cost	£17,662	£17,662
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£16,364	
Other income (please specify)*	£150	
Total benefit per trainee	£16,514	£16,514
Net cost per trainee	**£1,148**	£1,148
Net Cost including drop out	**£1,212**	£1,212

Source: IER / IFF Employer Net Benefit of Training Study 2011
Note: * Income has only been derived in a case of in-house training where the company has been reimbursed through TSI (Training Strategy Implementation Fund).

Table 10.4: Employers' Costs and Benefits of Level 2 Apprenticeship

Social Care, Apprenticeship, Level 2	Year 1	Total
Background Information		
Drop out rate (%)	0	
Apprentice salary (£ p.a.)	£12,135	
Salary of Fully E10perienced Worker + NI (£ p.a.)	£14,175	
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	86%	
Supervision (per apprentices)		
Total labour costs of supervision (including employer NI contributions)	£2,737	
Total training costs per apprentice (£)		
Costs of recruiting the apprentice	£362	
Course fees	£0	
Supervision costs	£2,737	
Administrative costs / Other costs	£75	
Apprentice salary (including Employer NI)	£12,834	
Total cost	£16,007	£16,007
Total Cost / Benefit to the Employer per apprentice		
Apprentice product	£12,191	
Other income (please specify)	£0	
Total benefit per apprentice	£12,191	£12,191
Net cost per apprentice	**£3,816**	£3,816
Net Cost including drop out	**£3,816**	£3,816

Source: IER / IFF Employer Net Benefit of Training Study 2011

Since the average cost figures provided in Tables 10.2 to 10.4 disguise variations within cases; high and low cost examples for each type and level of qualification in the sample are provided in Tables 10.5 to 10.7. The difference between the total costs for WPL in the low and the high cost example is substantial. Differences are largely determined by variations in the length of time it takes to complete the programme. Regarding Apprenticeship training at Level 2, the relatively low cost example resulted in a net cost to the employer of £1,424 and the high cost example a net cost of £5,822 compared with the average of £3,816 (see Table 10.7).

Table 10.5: Examples of Relatively High Cost and Low Cost Level 2 WPL

	High Cost	Low Cost
	Year 1 (Total)	Year 1 (Total)
Background Information		
Drop out rate (%)	0	0
Trainee salary (£ p.a.)	£15,000	£7,722
Salary of Fully E10perienced Worker + NI (£ p.a.)	£16,094	£8,600
Trainee productivity (% of skilled workers tasks undertaken by trainee)	82%	95%
Supervision (per trainee)		
Total labour costs of supervision (including employer NI contributions)	£357	£349
Total training costs per trainee (£)		
Costs of recruiting the trainee	£47	£280
Course fees	£0	£0
Supervision costs	£357	£349
Administrative costs / Other costs	£0	£0
Trainee salary (including Employer NI)	£16,094	£7,812
Total cost	£16,498	£8,440
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£13,197	£8,170
Other income (please specify)	£0	£0
Total benefit per trainee	£13,197	£8,170
Net cost per trainee	**£3,301**	**£270**
Net Cost including drop out	**£3,301**	**£270**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 10.6: Examples of Relatively High Cost and Low Cost Level 3 WPL

	High Cost	Low Cost
	Year 1 (Total)	Year 1 (Total)
Background Information		
Drop out rate (%)	11	0
Trainee salary (£ p.a.)	£9,640	£22,339
Salary of Fully Experienced Worker + NI (£ p.a.)	£10,140	£26,115
Trainee productivity (% of skilled workers tasks undertaken by trainee)	81%	95%
Supervision (per trainee)		
Total labour costs of supervision (including employer NI contributions)	£376	£408
Total training costs per trainee (£)		
Costs of recruiting the trainee	£0	£562
Course fees	£0	£0
Supervision costs	£376	£408
Administrative costs / Other costs	£0	£0
Trainee salary (including Employer NI)	£9,995	£24,446
Total cost	£10,370	£25,416
Total Cost / Benefit to the Employer per Trainee		
Trainee product	£8,213	£24,809
Other income (please specify)	£0	£600
Total benefit per trainee	£8,213	£25,409
Net cost per trainee	**£2,157**	**£7**
Net Cost including drop out	**£2,397**	**£7**

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 10.7: Examples of Relatively High Cost and Low Cost Level 2 Apprenticeship

	Low Cost Apprenticeship		High Cost Apprenticeship		
	Year 1	Total	Year 1	Year 1.25	Total
Background Information					
Drop out rate (%)	0.00		0.00	0.00	
Apprentice salary (£ p.a.)	£9,000		£10,000	£2,500	
Salary of Fully Experienced Worker + NI (£ p.a.)	£9,266		£10,404	£1,869	
Apprentice productivity (% of skilled workers tasks undertaken by trainee)	90%		100%	100%	
Supervision (per apprentice)					
Total labour costs of supervision (including employer NI contributions)	£23		£3,780	£863	
Total training costs per apprentice (£)					
Costs of recruiting the apprentice	£475		£400	£0	
Course fees	£0		£0	£1	
Supervision costs	£23		£3,780	£863	
Administrative costs / Other costs	£0		£150	£0	
Apprentice salary (including Employer NI)	£9,266		£10,404	£2,500	
Total cost	£9,764		£14,734	£3,363	
Total Cost / Benefit to the Employer per Apprentice					
Apprentice product	£8,339		£10,404	£1,869	
Other income (please specify)	£0		£0	£1	
Total benefit per apprentice	£8,339		£10,404	£1,870	
Net cost per apprentice	**£1,424**	**£1,424**	**£4,330**	**£1,492**	**£5,822**
Net Cost including drop out	**£1,424**	**£1,424**	**£4,330**	**£1,492**	**£5,822**

Source: IER / IFF Employer Net Benefit of Training Study 2011

10.6 Sensitivity to Costs

By adding the net costs of training incurred by the employer to the funding provided by the State for a given course of learning, the total cost of training can be calculated. Table 10.8 indicates that the total cost of the training to NVQ Level 2 is £1,856 where trainees are 19 years or above. In this case the employer meets a large proportion of the total cost (68 per cent). Table 10.9 provides comparable figures for the total cost of WPL to Level 3. Total costs in the case of WPL to Level 3 are similar to the costs for Level 2, at £2,092 for trainees aged 19 years or above.

The costs for those aged 19 to 24 years and those aged 25 years and over as at the start of their training assume that the State meets only half of the funding associated with the training being delivered by the training provider. Accordingly, for these age groups the employer bears a higher share of the overall cost compared with the situation for 16-18

year olds. If the State provided full funding for the older age groups, the employer share of the total cost of training would be similar to that for 16-18 year olds in most cases.

Table 10.8: Estimate of the Total Cost of Training Met by the Employer, Level 2 WPL

	(a)	(b)	(c)	(d)	(e)
Age of trainee at start	**Employer Costs**	**Costs of Level 2 WPL**	**Total cost of Level 2 WPL (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
19-24 years	£1,270	£586	£1,856	68	32
25+ years	£1,270	£586	£1,856	68	32

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 10.9: Estimate of the Total Cost of Training Met by the Employer, Level 3 WPL

	(a)	(b)	(c)	(d)	(e)
Age of trainee at start	**Employer Costs**	**Costs of Level 3 WPL met by State**	**Total cost of Level 3 WPL (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
19-24	£1,212	£880	£2,092	58	42
25+ years	£1,212	£880	£2,092	58	42

Source: IER / IFF Employer Net Benefit of Training Study 2011

Table 10.10 provides estimates of the total cost of delivering an Apprenticeship at Level 2. Here the costs are much more substantial than for other WPL in the sector, with the costs borne by employer and state alike being higher. The total cost of delivering a Level 2 Apprenticeship to 16-18 year olds is estimated to be £8,972, £6,370 for 19-24 year olds and £5,860 for apprentices aged 25 or above.

Table 10.10: Estimate of the Total Cost of Training Met by the Employer, Level 2 Apprenticeship

	(a)	(b)	(c)	(d)	(e)
Age of apprentice at start	**Employer Costs**	**Costs of Apprenticeship met by State**	**Total cost of Apprenticeship (a + b)**	**% costs met directly by employer (%)**	**% of costs met directly by the State (%)**
16-18	£3,816	£5,156	£8,972	43	57
19-24	£3,816	£2,554	£6,370	60	40
25+ years	£3,816	£2,044	£5,860	65	35

Source: IER / IFF Employer Net Benefit of Training Study 2011

It should be noted that the total percentage of training costs met by the employer in Tables 10.8 to 10.10 are based on the average situation. Employers were often unaware of the total cost of a particular qualification (i.e. the sum of the training provider and employment elements), as this kind of calculation has not been undertaken before.

The findings of these case studies indicated that training decisions are cost-sensitive. Employers will source free training places for WPL and Apprenticeships or slow down the

process of registration for these qualifications in order to avoid incurring costs or will, as a last resort, “shop around” for a low cost provider.

When exploring how employers would react if training costs were to rise in future (i.e. looking at a scenario of paying 50 per cent or even 100 per cent of the costs for WPL or the Apprenticeship training courses currently provided free of charge), responses were developed ad hoc and expressed a degree of uncertainty. In some instances employers were aware of impending changes in funding for training (part-funding in certain cases) and had begun to develop a strategic response as a result and in these cases responses would be considered as more robust.

Employers discussed different options, partly related to the way they operated, and considered one or more of the options below.

- Limiting training opportunities while still meeting regulatory requirements. This may mean recruiting people who already hold relevant qualifications but this would deny employers access to a valued pool of unqualified people who want to enter the social care sector. Another employer said that changes in funding would not affect training numbers at Level 2 due to regulatory requirements and the fact that nearly all staff were already trained to Level 2, but Level 3 qualifications may no longer be offered for personal development and instead restricted to staff earmarked for a senior care worker role with the training budget concentrated at Level 2. Having said this, the training manager asserted that it would be “a net loss to the business and the sector” if only minimum standards were met.

- Apprenticeships for young people offered free of charge remain an attractive option, but numbers would be limited to maintain age-diverse recruitment. One employer would consider leaving the post vacant and asking staff instead to make up for the shortfall through working longer hours.

- Generating new income streams: employers who currently provided mandatory training in-house would look to provide training for other care homes, possibly in specialist areas, and in this way generate an income stream for their own training needs.

- Looking to see if the employee might meet some of the costs of training, especially if they left the company soon after the completion of their training.

- Lowering trainees’ salaries was not considered a viable option in a low paid sector.

- Employers would also test the training market and explore scope for negotiating lower prices if they were purchasing more training places.

- While there may be cheaper forms of training available (e.g. online training) there were concerns that it would not provide the same benefits as interactive sessions.

- Other options mentioned included incentivising staff to complete training programmes as quickly as possible.

The overall picture was that some employers would struggle to meet increased training costs. It should also be noted that potential changes in funding for training would come at

a time when some employers have yet to make the transition from block-grant funding to personalised budgets, which introduces an element of uncertainty in funding. Moreover, non-training related costs have increased sharply (e.g. heating costs) which has affected some care homes more than others.

10.7 Further Education Training Loans

The proposal with respect to FE loans is that people aged 24 years or over upon commencement of their Apprenticeship should meet the costs of training, where leading to a Level 3 qualification. A loan would be made available to apprentices which would need to repaid when the employee's wage exceeds £21,000 a year. This potentially affects social care organisations insofar as Level 3 training is often delivered to people aged 24 years and over, but a relatively small number will earn £21,000 a year or more.

Introducing such a loan for people embarking on WPL or an Apprenticeship was met with some scepticism by social care employers. The principal objection related to the fact that social care is a low pay sector. The comment made by one employer that *"...you are squeezing something out of not very much in the first instance"*, was a view echoed by several others.

One company was also concerned that it would send out the wrong message because domiciliary care providers look to develop and invest in people. *"If you want good quality future carers you need to invest in them – not take money off them",* explained the Training and Development Manager.

There were also concerns that trainees or apprentices may select companies who do not charge for training or that, while the concept of a loan may gain some acceptance if introduced across the entire sector, it may affect recruitment in general as people may want to choose a job in a different sector with higher wage returns. As such, the result might be substantial skill shortages in future, particularly at higher skill levels.

Only one employer was more sympathetic to the idea of loans as they thought it may be the only way for the charity to meet potentially steep rises in training costs, provided the loan would be paid directly to the employer rather than the employee so that the employer has greater control over it. This would then be effectively a company loan, whereas the model envisaged would be one where the FE loan is paid to the trainee via the State. In this way, the employer could potentially share the costs of training with the trainee.

10.8 Conclusion

The social care sector has a long-tradition of taking on people with relatively little experience, but who have a willingness to care for others, and training them in the first instance to Level 2 via WPL or Apprenticeships. There are well established models in the sector for achieving this goal. It would appear that finances in the sector are finely balanced, especially as care homes are often facing higher operating costs attached to, for example, heating costs. Accordingly employers are as sensitive to training costs as they are to the rest of their major budgetary items. The costs of training to Level 2 are relatively modest compared with other sectors but employers reported that if the cost currently met by the State were to be passed onto them they would need to reconsider their training activities. The key issue is how they would defray any increase in the cost of training. The

evidence may suggest that they might opt for WPL, given that the costs of Apprenticeship training are higher, or to reduce the time taken to complete training (n.b. Apprenticeships take longer to complete). The fact remains that given the mandatory training requirements in the industry, the social care sector will not have the option of opting out of training completely or even substantially reducing the number of people it trains if it is to avoid skill shortages in the future.

11. Employers' Training Decisions

11.1 Introduction

The preceding chapters provide evidence about why employers engaged in Apprenticeships or WPL. This chapter provides a synthesis of the evidence across the various sectors to explore why employers engaged in training at all, why they chose Apprenticeship rather than WPL or vice versa, and why they chose to train new recruits rather than existing employees or vice versa. Understanding why employers engage in VET provides much information about their sensitivity to the costs of training – explored in the next chapter – and the training they would provide if they, the employers, were required to meet a higher share of the overall cost of training under Apprenticeship or WPL leading to the award of an NVQ.

11.2 Why Train at All?

The first issue to address is why engage in training at all. At the outset, a distinction needs to be made between initial vocational education and training (IVET) and continuing vocational education and training (CVET). Historically, Apprenticeship has been seen very much as a form of IVET but now encompasses CVET too. In contrast, WPL, other than Apprenticeship, has much more of an association with both IVET and CVET. Train to Gain, for example, was designed to deliver training leading to the award of the NVQ to existing employees within an organisation. Depending upon the type of training being delivered - IVET or CVET - employers are likely to report different rationales for their investments in human capital.

Reasons for investing in IVET

In the case studies where training is provided to new recruits and corresponds to IVET the reasons employers gave for engaging in this form of training included the following:

1. momentum, where the employer had a long history of taking on, principally apprentices, in order to replenish the supply of skills the business needed;

2. a recognition that new recruits who were being formally trained often brought in new skills – acquired through the training provider - which could be cascaded through the workforce;

3. a means of bringing young people into the business;

4. a perception that the local labour market had an insufficient stock of fully experienced workers who could be readily recruited;

5. a view that there was little scope for up-skilling existing members of the workforce working in less skilled jobs;

6. a belief that the recruitment of graduates – principally instead of apprentices – would not supply the type and level of skills the organisation currently required;

7. a preference for training one's own because this ensures a better fit between the skills of employees and the needs of the workplace;

8. recognition that it was more cost effective to train one's own employees because they were likely to stay with the business longer;

9. a means of recruiting relatively well qualified and well suited people to the business;

10. a sense of corporate social responsibility where employers provided training mainly to young people to assist them access the labour market.

Reasons for investing in CVET

At its core, training designed to deliver IVET, was concerned with the provision of skills which would allow the individual to work in a given occupation. Completion of the Apprenticeship in sectors such as engineering and construction was in many respects a de facto licence to practice. The reasons for investing in CVET were distinct from those cited above in relation to IVET and included the following:

1. a desire to reward employees through the provision of an externally accredited qualification which certified, in many instances, the skills the employee already possessed;

2. a way of adding to the confidence and motivation of employees;

3. a means of recruiting people who are suitably skilled for the job on offer by making the employer potentially more attractive through an offer to either accredit their existing skills and / or enhance those skills at the margin through an externally accredited training programme;

4. a means of reducing labour turnover by being seen to invest in the employee;

5. up-skilling existing employees such that they might be able to take on higher level jobs

Employers used WPL as a form of CVET to meet multiple workplace needs, including up-skilling existing employees so that they would be upwardly mobile within the organisation and to accredit existing skills. Accordingly, it tended to meet both (a) training and (b) a wider set of human resource management needs within the organisation such as improving employee motivation and confidence.

11.3 Apprenticeships or WPL?

Apprenticeship is a form of WPL, but it is a distinct type of training because it encompasses several separate elements – which comprise the framework – all of which need to be successfully completed. The elements are:

- a vocational qualification (NVQ / Diploma, etc.);

- a technical certificate which ensures that the underpinning occupational knowledge has been acquired;

- the acquisition of transferable or functional skills in literacy, numeracy and ICT;

- Personal Learning and Thinking Skills which allows the apprentice to transfer their knowledge and skills into other working environments or enable them to progress within their own organisation;

- Employee Rights and Responsibilities.

The Specification of Apprenticeship Standards in England (SASE) outlines further stipulations which must be in place for the Apprenticeship to take place, including: an employment relationship between apprentice and employer; provision of a minimum number of guided learning hours; a recommended minimum duration of Apprenticeship of one year, etc. Accordingly, an Apprenticeship consists of much more than WPL leading to an NVQ at the same level. At face value, this might suggest that employers would be more willing to adopt the WPL path unless the Apprenticeship conferred benefits on the business over and above that provided by WPL, and which offset the additional costs associated with the additional elements.

From the employer case studies a number of factors can be identified which affected the employers' training decisions:

1. inertia – where employers had a tradition of training people through, for instance, Apprenticeships, they were reluctant to move away from a model where it had proved successful in the past;

2. sectoral norms – where there was a general acceptance across the sector that certain occupational groups of people would be trained through Apprenticeship;

3. legal or regulatory requirements that required employers to ensure that their employees held the necessary qualifications;

4. perceived business benefits – in some sectors there was recognition that where all IVET was provided through Apprenticeships this could be beneficial in winning new contracts;

5. cost – employers in some sectors were more attuned to the costs they bore in delivering training and selected training on this basis;

6. the role of the training provider – where the employer had relatively little experience of engagement in IVET or CVET they were often guided by the training provider as to which programme they should adopt.

It was apparent that in sectors such as engineering and construction that Apprenticeship was the established pathway for gaining entry to one of a number of skilled occupations. In many respects there was little alternative to adopting Apprenticeships in these sectors if the aim was to give the trainee an industry-wide qualification. Since many other employers looking to recruit the same applicants were offering Apprenticeships, employers had little option to this form of training. In general, this type of training was much valued by employers in these sectors and was thought to deliver many business benefits. In financial services, employers also had a preference for Apprenticeships, despite the fact

that there was little history of this form of training in this sector and there were credible alternatives on offer. But Apprenticeship was recognised as providing structured training, into which the industry's professional standards could be incorporated, which was seen as adding value to the businesses by delivering the skills the employers required and signalling to the wider market that the industry's employees were well trained and suitably qualified.

In the public sector, one of the main drivers which determined the decision to train was corporate social responsibility. In this case, Apprenticeship was seen as providing the trainee with a relatively more valuable qualification to take into the labour market.

In the other sectors, Apprenticeships were less well established and there were established alternatives on offer. In some cases, such as selected ones in retailing, hospitality and transport and logistics, employers had introduced Apprenticeships, but there was a sense in which Apprenticeships were on trial.

11.4 Who to Train?

With respect to who was trained there are two issues to consider: (a) why the employer decided to train existing employers rather than delivering IVET to new recruits (and vice versa); and (b) the age of the trainees.

New recruits or existing employees

The decision whether to train existing employees or provide IVET to new recruits was very much driven by the needs of the business and the availability of training places (via the training provider).[30]

Where VET was being delivered to existing employees, one of the principal aims of the employer was to improve employment retention. In several sectors such as social care, hospitality, and retail, employers reported relatively high levels of labour turnover. They believed that by training existing employees to accredit their existing skills this would reduce labour turnover, or ensure that employees put-off leaving the company until such time as they had completed their training and received the certificate. It was also seen as having the potential to improve recruitment – which in turn might reduce levels of labour turnover – since a better quality of recruit was obtained where training was on offer even if the individual employee was already relatively experienced. In large organisations with high levels of labour turnover amongst shopfloor staff there were potentially large cost savings to be realised by reducing levels of labour turnover. .

Whilst employers recognised the merits of Apprenticeship and WPL as having a beneficial impact upon the labour retention when used as a source of CVET, some could also point to a proactive impact on their training activities. One employer, for instance, in retailing, mentioned that it was moving over to an Apprenticeship programme from its own in-house training programme with the principal aim of improving the quality of recruit and help lower labour turnover, given that it was currently training around 1,000 people a year for entry level positions to the company due to high levels of labour turnover. Nevertheless, it recognised that in moving over to Apprenticeships from its own in-house training it would

[30] It was only in the social care sector where employers made specific reference to a lack of training places. The impression from all of the other sectors was that their demand for training was being met by providers.

need to broaden the scope of the training it currently provided. So it needs to be borne in mind that some employers – such as those in retailing and financial services - also used Apprenticeships and other forms of WPL as a means of delivering continuing training to existing employees so that they were able to better carry out their existing jobs and were better placed to undertake higher level jobs in the future.

Where IVET was being delivered to new recruits – typically those who had just left school or college – the aim was to equip people in skills which the employer could not source either effectively or efficiently through other means (e.g. from the external labour market). Here the aim was very much oriented towards providing the trainee or apprentice with the skills without which they would be unable to work in their chosen occupation. Employers providing IVET could also point to training having a beneficial impact on employment retention.

The age of trainees

The level of funding provided to training providers varies according to the age of the trainee. In general, if the trainee is aged 19 to 24 years old the start of their training, the training provider will receive half of the unit cost of providing training for a given course, and if the trainee is aged 25 years or over, the training provider will generally receive no funding. Where the training provider receives less than the full unit cost of the training they have a choice of either accepting a lower margin on the training they provide, or they can obtain funding from the employer. This potentially affects the willingness of providers to take on trainees according to their age, unless the employer is willing to make up some of the shortfall in funding.

From the employer side, the overall findings suggested that in relation to IVET:

1. employers generally did not make cash payments to trainers for either Apprenticeships or WPL where trainees were aged over 19 years;

2. employers in some sectors had a clear preference for relatively younger apprentices. This was related to three factors: (i) younger trainees were cheaper to employ; (ii) younger trainees were more malleable and more willing to take on the employer's values; and (iii) there was a need for age management within the organisation to ensure a supply of skilled labour in the future;

3. employers in other sectors had a clear preference for slightly older apprentices either because of statutory requirements (e.g. for drivers in the transport and logistics sector) or they sometimes preferred more mature employees (e.g. in hospitality and social care);

4. in selected instances, where employers could not find a provider willing to take-on an older employee because of funding, they would consider putting a younger person through instead (e.g. social care).

In relation to CVET, training was, in general, being delivered to older people simply as a consequence of it being available to all existing employees. In general, employers felt that it would inappropriate in many cases to limit access to CVET to certain age groups as it may have the impact of de-motivating those who are excluded. There is an age cohort effect here. As the example of the financial services sector illustrates, once older, existing

employees have completed their Apprenticeship or WPL, training will become more concentrated on younger people.

11.5 Who Makes the Training Decision?

There was a considerable amount of variation with respect to who made the decision to train. Table 11.1 summarises the decision making process.

Table 11.1: Training Decisions within Organisations

Type of workplace	Decision Making Process
Large, multi-site employers in sectors such retailing, financial services, construction	Usually made by training department in head office. Workplaces within the group have responsibility for delivering the training. Often involves close liaison with training providers – if not acting as own provider – and Government agencies responsible for training.
Large workplaces (often single site or split over one or two sites, such as in hospitality)	Overall decision to engage in training of one kind or another – Apprenticeship or WPL - is made by Training or Personnel Manager who also has responsibility for setting training budget, but decisions about who to train, and in what, are left to individual department heads.
Single site workplaces in engineering, construction	A business case is made recurrently each year to take on a given number of apprentices. This is typically based on human resource planning about work levels, number of retirements and likely number of quits.
Smaller, single site workplaces	Tends to be more an *ad hoc* approach sometimes in response to offer of training from training providers. Decision to train tends to rest with owner – managers / managing director

As can be seen in Table 11.1 the decision making process varied by type of workplace. Some of the very largest companies with multiple sites tended to make decisions regarding the type of training to be delivered at head office. In some of the case studies of these organisations it was apparent that they were delivering company Apprenticeships tailored to meet the company's needs alongside the wider needs of the individual trainee. In other businesses the responsibility of delivering the training was devolved to the individual workplace where the case study was conducted. In some of the larger workplaces in sectors such as hospitality where there might be a small number of hotels in

a chain, it was the training manager's responsibility to decide upon the training programme and which training providers would be used to deliver that training. Whilst the training manager had the responsibility for setting the training budget and getting this agreed in the annual round of budget setting, it was then up to individual department heads to identify their training needs and select people to embark on that training.

In engineering and construction workplaces with a long tradition of Apprenticeship training there was an annual business case to be made about how many apprentices would be recruited in the coming year. There was much less consideration here to whether or not they should train and under which programme they should train; the issue was much more about how many people to train using a range of planning tools.

Finally there are the smaller workplaces often without much tradition of training. Here the training decision was more ad hoc and could often be driven by training provider making an offer to train either existing staff or new recruits.

Where people were being recruited to an IVET programme, especially an Apprenticeship, there were rigorous recruitment criteria relating to the qualifications required to be considered for a training place (often five GCSEs where the training was likely to lead to a Level 3 qualification) and often a multi-stage interview process where the applicant needed to demonstrate an enthusiasm and aptitude for their career choice. In those companies with a long tradition of Apprenticeship training they tended to have a surplus of well qualified applicants. Overall, relatively few employers reported difficulties recruiting apprentices or trainees. In the case of CVET, employers tended to allow all employees with an interest in training to participate in it.

11.6 Conclusion

Based on the evidence collected from the case studies, Table 11.2 provides a simple taxonomy of employers according to the training decisions they took. It is based on a cross-classification of who receives the training (existing employees or new recruits in receipt of IVET) by the type of training provided (Apprenticeship or some other form of WPL). It shows that Apprenticeship as a form of IVET tends to be more firmly established in sectors where there is a long tradition of this type of training or where sectors have incorporated statutory and professional standards within a framework (such as in financial services where Apprenticeship was used to ensure that trainees achieved the relevant professional qualifications). It was also notable in the public sector that Apprenticeship was a preferred route for the delivery of business administration training in part because the employer recognised that there was more kudos attached to a young person completing an Apprenticeship than some comparable form of WPL. There were relatively fewer examples across the sectors of Apprenticeships being delivered to existing employees, but there was some evidence that where it was delivered it had the aim of supplementing existing skills rather than solely accrediting existing ones. .

WPL as a form of IVET was more common in those sectors without a tradition of Apprenticeship training and where there was a clear alternative to the Apprenticeship IVET pathway. It is notable that in engineering and construction, for instance, it is the norm for people to be trained via Apprenticeship and there are relatively few well regarded alternatives to it. In sectors such as retailing, hospitality, transport and logistics, and social care there are well regarded alternatives to Apprenticeship training which are, in general,

less onerous than Apprenticeships since they are focussed on attaining the NVQ and not the other elements required for completion of an Apprenticeship.

WPL as a form of continuing training was more common amongst those employers who were concerned about employment retention and wanted to provide a reward to employees in order to retain their services. Hence it was more commonly found in sectors such as retailing and, to a slightly lesser extent, in hospitality.

Table 11.2: Taxonomy of Employers Training Decisions According to Training Programme Type and Who Receives Training

Training Programme	Training Recipient	
	IVET to New Recruits	**CVET to Existing Employees**
Apprenticeship	Typically sectors with a long – tradition of training in this way (*e.g.* construction, engineering). Sectors with relatively high professional or statutory standards (*e.g.* finance) Corporate social responsibility linked to structured training (*e.g.* business administration in public sector).	Where there is a wish to develop further the skills of employees sometimes linked to obtaining professional qualifications (*e.g.* financial services)
Workplace Learning	Sectors of the economy where Apprenticeships have less of a tradition and cost is an issue in training (*e.g.* social care) and where the WPL pathway is established as an alternative pathway to Apprenticeships (*e.g.* hospitality, retail, transport and logistics)	Where the emphasis is upon accrediting existing skills as a reward to the employee and in order to improve employment retention (*e.g.* hospitality, retailing)

There are, of course, shades of grey in the above typology. Where employers provided WPL as means of managing labour retention this does not necessarily mean that no new skills were obtained by employees. And where employers chose WPL rather than Apprenticeship as their preferred form of IVET this was sometimes driven by the training provider rather than a fully informed view of Apprenticeships. Notwithstanding these caveats, Table 11.2 captures some of the principal differences in the training decisions of employers in relation to different forms of VET.

12. Employer's Sensitivity to Training Costs and Payback Periods

12.1 Sharing the Costs of Training between Employers and Trainees

An important element of the study was to gauge how employers might react should the level of public funding be reduced with, potentially, employers or trainees picking up an increased share of the total cost of training. At the moment the State meets the costs of training providers delivering Apprenticeships and WPL programmes according to a fixed set of costs for each course and the age of participants at the start of their training. The employer meets the costs attached to supervising workplace learning, and the trainee meets the costs – at least in theory – through receiving lower wages during training than they would if they took a job which required no training. The employer case studies explored how employers might react if they were to pick-up 50 or 100 per cent of the training provider's costs currently publicly funded, and sought their views on the possibility of training loans being taken out by trainees aged 24 years or over to cover some of the costs of their Apprenticeship training or WPL leading to a vocational qualification. Whilst the recent White Paper outlined the need to rebalance the funding of further education and skills so that those who benefit from it most potentially contribute more to its funding, no levels have yet been set. The aim of the inquiry with employers in this study was to hypothetically explore how sensitive their decisions to train were to the cost of training, and gauge their views on how training loans might work given the various ways in which they delivered training. To some extent this all needs to be seen in the context of how much employers already spend on training – as itemised in the preceding chapters – and how quickly employers can recoup their expenditure on training. Accordingly, updated estimates of the time taken for the employer to recoup their training investments are provided.

12.2 Employer Reactions to Increased Training Costs

Employers were asked a series of unprompted questions about how they would react if they had to meet 50 or 100 per cent of the costs currently met by the training provider. In order to give some perspective to the discussion, employers were presented with an indication of the total cost of the training they were engaged in per trainee or apprentice, and shown the share or amount paid for by the State and the share or amount met by the employer. When the discussion turned to how much employers might have to contribute if the State withdrew 50 or 100 per cent of its contribution, they were given a series of prompts to check whether there were ways in which additional costs could be met without the employer either withdrawing from training completely or substantially reducing the number of trainees or apprentices they took on each year. The prompts included:

1. whether there would be any change in practice because the current financial contribution of the employer meets the expected contribution they might be expected to make to the training provider;

2. employers absorbing the additional training cost without any impact on the volume or structure of training undertaken;

3. employers looking to achieve efficiency savings to reduce the impact of any additional costs (e.g. reducing the duration of the traineeship or Apprenticeship, seeking out new training providers, changing the structure of training, etc.);

4. employers shifting from Apprenticeship to some other form of WPL;

5. shifting some of the costs of training onto full-time education (e.g. by recruiting apprentices at an older age after they have completed a full-time education course which gives the trainee exemptions from completing certain parts of the Apprenticeship).

In addition to these reasons, there was also interest in the extent to which the employer might:

6. reduce the number of trainees taken on each year; and

7. withdraw from the provision of initial vocational education and training.

When considering how employers might respond to meeting the additional costs of training - implicit in this was that there would need to be some form of cash transfer rather than a gift in-kind – employers' responses tended to reflect the extent to which they were committed to the type of training they delivered. At one end of the pole, there were employers who were of the view that they would need to continue training much as they did now but would try to find efficiency savings, even if they were not sure how. And at the other, there were employers which would be likely to continue to engage in training but with either a much reduced number of trainees or with a shift towards some form of non-certificated training which some employers had engaged in until relatively recently. There were also a lot of views between these two opposite poles. As noted in the previous chapter, much can be explained by looking at the employer's rationale for engaging in training. Some employers, typically those in engineering and construction, but not limited to these sectors, saw little alternative to training people through externally accredited training programmes if they were to equip themselves with the skills they needed and in doing so signal to the markets in which they operated that their employees possessed the competence to meet the demands of their customers. At the other extreme, there were employers which were principally using Apprenticeships and WPL as a means to manage labour retention and their commitment to this form of training hinged in part on it being cost-effective. In other words, training needed to generate sufficient recruitment cost savings to make it a worthwhile investment. Again, these are the extremes of the positions held by employers with many falling somewhere in between.

Employers in engineering, construction, and financial services were the least likely to indicate that increased costs would result in them disengaging from Apprenticeships. These sectors have a longer tradition of engaging in this form of training and for most employers the Apprenticeship is seen as the only way in which they can satisfy their demand for intermediate level skills. For these employers, a decrease in the number of apprentices taken on each year is much more likely than a complete withdrawal from the programme but even here they were reluctant to concede that this would occur since they tended to carefully plan how many apprentices they needed each year to ensure that they avoided future skill shortages. These employers looked at how they might absorb the

costs of training or get the training provider to absorb the costs and thought this was a possibility. They were reluctant to reduce the duration of training since experience had demonstrated that three to four years was the time required to become nearly fully competent in an occupation.[31] They were also reluctant to reduce wages since this might affect the quality of applicants. In construction there was thought to be little room for manoeuvre on wages since these were set nationally.

In social care, employers could see very little room to manoeuvre as regulations require their staff to have a minimum level of accredited training. Along with employers in retailing, hospitality, transport[32] and business administration there was thought to be no scope for reducing wages paid to trainees because many trainees were already paid the National Minimum Wage or something close to it. Moreover there was no scope to reduce the duration of training since most were already at the minimum recommended duration set out in the SASE. Some said they might look to their existing training provider to absorb some of the cost or look for a training provider which was willing to charge less. In some instances, employers had long established relationships with training providers – and recognised that a good relationship with a provider was essential to ensuring that training was delivered in a flexible way to meet the needs of the business whilst maintaining quality standards – so were reluctant to change providers.

When asked whether they would shift to other types of training if the costs of their current provision were to increase, some employers indicated that this could present a feasible option but that there would likely be some negative consequences. A considerable number of employers across several sectors indicated that they could provide training to their employees which included only the 'essential' components required in the job currently and, in some cases, this might be non-accredited. Alternatively such training might not comprise a full NVQ, just those elements – such as a licence to drive in transport – essential to the job currently. In construction, the possibility of using a 'mate system' or providing standalone NVQs was considered but was regarded as a less attractive option to the current provision of Apprenticeships. In social care, employers indicated that where they currently offered Level 3 training for personal development of their staff and, where this training was non-essential to current needs, it might no longer be supported. Employers in hospitality, retailing, and transport said that they could move to only providing training which was essential for the job and would provide that in-house. Many employers were of the view that adopting a minimalist approach to training would ultimately be to the detriment of the business, possibly resulting in future skill shortages or skill gaps, with employees in some instances having less attachment to their job.

Some employers in retailing, business administration and social care said that it may be possible to reduce training costs by increasing their use of e-learning and distance learning but there were concerns over the quality of such training without more traditional training supervision, and acknowledgement that the new minimum guided learning hours would limit the scope for this.

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[31] It was pointed out that shortening the duration of training can result in apprentices moving to full adult rates sooner rather than later so this might not be as cost-effective as first thought.

[32] Except one employer providing a Level 2 Apprenticeship in HGV Maintenance and Repair

A number of employers across the sectors indicated that in light of increased training costs they would be more selective about which employees were trained. Where existing employees comprised the majority of trainees, employers might provide training only to those eligible for funding (perhaps younger rather than older employees or those who had not already obtained a qualification at a given level) or where the training was considered to be essential. Similarly, many employers indicated that they would select apprentices and trainees, where newly recruited to the business, who showed the most ability and motivation in order to ensure completion of the training programme. That said, most employers were doing this already.

Some indicated that with more costs of training being incurred by the employer, they may consider recruiting trainees and apprentices who had already attained qualifications which would count towards the qualification they were providing so as to reduce the company's training costs. In some sectors such as those public sector organisations providing business administration Apprenticeships, this was seen as running contrary to the main goal of their training provision: up-skilling often disadvantaged people in their local areas. In other sectors, such as hospitality, it was possible to recruit people from college who were already part qualified.

In general, at a fifty per cent decrease in current levels of State funding employers would look to find ways of offsetting this increased cost; at 100 per cent there was more of a view that the volume of training would be reduced. It is notable that those employers who would be expected to bear the highest increase in the cost of training – Level 3 training in engineering and construction – were the most reluctant to concede that they would have to substantially change how they currently organised and delivered training or how many people they trained. Where the costs which would be passed onto the employer were more modest, it was here that employers were more of the view that it would result in a reduced volume of training or a shift from Apprenticeship to stand-alone NVQ to less than full completion of an NVQ.

12.3 Employer Views on Further Education Loans

In the discussions about what would happen if the State were to reduce its funding of VET, many employers were of the view that they would be reluctant to pass the costs onto the trainee through reduced wages. Following on from the discussion about how employers might increasingly pick up more of the total cost of training, consideration was given to the idea of the Government providing trainees or apprentices with loans to cover some of the costs of training met via the training provider. Employers were asked what would be their reaction to the idea of apprentices or trainees taking out loans along similar lines to students in higher education (HE), with the loan paid back by the former trainee over a number of years once they had completed their training and reached a certain earnings threshold.

FE loans would only apply to people aged 24 years or over at the start of their training leading to a Level 3 qualification. Repayment of the loan would only begin when the person obtained a salary of £21,000 a year or more and any remaining balances would be written off after 30 years. Given the relatively small group loans would apply to, nearly all apprentices and trainees in the case study companies fell outside the scope of the proposed FE loans system. Nevertheless, employers gave their views generally on how FE loans might affect their activities. Accordingly, these views were about the idea of introducing loans into FE generally rather than the system which is currently proposed.

The general reaction to the introduction of loans as described above was negative in most cases. Even where some positive aspects were acknowledged, employers generally felt that loans similar to those in HE would not be feasible or appropriate for trainees / apprentices. Some employers thought that loans might lead to exclusion of various groups (e.g. those from low income families and those already disengaged from learning) from undertaking training or Apprenticeships. Many employers felt that many potential recruits would be put off by the idea of taking on debt to undergo training. This might be the same group in some instances who might be put off going to university because of the costs attached to it. This was especially relevant in sectors with relatively low pay (e.g. social care, hospitality, and retailing) where employers felt that potential trainees would be unable to conceive of the future stream of income which might pay off the training loan.

Some employers providing WPL felt that with little or no off-the-job element to the training, there was an issue of what was being paid for by the trainee. Many employers also felt that by making the trainee pay there would be an expectation to meet the trainees' requirements in terms of training content and structure which could be at odds with employers' priorities. This might have the potential to increase the costs of training. Some also felt that such loans would negatively affect the employer-employee relationship and would very likely reduce the ability of employers to retain former apprentices / trainees as individuals would look for higher wages elsewhere in the face of repaying loans.

Many employers felt that loans would be especially less viable for younger trainees or apprentices (i.e. just out of school) than for older individuals even though the possibility of introducing loans would be limited to those 24 years of age or older. Employers thought that older trainees or apprentices would be more understanding of the need to invest in their own training in order to secure employment and better pay in the future, while younger individuals were more likely to take a short-term view. A number of employers felt that while overall loans were not the optimal approach to funding WPL or Apprenticeships, one positive effect of their introduction could be that it would increase the individual's commitment to training and the effort they put into training and examinations. Some also thought that requiring trainees and apprentices to contribute to training costs through loans would help to weed out less committed and less motivated candidates before the recruitment stage. These more positive views towards FE loans were expressed by a relatively small minority of employers.

12.4 Payback Periods

The estimated payback periods for Apprenticeships (Level 2 or 3) in each of the case study sectors are presented in Table 12.1. The calculation of the payback period has been limited to those cases where the apprentice is a new recruit to the company rather than including cases where Apprenticeship is being used to accredit existing skills. To include the latter is potentially misleading since there is relatively little increase in the overall productivity of such apprentices over the training period (as reflected in their wage rates) in many of the employer case studies, and the costs to the employer are relatively modest compared with the situation where the apprentice is a new recruit in receipt of IVET.

A caveat needs to be added to the above. CVET, delivered via Apprenticeships or some other form of WPL, has the potential to increase skill levels where it is being used to upskill rather than solely accredit existing skills. The difficulty the analysis has is attaching a

value to that gain in skills So whilst, for many employers providing CVET, the payback period is close to zero (which is a feature of the method), this will not necessarily be true for all employers providing CVET. The next section considers how the payback method might be developed to more accurately incorporate CVET

Table 12.1: Payback periods by Sector (provisional)

Sector	Apprenticeship Level	Payback period
Engineering	Level 3	3 years, 7 months
Construction	Level 2+3	2 years, 3 months
Retail	Level 2	2 years, 3 months
Hospitality	Level 2	10 months
Transport	Level 2 (mechanic)	6 months
Financial Services	Level 3	2 years, 6 months
	Level 2	3 years, 8 months
Business Administration	Level 2	9 months
Social Care	Level 2	3 years, 3 months

Source: IER / IFF The Employer Net Benefit of Training Study 2011

The payback estimate is based on the method developed in the previous Net Benefits of Training to Employers Study which adopted the following approach: Section 2.4 describes the method.[33]

The payback period is an estimate of the time taken for the employer to recoup their investments in Apprenticeship. A number of points of caution are needed in interpreting these payback periods. Firstly, the calculations are based on a limited number of case studies. Second, the payback is based on the assumption that the apprentice stays with the employer after completion of the training period so that the productivity gains are shared between the employee and the training employer.

The rationale which guided the estimate of payback periods needs to be considered if sense is to be made of the payback calculation. In a competitive job market, it would be expected that differences in productivity resulting from investments capital would be entirely reflected in wage differentials; as such investment would be funded either by the individuals concerned or the State or not by employers.[34] In practice, the relationship between gains in productivity and wages can vary according to the origin of the financing, the nature of the human capital acquired, job market structure and other factors. In the case of Apprenticeship training, it is probable that there is a major divergence between wages and productivity gains since employers bear part of the costs of training. Thus,

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[33] See Hasluck *et al.*, 2008, *ibid.* A more technical exposition of the method used can be found in: Gambin, L.; C. Hasluck, and T. Hogarth (2010) 'Recouping the costs of Apprenticeship training: employer case study evidence from England', *Empirical Research in Vocational Training*, Vol. 2,No. 2, pp. 127-146(20)

[34] Becker G. (1985), *Human Capital: a theoretical and empirical analysis*, 2nd Edition, National Bureau for Economic Research, New York.

unlike general education[35] the wage premium associated with Apprenticeship training is likely to understate the value of the productivity gains resulting from this investment, with employers taking the surplus value as a return on their investment in training apprentices.[36] Even where elements of the training are, in fact, general in nature, training may change the employee-employer relationship, increase employee loyalty and reduce turnover and allow the employer to recoup a return on the provision of that training.[37]

The study assumes that the increase in productivity resulting from training is shared equally between the employer and trainee. That is, the employer receives half as additional profit and the employee half in the form of increased wages. This assumption has been made because, in the absence of information about how increases in productivity are shared with respect to IVET, it is a neutral one.[38] In addition, evidence relating to CVET suggests that the gain from productivity is shared.

It is an empirical matter as to the degree to which any productivity gains from Apprenticeship training are shared between employer and employee. That share is likely to vary depending upon the extent of the relative investments of employer and trainee, which in turn is likely to differ according to sector reflecting levels of apprentice pay, the length of training, and the scope for productivity gains. Unfortunately there is little empirical evidence concerning the sharing of productivity gains. Turcotte and Rennison[39] used micro-level data from Canada and found that in-house training raised organisations' productivity and employees' wages with the employer taking the larger share of the value of productivity gains. Turcotte and Rennison were, however, examining the impact of in-house training in information and communications technology (ICT) and the low employee share may well reflect the greater share of training costs borne by the employer in that case. The most influential research in the area is that of Dearden, Reed and Van Reenen.[40] Analysis of sectoral data for England showed that an increase of 5 per cent in the proportion of employees trained in an organisation had the effect of increasing hourly wages by 2 per cent and productivity by 4 per cent. A later publication examined the effects of work-related training on direct measures of productivity using data from a panel of British industries during 1983–96. The findings suggested that work-related training was associated with significantly higher productivity: a 1 percentage point increase in training was associated with an increase in value added per hour of about 0.6 per cent and an increase in hourly wages of about 0.3 per cent.[41] This evidence suggests that

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[35] Jones, P. (2001) 'Are educated workers really more productive?' *Journal of Development Economics,* Vol. 64, pp. 57-79.
[36] Bartel A. P. (2000), 'Measuring the Employer's Return on Investments in Training: Evidence from the Literature', *Industrial Relations: A Journal of Economy and Society*, Vol 39, Issue 3, July
[37] Balkin D. B. and Richebe N. (2007), 'A gift exchange perspective on organisational training', *Human Resource Management Review*, Vol 17, Issue 1, March.
[38] Gambin, *et al*. (2010) *ibid*
[39] Turcotte J. and Rennison L. W. (2004), Productivity and Wages: Measuring the Effect of Human Capital and Technology Use from Linked Employer-Employee Data, Canadian Department of Finance, Working Paper 2004-01
[40] Dearden L., Reed H. and Van Reenen J. (2000), *Who Gains when Workers Train? Training and Corporate Productivity in a panel of British industries*, Institute of Fiscal Studies, http://www.ifs.org.uk/wps/wp0004.pdf .
[41] Dearden L., Reed H. and Van Reenen J. (2005), *The Impact of Training on Productivity and Wages: Evidence from British Panel Data,* Centre for Economic Performance Discussion Paper No 674, London School of Economics, http://cep.lse.ac.uk/pubs/download/dp0674.pdf .

productivity gains from training were shared equally (or 50/50) between the employer (in terms of higher profit) and the employee (in higher wages).

This study attempted to obtain information on the sharing of productivity gains but respondents had difficulties in thinking about it. Respondents were asked if they were to hire out their fully trained former apprentice or trainee for a day, how much they would charge the customer for their employee's services. In this way, given that the employee's wage and their wage whilst training are known, it is possible to gain an insight into how the increase in productivity resulting from the delivery of IVET is shared between employer and employee. Respondents, however, struggled with the concept even in sectors in which the idea of hiring out the services of an employee is not uncommon and, as such, it was not possible to gain a better understanding of the issue. It is probable that the share of any productivity gains will differ from sector to sector, reflecting different shares of the cost (most notably in regard to whether Apprenticeships are undertaken by new recruits or existing employees). In the absence of robust evidence on such differences, it is a working assumption for this report that the value of any gains from Apprenticeship training are shared equally between employer and employee.

Of the eight sectors considered here, the costs of training are recouped by the employer within the first year after completion of the Apprenticeship in three sectors – hospitality, transport and business administration. As shown in Chapters 6, 7 and 9, the net costs of the Apprenticeship to employers in hospitality, transport and business administration are £5,045, £4,573 and £4,539 per apprentice, respectively. The average net cost of a Level 2 Apprenticeship across all case study sectors is £4,968 so that the costs in hospitality and business administration cannot be considered as unusual. In both of these sectors, the difference between the starting Apprenticeship wage and the post-completion wage indicate considerable gains to the employee and the employer which lead to the short payback period. In transport, though the costs of training are higher than average, there is again a significant difference between the starting apprentice wage and the post-completion wage. In these three sectors, retaining former apprentices over the long term (i.e. beyond two to three years) after training is not as crucial to ensuring that the costs of training are recovered by the employer as the net costs are, on average, recouped soon after completion.

The Level 3 Apprenticeship in engineering imposes a relatively high net cost on employers (£39,582), but in this sector employers, on average, can expect this investment to be recovered within four years of completion. There was a considerable increase in pay between the beginning of the Level 3 engineering Apprenticeship and post-completion. Similarly, in construction where the net costs of a Level 2 + Level 3 Apprenticeship is £26,074 (average) the payback period is less than three years. The productivity gain to the employer (indicated by the increase in wages to the apprentice after completion) is almost £15,000 a year. In these sectors, retention of former apprentices is more essential to employers recovering their investment.

The average payback period for a Level 3 Apprenticeship in finance is two years and six months. This is based on a net cost of training of £11,407 per apprentice over a two year training programme. A longer payback period is found for Level 2 Apprenticeship in finance; as although the net costs of training are lower (£7,250) the productivity gain is also lower thus resulting in a payback period of more than three years, on average.

Despite incurring below average net costs (£2,977 per apprentice) of providing Level 2 Apprenticeship, it takes employers in the retail sector more than two years to recoup their

investment in this training. This seemingly long payback period, relative to low investment, is accounted for by the very modest increase in productivity evidenced by a small difference in wages paid at the beginning of the Apprenticeship and post-completion.

Whilst the payback period for Level 2 Apprenticeship in social care is not the longest amongst the sectors, it is still considerable at more than three years given the nature of the sector and the training. The case study data shows a limited increase in wages paid to apprentices after completion of their training whilst the overall costs of training incurred by the employer are substantial. The result is that it can take more than three years for the employer to recoup the costs of training.

12.5 Limitations of the Payback Method

The calculation of the payback period has been limited to those cases where the apprentice is a new recruit to the company rather than including cases where Apprenticeships are offered to existing employees. To include the latter is potentially misleading. At face value, the payback period in relation to CVET would be much shorter than in the case of IVET because the employee is already doing the job which in the case of IVET the employee is being trained to fill without any experience of doing the job. Accordingly, in the examples of CVET there would be much less productivity change (as measured by the capability to carry out a given proportion of the fully experienced worker's job at each point in their training), since the person is already doing the job and are therefore more or less fully productive at the start of their training according to this definition of productivity. If there is not much or any productivity improvement then this might suggest that the training delivered was of little value. But this result would be an artifice and ignore the possibility for CVET via Apprenticeships and WPL to bring about benefits which are not fully captured with respect to the measure of trainee productivity used by the study, including:

- qualitative improvements in the way employees carry out their jobs (such as being able to take on more responsibility, being able to manage a wider range of tasks, being better placed to go on to higher level training;
- the capacity of the employee to better meet future skill needs within the organisation;
- the benefits to the individual resulting from possessing an externally accredited qualification;
- savings in recruitment and induction training costs arising from lower employee turnover (which has the impact of increasing average productivity in the organisation since new recruits will not be fully productive at the start of their employment).

Clearly the value derived from CVET needs to been seen in a different light to that related to obtained from IVET with more emphasis given to the points listed above.

In the past the Net Benefits of Training to Employers studies have tended to focus on the costs and benefits associated with IVET. Given the potential for Apprenticeships and WPL to contribute to CVET there is a need to develop a method which is able to fully capture

the costs and benefits of this type of training. In this regard the current study can be seen as an initial investigation into how to achieve this goal in a manner consistent with the existing method. The key issue is how to fully measure the benefits of training. In the case of IVET, the main benefit is the increase in the productive contribution of the apprentice or trainee as they approach being 100 per cent as productive as the fully experienced worker. In the case of CVET, the study shows that most of the apprentices or trainees were already 100 per cent as productive as the fully experienced worker at the start of their training. This results from them being, in many cases, fully experienced workers at the start of their training. It is apparent that the method can be improved by asking whether as a consequence of CVET the employee's productive contribution exceeds that of the average fully experienced worker in that occupation and by how much. Or by asking how much their productivity has increased as a result of the training. The method should also take account of savings in recruitment costs from lower turnover. The current study suggests ways in which this might be developed in future studies. It is also possible that as the new SASE becomes effective the costs borne by the employer in the examples of CVET may increase in some cases as a result of increased guided learning hours.

12.6 Incorporating Savings in Recruitment / Turnover

In some sectors it is notable that training, especially WPL, was provided for existing employees rather than newly recruited trainees. In those sectors it was also the case that there was often only a small, if any increase in pay following training and by implication, a small productivity gain for the business. The question then arises as to why businesses would countenance such an investment with little apparent payoff. The answer is that those case study employers indicated that the most valuable effect of their current training programmes was that it had improved staff retention where prior to training they had encountered substantial staff turnover and faced significant recruitment costs as a result. While the payback periods discussed in the previous section did not incorporate savings in recruitment costs into the future 'income stream' stemming from Apprenticeships / WPL, quantifying these savings would provide a real return on the investment in training and result in a shorter time over which employers could expect to recoup their training investments.

As an example, one employer reported that since introducing WPL the turnover of staff had dropped from 20 per cent to 5 per cent a year. This implies that the average tenure of staff had increased from around 2.5 years to around 10 years, saving the business roughly three times the average cost of recruiting a member of staff. The company estimated that it cost around £3,000 to recruit an employee (including direct recruitment costs and induction training) so their investment in WPL was worth around £9,000 (discounted to a present value) even though there was only a small increase in productivity (the benefit of training was seen to be more in regard to quality assurance).

In the case of social care, the National Care Forum estimated that over 40 per cent of care home staff leave their job within a year of taking up post and 60 per cent leave within two years. Assuming that an Apprenticeship at Level 2 resulted in a staff member staying on for four years instead of one year then the employer would save the costs of recruiting for approximately two years. Taking the level of recruitment costs estimated by the Chartered Institute of Personnel Directors for the customer, personal, protective and sales sector of £1,350, then the saving in terms of recruitment costs arising from Apprenticeship in social care could be in the region of £2,700. If such financial benefit is included in the estimate,

the payback period would be reduced from around three years and three months to two years and eight months.

12.7 Conclusion

In keeping with the previous study in the Net Benefits of Training to Employers series, the payback periods for most sectors are relatively short with employers recouping their outlay on training within a few years in most cases. This is true even in those cases where the employer investment is relatively high, such as in engineering. Even so, employers, especially in those sectors with much less tradition of delivering Apprenticeships or formal WPL, are sensitive to the cost of training. If they were to shoulder a significant share of the cost of training currently met by the State, then whilst they would look at a number of ways of defraying that increased cost, it would in many instances result in a lower number of trainees or apprentices being recruited. Those organisations with the highest training costs, and the most formal training programmes, were probably least sensitive to the costs of training in formulating their training plans.

13. Conclusion

The results show that employers have a number of different rationales for engaging in Apprenticeships and WPL which can be broadly grouped into reasons which relate to:

- increasing the inflow of skills into the workplace to ensure that future skill needs will be met (essentially the role fulfilled by IVET but it also relates to CVET where existing employees are up-skilled); and

- rewarding employees by accrediting their skills in an effort to improve employee motivation and retention (the role principally fulfilled by CVET).

Employers could point to a number of benefits in relation to each of these where they had engaged in Apprenticeships or some other type of WPL. Employers who engaged in Apprenticeships, for example, for the purpose of increasing the inflow of skills could articulate why this was preferable to recruiting from the external labour market (i.e. a better fit between the skills acquired by the trainee and the needs of the company, the opportunity to instil company values in trainees, relatively good employment retention amongst former apprentices compared with externally recruited fully experienced workers, etc.). Similarly, employers who engaged in training for reasons more to do with rewarding existing employees could point to improvements in labour retention.

The benefits employers derive from investing in Apprenticeships and WPL relate to:

Skills supply:

- the need to maintain an inflow of young people being trained in the occupations on which the organisation is dependent;

- an inflow of new skills – which can be cascaded through the existing workforce – which are incorporated within a framework or NVQ

- obtaining an optimum fit between the skills of the employee and the needs of the workplace by being able to shape apprentices' and trainees' approaches to their work and the organisation in which they are employed. This relates primarily to younger apprentices and trainees without much prior experience of employment;

- providing a pool of skilled employees from which supervisors and managers could be internally recruited;

- a more effective means of meeting both current and future skill demand than recruiting from the external labour market

Recruitment and retention:

- a means of attracting the best quality recruits by being able to offer a period of training leading to a widely recognised qualification;

- a recognition that people who undertake their initial vocational education and training with a given employer are more likely to stay with that employer

- a means of retaining existing staff by providing on-going training designed either to raise their skill levels, or accredit existing ones

Motivation and reward:

- where training is being delivered to existing employees this was described by some employees as a reward insofar as it provided an externally accredited qualification;

- training also acted to motivate employees in that it was a sign that the employer considered the employee worth investing in. This could be interpreted as a signal that the individual's future lay with the company and employees responded accordingly

Meeting industry norms:

- in sectors such as engineering and construction, Apprenticeships were seen as the primary means of initial vocational education and training supply, hence employers needed to adopt this form of training if they wanted to take on the most able trainees;

- consumers for the sectors' products or service also expected people working in certain occupations in the sector to have completed Apprenticeships

Corporate social responsibility:

- by conferring upon the local community a public good – especially in relation to the recruitment and training of young people – organisations were able to raise their profile.

Why employers chose Apprenticeships rather than other forms of WPL, and vice versa, derived from a multiplicity of reasons, but important ones related to: (a) where there was a long tradition of Apprenticeship training and the lack of a credible alternative, employers opted for Apprenticeship; and (b) where there was little tradition of Apprenticeships and employers were looking to accredit existing skills, there was a preference for working towards an NVQ. This over-simplifies the situation somewhat but captures some of the main reasons why employers preferred one form of training over another. There was recognition that Apprenticeship is a strong brand which is why employers providing public administration and financial service Apprenticeships had adopted them.

The case studies, though indicative rather than definitive of the costs attached to either Apprenticeship or WPL, reveal wide variation between sectors or frameworks, by level, and within frameworks. With respect to Apprenticeships there would appear to be more within-sector variation in the costs reported by employers than in previous Net Benefits of Training to Employers studies. To some extent this is explained by employers revealing variation in the way they deliver training leading to the award of the same certificate. It is clear that in relation to Apprenticeships at Level 3, and at Level 2 in some cases, there is a significant amount of employer investment in the training delivered to apprentices, especially so over the early stages of their training when their productive contribution is quite low. But again, in keeping with the previous Net Benefits of Training to Employers Study, the evidence suggests that employers can recoup their costs over a relatively short

space of time should they retain the services of the former apprentice. That said there is evidence that the payback periods are slightly longer than those reported in the 2008 study. In part this stems from the fact that the estimates are based on a relatively small number of observations, and from the fact that the economy is weaker in 2011 such that the return on any investment is likely to have a lower yield.

Employers' sensitivity to the cost of training is also multifaceted. Where employers have a long tradition of training they were generally aware that the State was meeting a substantial part of the overall cost of training even if they were unaware of the amount. Similarly, they were aware that less funding was available for older apprentices or trainees though no employer reported making a cash transfer to a training provider in relation to their older apprentices and trainees. Where employers were relative newcomers to Apprenticeships and WPL they were largely unaware of any costs being met by the State.

When pressed about what they would do if they had to meet a share of the cost currently met by the State – possibly half or all of it – employers tended to consider a number of options rather than withdrawing from training altogether. This included reducing the number of trainees, compressing the time in which training was delivered, and passing on some but not all of the cost onto the training provider. Employers in general were reluctant to do any of this because, as far as they were concerned, the existing model of training delivery suited their needs. For those employers which engaged in Apprenticeships and WPL in order to generate an inflow of essential skills, employers could see no alternative but to continue with their existing training programmes. Some said they might move away from accredited skills and in this way save money by delivering only the skills required by the company, but in many instances employers required the external accreditation associated with publicly funded training programmes in order to demonstrate that they had a competent and skilled workforce in the markets in which they operated.

Where the training was more at risk was with reference to the accreditation of existing skills where employers had been persuaded to engage in this by training providers. Here the decision to train is finely balanced. The payback for employers here is very much based on the savings generated by reducing labour turnover and thereby reducing recruitment costs. The evidence suggests that where Apprenticeships and WPL are able to significantly reduce levels of labour turnover the savings to the employer can be substantial especially so where they are recurrent recruiter of hundreds if not thousands of new recruits each year. Whether the employers are aware of the size of this benefit is a moot point.

As well as passing on the costs of training to the employer, the State also has the option of passing on some of the costs of training to the trainee. The rationale for considering this is that the evidence shows that there is a wage premium attached to achieving additional vocational qualifications. At the moment policy is considering providing training loans to those would-be trainees aged 24 years or over at the start of the training towards a Level 3 qualification. This would work along the lines of the current model in HE where the student obtains a loan and then repays it when their salary is above a certain threshold. In general, employers struggled to understand how this might work in practice especially so where a large share of the training was on-the-job. Similarly, employers were concerned about how it might affect the employment relationship. It should also be noted that employers, despite explanations that the loan would be paid directly to the trainee for transfer to the training provider, tended to think of the loan being provided through the employer and being paid back via an attachment to wages. Despite the generally negative response to the idea of training loans to trainees, some employers reported that they had

introduced clawback clauses into some of their training programmes whereby the trainees paid back a percentage of training costs if they left their employment with so many months of completing their training. So the idea of trainees taking on some of the financial burden of training was not wholly alien to some employers. Similarly, some employers thought there might be some scope for a system of loans to work with older trainees since these trainees tended to be able to better understand the value attached to skills. This needs to be seen in the light of some employers having a preference for older trainees and apprentices.

Apprenticeships, in particular, and WPL more generally, encompass a wide variety of training programmes and courses. Employers have a degree of choice about which type of training they participate in, and they have a degree of choice about how the organise that training within the workplace (c.f. the balance between off-the-job and on-the-job training, the total duration of training, etc.). It is also apparent that employers engage in training for different reasons: some to increase the inflow of skills; others as a reward to existing employees in an effort to increase motivation and employment retention. These all affect the cost of training to the employer, the value they attach to their investments in WPL in general, and their sensitivity to the level of public funding and what they would do if that was withdrawn or reduced.

If public funding were reduced, for some employers, there would no alternative to continuing with Apprenticeship training though there might be a reduction in the number of apprentices. These employers require an inflow of apprentices each year to replenish the stock of skills in the workplace. The external labour market tends not to satisfy their needs for a variety of reasons and, if publicly funded Apprenticeship training were reduced in volume, the external labour market would be even less likely to meet their needs over the medium- to long-term. Overall these employers have invested substantially in delivering Apprenticeships which have served them well over a number of years. By implication if employers were required to invest more in Apprenticeships to maintain its current structure and the current volume of apprentices, this suggests that cost savings would need to be made elsewhere in the business. Where a tradition of Apprenticeship training was yet to be established, and where employers opted for NVQ training rather than Apprenticeships, employers were much more sensitive to the direct cost of training when formulating their training plans. Since Apprenticeships tend to cost the employer more than the equivalent form of WPL, this may have implications for the volume of Apprenticeship training undertaken and the structure of that training where employers are trying to minimise their training costs.

ANNEX A: Employer Screener

PRIVATE & CONFIDENTIAL

Employer Investment in Apprenticeships and Work Based Learning

Screener j4978

Employer name

Contact name

Telephone number

Region

Expected framework

Apprentices-only, WPL-only, both

TAKEN FROM NESS OR EPS?

DATE OF CALL OUTCOME / DETAILS

REASSURANCES TO BE USED AS REQUIRED:

- Your name has come from a survey you took part in called (the National Employer Skills Survey 2009 / Employer Perspectives Study 2010 for the UK Commission for Employment and Skills)
- The research is for the Department for Business Innovation and Skills (BIS)
- Contact at BIS: Vikki McAuley on 0114 207 5321
- Contact at IER: Terence Hogarth on 02476 524420
- Contact at IFF Research: Charlie Taylor on 020 7250 3035
- The study is about how much employers spend training their apprentices or trainees and the benefits they obtain from doing so. The information is of considerable interest to policy makers.
- As part of the study we will provide you with an estimate of how much you spend on your training using a method devised by the University of Warwick. This also shows how long it takes to recoup any investment in training. Any information you provide will be treated in the strictest confidence and neither you nor the company you work for will be identified in any report.

ASK ALL

S1. May I speak to [NAMED CONTACT]

Yes – transferred 1 ASK S2

Yes – correct respondent speaking 2

Definite appointment 3 TIME / DATE TO CALL BACK

_____

Soft appointment 4

Refusal 5 THANK AND CLOSE

Not available in deadline 6

[IF NAMED CONTACT] No-one of that name works here / Person no longer works here 7
ASK FOR NAME OF PERSON NOW RESPONSIBLE FOR HR AND TRAINING; AND RE-ASK S1

Other (SPECIFY)

0

WHEN TALKING TO APPROPRIATE PERSON

S2) Good morning/afternoon. My name is ..... , calling from [IFF Research, an independent Market Research Company] [The Institute of Employment Research, part of the University of Warwick]. We are conducting a study for the Department for Business Innovation and Skills looking at employer investment in Apprenticeships and vocational training such as NVQs. The study is examining how much employers spend training their apprentices or trainees and the benefits they obtain from doing so. The research is being conducted so that the Department for Business Innovation and Skills, and employers generally, are aware of how much employers invest in vocational skills training.

- Just to let you know, as part of the study we will provide you with an estimate of how much you spend on your training using a method devised by the University of Warwick. This also shows how long it takes to recoup any investment in training (this will provided after the interview).

All information that you provide will be treated in the strictest confidence and neither you nor the company you work for will be identified in any report.

The study will involve a face-to-face interview, but first can I check some details about your company.

Can I just check are you the best person (or one of the best people) in your organisation to talk to about the [IF APPRENTICESHIP: Apprenticeships / IF WPL: training]?

Yes 1 ASK S4

No 2 ASK S3

IF NO AT S2

S3) Who would be the best person to talk to about these issues?

Name _____

Telephone Number _____

E-mail _____

THANK THEN CALL THAT PERSON AND ASK S1

WHEN TALKING TO APPROPRIATE PERSON

S4) Can I just check....? [ASK APPROPRIATE CATEGORY / CATEGORIES]

Yes No / Don't know

Do you currently have any staff undertaking a formal Apprenticeship 1 2

(IF NO) Have you had any staff complete a formal Apprenticeship in the last 12 months 1 2

ASK ALL

Currently or in the last 12 months have you had any staff undertake Level 2 or Level 3 qualifications (excluding any undertaking an Apprenticeship)

IF YES: What types of qualifications are / have these been?

_____

_____ 1 2

IF NO TO ALL THANK AND CLOSE

IF YES AT S4 (and 'Apprentices' or 'WPL' still in quota):

S5a) FOR THE SECTOR OF THE EMPLOYER CHECK IF THEY HAVE (OR HAD IN LAST 12 MONTHS) APPRENTICESHIPS / WORK-BASED LEARNERS WITHIN THE SUB-SECTOR OF INTEREST: (WRITE IN SPECIFIC AREA)

IF DON'T HAVE IN THE SUB-SECTOR OF INTEREST THEN CLOSE

IF DO HAVE APPRENTICES / WPL (NVQ only) IN SPECIFIC SUB-SECTORS OF INTEREST: THEN CHECK IF THESE LEVEL 2 OR LEVEL 3

	Apprenticeship		NVQ only	
	Level 2	Level 3	Level 2	Level 3
Sector	Sub-sector of interest:			
Engineering	Electrical and mechanical engineering (list of specific examples appended): IF YES WRITE IN			
	_____			
Construction	Construction (bricklaying / carpentry / plumbing / specific trades)			
	_____			
Logistics	Driving goods vehicles			
Business Administration	Business and Administration (this will be conducted in public sector)			
Hospitality	Hospitality and catering			
	_____			
Retailing	Retail / Customer services			
	_____			
Financial Services	Providing Financial Services (insurance clerks; investment administrators pensions administrators / advisors; etc.) NB EXCLUDE COUNTER CLERKS			
Social Care	Health and social care			

CHECK IF IN QUOTA CELLS OF INTEREST

IF IN QUOTAS OF INTEREST

S5) Can you tell me a bit more about the [Apprenticeship / Level 2 or 3 training] within <SUB-SECTOR OF INTEREST FROM THE GRID ABOVE>...FILL IN NUMBERS OF STAFF DOING EACH

[SO S5 IS ASKING NOT ABOUT ALL THEIR APPRENTICESHIPS OR WPL LEVEL 2 AND LEVEL 3 QUALS, BUT THOSE IN THE SPECIFIC SUB-SECTOR]

Check	Apprenticeship			WPL		
	Age Groups					
	16-18	19-24	24+	16-18	19-24	24+

Level 2

Level 3

CHECK IF IN QUOTA CELLS OF INTEREST

ASK ALL IN QUOTA

S5b) And can you tell me roughly how many people your organisation employs across the UK?

<50 1 CHECK QUOTAS

(AIM FOR 2/3rd with <250

1/3rds 250+)

50-249 2

250+ 3

ASK ALL IN QUOTA

S6) As mentioned, the study involves a face-to-face interview – this will take around an hour and a half. When would it be possible to come and see you?

REMIND IF NECESSARY:

- As part of the study we will provide you with an estimate of how much you spend on your training using a method devised by the University of Warwick. This also shows how long it takes to recoup any investment in training (this will provided after the interview).

Date _____

Time _____

CHECK ADDRESS

ADDRESS

TAKE E-MAIL: @

SAY WILL SEND LETTER.

THANK AND CLOSE

EXAMPLES OF ENGINEERING APPRENTICESHIPS (THESE ARE LEVEL 2 ONES)

Electrical/Electronic (semi skilled) Aero engine component assembly

Aero engine fitter (semi skilled)

Aero engine fitter/tester's mate

Aero engine strip and wash fitter

Airframe riveter

Automotive instrument repairer

Avionics fitter (semi skilled)

Avionics instrument calibration technician

CAD operator

CNC cutter

CNC Fabrication operator

CNC operator

Cycle Maintenance mechanic

Cycle maintenance technician

Electrical fitter's mate

Electronics service rep

Engineering fitter Semi- skilled

Fitters mate air-con manufacture

Instrument fabricator (semi skilled)

Instrument repair fitter

Jig welder

Line Maintenance fitter

Maintenance welder (semi skilled)

Manufacturing calibration control technician

Manufacturing expeditor

Manufacturing operator

Metrology operator

Military vehicle repair fitter/welder (semi- skilled)

Motorsport technician

Planned maintenance controller

Plant maintenance fitter's mate

Production CAD programmer

Production control operator

Production fabricator (semi-skilled)

Production operator

Production planner

Production process control operator

Quality Control Operator

Repair of instruments and control systems – military vehicles

Repair technician

Vehicle body repair technician

Vehicle body welder (semi skilled)

Watch service technician

Welder /Fabricator (semi skilled)

Welder/fabricator aero engine pipework

Welder/Fabricator's mate

Welding equipment maintenance fitter (semi skilled)

Welding inspector

Workflow control operator

Commissioning fitter (semi skilled)

Lift control systems maintenance engineer

Military vehicle fitter (semi skilled)

Plant fitter heating & ventilation (semi skilled)

ANNEX B:The Case Study Interview Schedule

1. Background and Introduction

- Explain Purpose of Study: to identify the costs to the employer of training people under Apprenticeships or training people where the output is a formal qualification at Level 2 or 3.
- Obtain background details of company not already known (size, sector, market conditions, etc.)
- Identify training programme for discussion. This should relate to the framework of interest (see screener S5a). Identify the level of the Apprenticeship or qualification.

2. Details of Current Training Programme

- How long does it take to complete the Apprenticeship / training – and how many people are there currently in each year of the Apprenticeship / training programme.
- How long has the organisation been involved in the delivery of this form of training? / Does the organisation recruit recurrently to the training programme?
- How often is the decision to engage in this form of training reviewed?
- Who is being trained
    - a new trainee recruited from school/college or the external labour market
    - an existing employee
    - both
- How old were the current apprentices / trainees when they start their training: 16-18 / 19-24 / 24 years +
- Are apprentices / trainees already part trained when they commence their training (e.g. have exemptions from parts of the training or, if at Level 3, have already obtained a Level 2 outside of the organisation).

3. The Training Decision

- Why employers train: what is the main reason for the organisation's decision to train?
    - Prompts: business expansion, replacing people who have left or about to leave, moves into new business areas

- What benefits does the employer obtain from training?
    - Ask open ended and then probe on the following if not mentioned. The questions should be framed with reference to the benefits over and above recruiting from the external labour market:
        - Improved supply of skilled people
        - Cadre from which to select future supervisors and managers
        - Brings new ideas into the company / ensures skills base is up to date
        - Better fit between skills supply and needs of the business
        - Better retention rates
- Who makes the decision about how many people to be trained – which members of staff are included / who gives the final authorisation?
- Was the organisation approached by a training provider and encouraged to participate in training?
- Is the final decision made locally or at head office (if relevant)
- Does a business case need to be made? What is included in the business case:
    - Identify which costs are included
    - What qualitative benefits are included
- What was particularly attractive about the Apprenticeship or training course the organisation decided to use? Prompt around:
    - Relevance of training to needs of the business
    - Cost
    - The structure and duration of training
    - Because it has always trained in this way
- Has it considered alternatives to this form of training?
    - What would they consider the main alternatives to be?
    - Why were the alternative not selected? Prompt around:
        - Relevance of training to needs of the business
        - Cost

        - The structure and duration of training

- How does the organisation decide how many people to train each year
    - Explore sensitivity to cost issues

4. Recruitment and retention of trainees / apprentices

5. Entry requirement to be eligible for recruitment

- Academic qualifications (collect details of minimum requirement)
- Experience (collect details)
- Attitudes/aspirations of candidate
- How are Apprentices / trainees selected?
    - Details of the recruitment process
    - Probe around why train people internally (if applicable) rather than recruit new trainees
    - Probe around age of preferred recruits to a training programme or Apprenticeship
        - Are certain age groups easier to train than others (e.g. are older people more easy to train because they have labour market experience, or are younger people easier because they have fewer preconceived ideas about what they need to learn).
- Difficulties experienced recruiting trainees
    - Explore conditions in the local labour market
    - Reasons for any difficulties
- Career prospects for trainees once fully trained
        - check whether there is a training programme which continues after the Apprenticeship [/ stand-alone NVQ] has been completed, such as progression to an HND or Foundation Degree
- Details of retention rates after initial training
    - Specific policies in place to retain people once trained
    - Is there a career track for people after training – where does this usually lead (i.e. what has happened to previous cohorts of people the organisation has trained)

6. Structure of training

The aim here is to take the interviewee through the structure of the training they provide and identify the costs attached to each part.

- How much say has the employer over the structure of training
- How much on-the-job and off-the-job training
- What modes of training are used: distance learning, e-learning, etc.
- What elements does the employer find economically valuable
- Recognition of importance of each element of training for employer and trainee
- How often is the structure of training reviewed by the employer

Using the spreadsheet (see Annex C), obtain information about each of the main costs

Note: Need to identify how many people drop out in each year of the training programme.

- Check whether the Apprenticeship / training programme comprises the entire programme of training the employer expects to deliver, or whether this is just the start of a longer programme of training the employer would expect to deliver to a given occupational group once the Apprenticeship / training programme is complete.

7. Relationship with training provider

- Who is the training provider?
    - What role do they play (provide training, accredit training, or just supervise training undertaken by employer)
    - How long has the relationship been in place
- Explore whether the organisation funds the trainer
    - How much is expended per trainee / apprentice per year
- Satisfaction with training and training provider (and reasons)
- How often is consideration given to testing the market for training providers

8. Sensitivity to Cost

Using the spreadsheet (Annex C) show the respondent the estimated cost of the training they provide and the extent to which costs are met by the State (via the Training Provider) to meet the costs of that training.

Gauge initial reactions – was the employer aware of how much of the cost was met by the State and the employer respectively.

- What scope is there for the employer to reduce their costs? Probe around: the efficiency with which in-house training is provided, the duration of training, administrative costs, trainee salaries, the productive contribution of the trainee / apprentice. What scope is there for the training provider to minimise the costs of the training they provide – probe around: relevance of some of the training provided, the way in which the training is provided, administrative costs

- If State funding for training was reduced by 50%or 100% respectively, how would the organisation respond to this? Probe around:

- absorb the additional training cost without any impact on the volume or structure of training undertaken

- expect the training provider to meet some or all of the costs

- look to achieve efficiency savings to reduce the impact of any additional costs (e.g. reducing the duration of the traineeship or Apprenticeship, seeking out new training providers, changing the structure of training, etc.)

- a reduction in the number of trainees or apprentices being recruited

- lower trainee's wages (check whether this possible if currently they are paid the minimum wage for age group)

- employers shifting to other forms of training – if so, to what?

- shifting some of the costs of training on to full-time education (e.g. by recruiting apprentices at an older age after they have completed a full-time education course which gives the trainee exemptions from completing certain parts of the Apprenticeship)

- withdrawal from the provision of initial vocational education and training.

The Employer Mark Up

Ideally we want to know what the employer mark-up is on people employed. Technically it is the value added per employee, but it may be more readily understood as the mark-up, i.e. the employer expects the productive contribution of fully experienced workers to be two, three, or four times their wage. One way of asking for this information is to ask: if the fully trained employee were to be rented out to another company for whatever reason – or to be charged out to a client for a period of time – how much would they charge on top of the employee's labour costs to the employee. So if an employee costs £300 a day to employ, how much would the client be charged? Twice, three times, four times, etc. this amount? Please obtain an estimate.

9. Trainee / Apprentice Loans

Training Loans

In future older apprentices – those aged 24+ years may be required to take out loans to cover part or all of the costs currently met by the State via the training provider. The model for this may run along the lines of the current HE model: trainees take a loan from the State which is used to fund the training provider. In this way the employee may know relatively little about the arrangement – though it may affect the trainee's attitude towards their training and their employer. These are the issues which need to be explored with the employer. The loan will be paid back only at the point the employee wage exceeds c. £21,000 a year.

- Is there scope for the apprentice / trainee to contribute to overall training costs? Ask open ended and then probe around:
    - How might that contribution be made:
        - Lower wages
        - Paying for some of the costs of training through a loan
    - Is this more appropriate for some trainees / apprentices than others? Probe around type of training provided, age of trainee
- If trainees / apprentices were to meet the costs of training what cost could they meet?
    - Is there a defined piece of training which the trainee / apprentice could fund
- Would this affect recruitment (if all other employers were faced with the same situation)?
    - Probe around difficulties recruiting best candidates who might be attracted to other forms of training
- Would this affect the employment relationship
    - Probe around: retention (whether it would help retain (or not) trainees once trained)

END INTERVIEW AND THANK RESPONDENT ***

ANNEX C: Cost-Benefit Spreadsheet

	Year 1	Year 2	Year ...*n*	Total
Total number of apprentices or trainees				
Number of apprentice or trainees who drop-out without completing				
Apprentice or trainee salary (£ p.a.)				
Salary of Fully Experienced Worker (£ p.a.)				
Trainee productivity (% of skilled workers)				
Supervision (per apprentice or trainee)				
% of Training Manager's time spent training				
% of Line Manager's time spent training				
% of Supervisor's time spent training				
Training Manager's Salary (£ p.a.)				
Line Manager's Salary (£ p.a.)				
Supervisor's Salary (£ p.a.)				
Total training costs per apprentice or trainee (£)				
Costs of recruiting the apprentice or trainee				
Course fees				
Supervision costs				
Apprentice or trainee salaries				
Employer's NI contributions				
Administrative costs				
Total cost				
Total training benefits per apprentice or trainee (£)				
Apprentice or trainee product				
Other income (please specify)				
Total benefit per apprentice or trainee				
Net cost per apprentice or trainee				
Net Cost including drop out				
State funding for Framework (from BIS data)				
% of total cost met by Employer				

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