



Department
for Education



The apprenticeship levy: how will employers respond?

Research report

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Lynn Gambin, Terence Hogarth, Mark Winterbotham,
Jessica Huntley-Hewitt, Libby Eastwood, David
Vivian – IFF Research and IER

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Lynn Gambin

Terence Hogarth

Mark Winterbotham

Jessica Huntley Hewitt

Libby Eastwood

David Vivian

Executive Summary

From April 2017, large employers in the UK will be required to pay an apprenticeship levy based on their total pay bill. This study, undertaken by the Institute for Employment Research and IFF Research, was commissioned by the Department for Business, Innovation and Skills (though the policy responsibility for FE and apprenticeships has now shifted to the Department for Education) in order to better understand, in advance of the implementation of the levy, employers' likely behaviours in response to this mandatory contribution towards apprenticeship training.

At the time of the study's fieldwork being carried out, employers were only beginning to come to terms with the idea of an apprenticeship levy and its implications for their business. Though most employers could roughly estimate the size of their levy liability they were unsure of how much apprenticeship funding this could fund in practice - some indicated that until they had more information on expected levels of employer contribution to the costs of apprenticeships there was little point in trying to work out their planned response to the introduction of the levy in 2017. For those who had a longer history of engaging with apprenticeships and knowledge of the costs of this form of training, this was somewhat clearer. Employers were however clear to note that the levy payment would be entered as a cost in their internal management accounts and as such it would need to be accounted for in some way.

Though concrete plans for the use of their levy funds were not in place for the majority of employers involved in this study, many were in the process of preparing outline plans for consideration by management. The initial reactions of employers to the apprenticeship levy can be summarised as follows:

- Business as usual – a view more typical of businesses already involved in the delivery of relatively high cost apprenticeship (e.g. engineering and construction) where the decision to train apprentices was largely driven by the employer's demand for skills in the workplace that could really only be met through apprenticeship. An indicative estimate suggests that a substantial share of employers fell into this group;
- Using the levy as a catalyst to increase the provision of apprenticeship training in the business – a response provided by employers that had hitherto been engaged in providing relatively low cost apprenticeships (e.g. in business services) but where similar alternatives to this form of training were available. The payment of the levy would likely tip such employers towards adopting the apprenticeship training route as opposed to the alternatives available to them. For some businesses, they had already begun to increase their use of apprenticeships but the levy was likely to accelerate this uptake.

An indicative estimate suggest that a substantial share of employers fell into this group;

- Concerns relating to how a sufficiently large number of apprentices (to allow them to fully utilise their levy payment) could be trained – for many employers, especially those that engaged in relatively low cost apprenticeships (e.g. in hospitality, customer service, health and social care) they looked set to incur a relatively large levy liability which would require considerable numbers of apprentices to be trained to fully utilise the levy. Such employers expressed concern about having the capacity to expand their apprenticeships to the level required to reclaim their levy in full. A relatively small proportion of employers fell into this group;
- Writing off the levy payment and absorbing the cost in the bottom line of the company's accounts – where employers did not see a way to reclaim their full levy payment there was recognition that the cost would need to be reflected in the management accounts and often the cost would be recorded against the training or HR department of the business. Some would accept the levy payment as a sunk cost but for others they expected the cost to be offset against their overall training budget. A relatively small share of employers fell into this group.

After expressing their initial reactions to the levy, employers were asked to consider in more detail how they might adapt their behaviour once the levy was implemented. Amongst the more detailed responses, employers expressed the following:

- expanding the range of occupations that could be trained via an apprenticeship;
- providing apprenticeships at higher levels;
- continuing to use apprenticeships to train their existing staff;
- converting continuing professional development (CPD) courses into apprenticeship programmes (especially those related to Leadership and Management).

This study has used qualitative methods and was based on a relatively small sample of employers thus it is not possible to provide quantitative estimates of what the overall impact of the levy on apprenticeship numbers is likely to be. The study has, however, allowed for an assessment of the overall impact and how this may differ by the characteristics of employers. On the basis of the case studies of employers carried out in this study, the impacts of the levy can be classified as follows:

- a **neutral impact** in businesses where the introduction of the levy will have no impact on apprentice volumes. This was observed mainly for the traditional

trades in the engineering and construction sectors where apprenticeship is the common means of acquiring the skills necessary to work in craft jobs;

- **quantitative additionality** where the levy will likely bring about a higher number of apprenticeship starts because it has accelerated the speed at which apprenticeships are taken up by the employer (such as using apprenticeships to meet new occupational training needs). For example some employers in financial and professional services indicated the levy will increase the number of apprentices taken on because it will accelerate the pace at which they move over to apprenticeships to train people in intermediate / technician level occupations. There is also likely to be some increase in the number of apprentices taken on in business support services (e.g. business administration) across all sectors. Employers in retailing, hospitality, health and social care also often expected to increase the number of apprentices they have, but a substantial share of these are likely to be existing employees;
- **qualitative additionality** where unaccredited training – sometimes allied to management and leadership training - falls under the ambit of apprenticeships in the future as firms look at different ways of ensuring they fully reclaim their levy payment.

There is some displacement and substitution to take account of in assessing the additionality pointed to above. In addition there was some evidence of sunk cost where employers will react as if the levy was purely a tax and they will not modify their training activities but will instead take the hit on the company's bottom line. There is a risk here that some other training activities will be reduced or discontinued as the company looks to offset the levy payment in some way. A relatively small share of employers reported that they would treat the levy as a sunk cost. And in general, the sense was that, at this early stage, employers did not foresee the levy having a major impact on reducing other forms of training taking place in the organisation. Employer considered how they might offset the costs of the levy but in general they were uncertain how they would achieve this in practice (e.g. they were unsure about the extent to which they might negotiate the price of training with a provider). Relatively few firms said they would consider becoming a Direct Grant employer as a consequence of the levy's introduction.

Some employers gave consideration to providing apprenticeships at a higher level than hitherto, but mentioned that if they were to do this they might not call the learners apprentices as this tended to be associated with training at a lower level.

Whilst many employers expressed dislike for the levy, upon exploring their responses further it was found that on balance they were inclined to look for means of reclaiming as much of their levy payment as possible by increasing their

apprenticeship provision. As this study has highlighted, there are many constraints on employers being able to achieve this goal, but employers in general were looking to find ways of ensuring that their bottom line was not affected by the levy.

There was little evidence that the introduction of the levy would have any impact on the behaviour of those employers who fall just outside the levy's scope. They did not expect larger employers to over-train such that they would no longer need to invest in apprenticeships to the same degree.

Introduction

From April 2017, large employers in the UK will be required to pay an apprenticeship levy based on their total pay bill. This study, undertaken by the University of Warwick Institute for Employment Research and IFF Research, was commissioned by the Department for Business, Innovation and Skills (though the policy responsibility for FE and apprenticeships has now shifted to the Department for Education) in order to better understand, in advance of the implementation of the levy, employers' likely behaviours in response to this mandatory contribution towards apprenticeship training.

1.1 The apprenticeship levy

The Government's Productivity Plan drew attention to the productivity gap that exists between the UK and many advanced economies.¹ Central to tackling the productivity gap is improving the country's skills system. In particular, the Productivity Plan drew attention to the importance of apprenticeships in delivering the skills the country requires if its productivity performance is to improve. It went on to comment that a "...a step change in the scale of the apprenticeship programme also needs a step change in funding. Achieving this change will require a reversal in the trend of employer underinvestment in training, which has seen a rapid decline in the amount and quality of training undertaken by employees over the last 20 years. This decline is in part due to employer concerns that if they invest in training their employees, competing firms will free-ride on their investment." (para.3.9, p.24). In order to address the problem of underinvestment, a levy on large employers will be introduced to fund apprenticeships.

The Budget Statement in July 2015 set out the Government's rationale for the levy:

The most successful and productive economies in the world are committed to developing vocational skills. That is why the government has committed to significantly increase the quantity and quality of apprenticeships in England to 3 million starts this Parliament, putting control of funding in the hands of employers.

This goal will require funding from employers. In recognition of this, the government will introduce a levy on large UK employers to fund the new apprenticeships. This approach will reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who

¹ HM Treasury (2015) Fixing the Foundations: Creating a more prosperous nation. London: HM Treasury Cm9098

attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014.

The levy will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual needs. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review.

(HM Treasury, 2015, para. 1.269-1.271)

Employers with a wage bill over £3m will be required to pay a levy of 0.5 per cent of their payroll.²

Given the plans to introduce a levy, it is important to consider how employers might respond to paying with respect to both the number of apprentices they train and the overall amount of training (of various forms) they provide. This was the purpose of the study on which this report is based.

1.2 Aims and objectives

As a starting point, the study sought to shed light on the overall aims of the levy: (i) to increase overall workforce training; and (ii) to assist in funding the Government's three million apprenticeship starts objective. Whilst the aim of the levy is clear – correcting for under-investment in workforce training – there is a need to understand how employers will actually react to the introduction of the apprenticeship levy. This will provide the basis for gauging (a) whether an increase in overall workforce training will take place; and (b) progress towards achieving three million apprenticeship starts.

The specific questions the study has set out to address are as follows:

- To what extent will the levy lead to increased starts? To what extent might employers recruit (more) apprentices in order to recoup the levy payment? And does the levy affect employers' propensities to train existing employees versus new recruits via apprenticeships?

² Formally, all companies are in scope of the levy. For example, a company with a payroll of £3m would need to make a levy payment of £15,000. But there is an offset of £15,000 so that in practice only companies with a payroll of over £3m will pay anything, so in the case of this employer their levy payment would be zero.

- What does their training activity look like now? How might their training activity change? Will apprenticeships displace other internal training (e.g. graduate schemes)?
- When might employers start taking apprentices (e.g. how far in advance will they plan and at what levels might they utilise apprentices? Will they take on Higher apprentices or Degree apprentices?)
- Might large employers consider becoming 'Direct Grant' employers, to a greater extent than is currently the case, where they effectively become a provider and are subject to Ofsted inspection?
- What sense of ownership and engagement do employers have with the levy policy? Do they feel it is generally a good way to encourage and incentivise apprenticeship investment?
- Is employer behaviour in those companies which fall outside the scope of the levy likely to be affected by its introduction?

These questions all need to be addressed within the wider context of changes in the skills system that are likely to have some direct bearing on employer behaviour (e.g. changes in the apprentice minimum wage, Government funding rates / levels of co-investment for different types of apprenticeship, etc.).

The introduction of the levy will have implications for the processes underlying employers' decisions to train. It can also be expected to have some impact on employers that do not pay the levy. For example, if larger employers train in excess of their own needs this might create a surplus of trained apprentices that smaller firms could recruit.

The main aim of this study is to consider this crucial issue: **how the levy will affect employers' propensities to invest in apprenticeships and the underlying behaviours that influence the investment decision.**

1.3 Method

This study has utilised a tried and tested method that has been developed and finessed by the research team in undertaking the Net Benefits of Training series and the Employer Routed Funding study.³ This method is based on developing a conceptual framework that provides a rigorous theoretical structure for developing

³ Hogarth, T., Adams, L., Gambin, L., Garnett, E., and Winterbotham, M. (2014) *Employer Routed Funding: Employer Responses to Funding Reform*, BIS Research Paper No. 161, i - 73, London: Department for Business, Innovation and Skills; Hogarth, T., Gambin, L., Winterbotham, M., Baldauf, B., Briscoe, G., Gunstone, B., Hasluck, C., Koerbitz, C. and

research tools⁴. Employers may be unwilling to make substantial investments in skills if they are unsure whether they will be able to appropriate the returns on that investment. The conceptual framework is concerned with understanding how the introduction of the levy will alter the employer's view about the relative costs and benefits of investing in apprenticeships. It is also concerned with understanding whether any additional investment in apprenticeships by the employer is compensated for by reductions in other investments (e.g. non-apprenticeship training).

There is a need to capture information about the costs of training faced by the employer and their training decisions and how this will be affected by the levy. Many of the questions that have been asked of employers relate to how they are likely to react to the introduction of the levy. An important part of the interviews has involved briefing the employers about how the levy is likely to work in practice and other features of the apprenticeship system and ongoing reforms. During interviews, after employers expressed their initial reaction, the discussion then delved deeper, getting employers to consider a range of possible responses they might adopt in order to offset or claw-back their levy payment and accommodate other impacts of the levy on their business.

The key over-arching questions are the extent to which (a) more training would be undertaken and (b) more apprentices would be recruited as a consequence of the levy. This can be considered both quantitatively (i.e. how much more training or how many more apprentices are taken on) and qualitatively (e.g. is training more likely to be accredited, or more apprentices taken on in higher level apprenticeships, is there more progression, etc.?). In other words, to what extent is the levy likely to lead to quantitative and qualitative additionality? To assess the likely extent of additionality requires assessing the degree of either deadweight and/or substitution reflected in their responses; this is not to say that any additionality occurring as a consequence of the levy will be lost due to either deadweight or substitution, rather the issue is to anticipate, as far as possible, employer responses in order to gain a better understanding of how the levy can effectively increase the number of apprentices taken on and the volume of training delivered. In order to appreciate the degree of

⁴ Taylor, C.(2012) Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study, BIS Research Paper No. 67. London: Department for Business, Innovation and Skills.

The conceptual framework for the study draws on the human capital approach associated with Becker (1962, 1964) but also recognises that there are sometimes labour market imperfections that affect the employer's propensity to invest in apprenticeships (c.f. Acemoglu and Pischke, 1999).

deadweight and substitution (and other issues) in this study, it has been necessary to collect information from employers on:

- **deadweight** – the extent to which training would have taken place in any case. This is not just in relation to the number of apprentices, but will include training that would have been delivered in any case but was previously delivered through non-apprenticeship means (e.g. training leading to an AAT qualification in accountancy can also be delivered through a Level 4 apprenticeship);⁵ and
- **substitution** – whether more apprentices are trained but at the expense of people being trained in other ways. For example, some continuing vocational education and training may be discontinued because expenditure available for training has been diverted to apprenticeships.

The research undertaken here has involved semi-structured interviews carried out with companies in England that fall in scope of the apprenticeship levy to be introduced in 2017. Since all employers of a certain size will be in-scope of the levy, interviews were conducted with employers that recurrently recruit apprentices as well as those that do not or that do so sporadically.

The study has also included interviews with a number of employers who are engaged in training apprentices already but who are not within the scope of the apprenticeship levy (i.e. smaller employers). *A priori*, one might expect employers that fall outside the levy to: (a) reduce their apprenticeship investment because they believe larger employers will over-train; (b) look to develop partnerships with larger employers to train their apprentices (that will improve the larger firms' economies of scale); or (c) look to continue as before, though they may face more competition from larger employers for the pool of young people from which they typically recruit apprentices. Understanding how firms outside the levy might respond will help provide valuable information about the impact of the levy on overall volumes of training and apprentices.

In order to address the various research questions set out above, a semi-structured interview schedule (provided in Annex A) was used to provide a basis for discussion between members of the research team and the person in the organisation with overall responsibility for apprenticeship training or training more generally. The aim of the interview was very much oriented towards understanding how the levy will alter the employer's provision of training and its cost within the organisation and the number of apprentices recruited.

⁵ Gambin, L. and Hogarth, T. (2014) Employer investment in Higher Apprenticeships in accounting. BIS Research Paper No. 175.

1.4 Details of fieldwork / employer case studies

The sampling frame was drawn from the UKCES Employers Perspectives Survey and the BIS Survey of Apprenticeship Employers (both conducted by IFF) among respondents that indicated that they were willing to participate in further research. The interviewees were those who had overall responsibility for training, including apprenticeships, within a company. Interviews were mainly conducted at head offices. The unit of analysis was the company / organisation (rather than the site or establishment).

It has been recognised that employer engagement in apprenticeships varies markedly by sector and employer size. In order to cover a broad spectrum of possible employer reactions and responses to the levy, the study sampled employers within six different sectors:

- Engineering;
- Construction;
- Financial and Professional Services;
- Health and Social Care
- Retail; and,
- Hospitality.

This split provides a roughly equal mix of relatively high cost and low cost sectors in terms of the net costs to the employer of delivering the dominant apprenticeship framework within the respective sector. The Net Benefits to Training series identified sectors such as engineering and construction as being ones where the total costs to the employer of delivering an apprenticeship were relatively high, whereas in retail and hospitality the costs were relatively low.⁶ As far as possible, interviews covered a mix of employer sizes (with all being of sufficient scale to be in scope of the levy), both private and public sector companies, and some Direct Grant employers.⁷

Table 1.1 provides an overview of all employer interviews carried out in this study. For employers that are in-scope of the levy, face-to-face interviews were conducted in each of the six broad sectors with a split between recruiters and non-recruiters of

⁶ Hogarth, T., Gambin, L., Winterbotham, M., Baldauf, B., Briscoe, G., Gunstone, B., Hasluck, C., Koerbitz, C. and Taylor, C. (2012) *Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study*, BIS Research Paper No. 67. London: Department for Business, Innovation and Skills

⁷ A Direct Grant employer acts as its own training provider. It contracts directly with the Skills Funding Agency – rather than a training provider – to deliver all or some of the training attached to the apprenticeships it delivers.

apprentices. Also within each sector, a number of employers that offer apprenticeships who fell below the pay bill threshold for paying the levy were interviewed over the telephone. In total, 63 case studies of in-scope employers were undertaken and 14 out-of-scope employers were interviewed.

Table 1.1: Overview of employer interviews

Sector	In-scope Employers					Out-of-scope Employers	Total
	Recurrent Apprentice Recruiters		Non-Recurrent Apprentice Recruiters		Total In-scope Employers		
	150-499 Employees	500+ Employees	150-499 Employees	500+ Employees			
Engineering	3	4	1	0	8	2	10
Construction	4	3	2	0	9	3	12
Financial Services	4	4	3	1	12	4	16
Health and Social Care	2	5	3	1	11	3	14
Retail	0	5	3	3	11	0	11
Hospitality	3	4	2	3	12	2	14
Total	17	24	16	6	63	14	77

As noted in Table 1.1, the split between cells is not entirely even. In some cases, there were few employers (or none) available to take part in the study which would fit into every cell shown in Table 1.1. In the engineering and construction sectors, for instance, there appear to be very few employers with 500 or more employees that do not recurrently engage in apprenticeships.

Interviews with employers were carried out between March and June 2016. Interviews with employers that are in-scope of the apprenticeship levy (i.e. those employers with a pay bill of £3m or more) were carried out face-to-face by a senior member of the research team. These interviews were around one hour in duration. Interviews with employers that are out of scope of the levy (i.e. with a pay bill of £3m or less) were conducted by telephone and lasted around 30 minutes.

Table B.1 in Annex B provides a short summary of the employers participating in the study and the names used to refer to particular employers in the remainder of this report.

1.5 A note of caution

The evidence provided in this report is based on a limited number of observations. The employers that participated in the study are not necessarily representative of the

population of employers that will be in-scope of paying the levy. There is always the danger that results based on a small number of observations will contain response biases of one kind or another – for instance, the employers which chose to participate in the study may be inclined to respond to the levy in a particular way. In practice there was a mix of firms in each sector by, for instance, the number of people employed, their location, the types of activity in which they were engaged (e.g. the production of relatively high and low value goods and services). In this way the risk of introducing biases into the analysis is mitigated. For these reasons the **results provided in this report should be regarded as indicative** rather than definitive.

1.6 Structure of report

The remainder of this report proceeds as follows. In Chapter 2 a brief summary of what is already known about the impact of levies on employer investment in skills is provided, alongside contextual information about trends in apprenticeship participation in England. This is followed by an outline of how employers said they would be most likely respond to the introduction of the levy in Chapter 3. In Chapter 4, further consideration is given to how employers might offset the costs of the levy by reconfiguring initial vocational education and training in their companies. Chapter 5 provides an assessment of the extent of additionality, deadweight and substitution that might result from the levy's introduction. Finally, Chapter 6 provides a conclusion.

2. Incentivising Employers to Invest in Apprenticeships

This chapter provides contextual information on apprenticeships in England, outlines the aims of the proposed apprenticeship levy in England, and summarises the evidence about the effectiveness of training levies in other countries. The evidence shows that training levies are common across the world and that they work best where there is: employer buy-in; ring-fencing of contributions to spend on training; a strong role for employers in governance; and governing bodies not being training providers.

2.1 Introduction

The aim of this chapter is scene setting. It begins with a discussion of the factors that are known to influence the employer's propensity to invest in training programmes such as apprenticeships. The forthcoming apprenticeship levy is then described along with an overview of what previous research indicates about possible effects of training levies on employer behaviour and the incidence of training. Finally, possible reactions of employers to the apprenticeship levy are outlined.

2.2 Employer investment in apprenticeships in England

There has been a dramatic increase in the number of apprenticeship starts over recent years and especially since 2010/11, as shown in Figures 2.1 and 2.2. The number of starts peaked at 515,000 in 2012/13 and stood at just under 500,000 in 2014/15⁸. Much of this growth in apprenticeships has been concentrated amongst older apprentices (especially those aged 25 years and over), and at Level 2 rather than at Level 3 and higher.

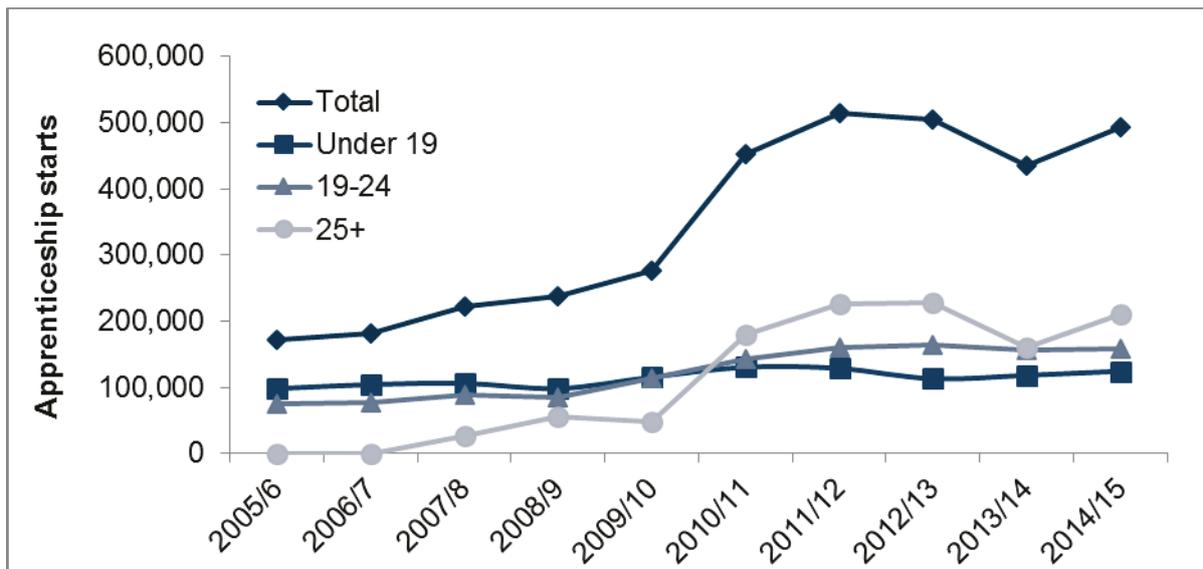
Apprenticeships are associated with relatively high wage returns for those individuals who complete them, and with improved organisational performance for those employers that provide them.⁹ Although the number of apprentices has increased

⁸ Source: Statistical First Release
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/530819/SFR_commentary_June_2016_final.pdf

⁹ See, for example: Gambin L., Beaven R., Hogarth T., May-Gillings M. and Long K. (2014) Methodological Issues in Estimating the Value Added of Further Education, Higher Education and Skills: A review of relevant literature, BIS Research Paper Number 166; Beaven, R., May-Gillings, M., Long, K., Hogarth, T. and L. Gambin (2013) Measuring Additionality in Apprenticeships, BIS Research Paper Number 138; Gambin L. and T. Hogarth (2015) 'The Costs and Benefits of Apprenticeships to Employers: Policy, Funding and Training Quality', in *Human Resource Management, Innovation and Performance*, eds. H Shipton, P Budhwar, P Sparrow, and A Brown.

substantially, there remains a relatively low level of employer uptake of this form of training compared with other countries and it continues to prove difficult to persuade more employers to train apprentices. Survey evidence indicates that whilst the percentage of employers offering apprenticeships has risen over recent years, only a relatively modest proportion report having an apprentice on their payroll (10 per cent of employers in England in 2014).¹⁰ This is considered especially low in comparison with high productivity economies such as Austria, Germany and Switzerland.¹¹

Figure 2.1: Apprenticeship starts by age, 2005/06 to 2014/15

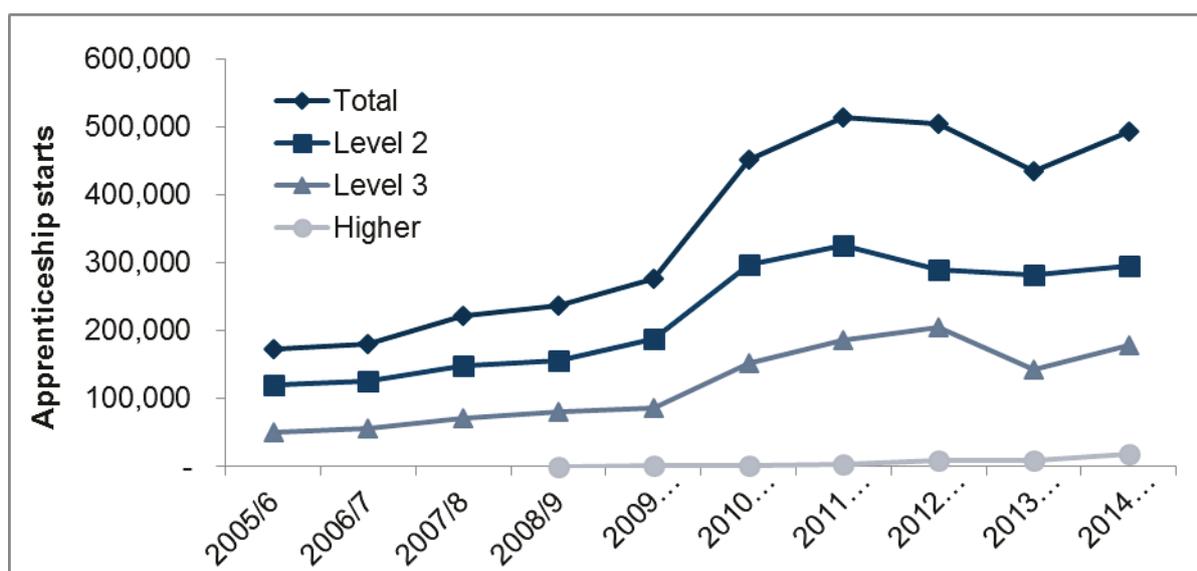


Source: Skills Funding Agency

¹⁰ Shury, J., Vivian, D., Spreadbury, K., Skone James, A. and Twedde, M. (2014) *Employer Perspectives Survey 2014: UK Results*, UKCES Evidence Report 88.

¹¹ Vogler-Ludwig, K., Stock, L., Giernalczyk, H., and Hogarth, T. (2011) *International Approaches to the Development of Intermediate-level Skills and Apprenticeships: Synthesis Report*. UK Commission for Employment and Skills, Wath-upon-Deane. Steedman, H. (2010) *The state of apprenticeship in 2010: international comparisons - Australia, Austria, England, France, Germany, Ireland, Sweden, Switzerland*. Apprenticeship Ambassadors Network / Centre for Economic Performance

Figure 2.2: Apprenticeship starts by level, 2005/06 to 2014/15



Source: Skills Funding Agency

There are important differences in employers' provision of apprenticeships by firm size and sector. The Employer Perspectives Survey 2014 (EPS 2014) shows that there were relatively high shares of employers in manufacturing and construction (15 per cent in each sector) and non-market services (16 per cent of employers) employing apprentices in 2014 (see Table 2.1 below). In business and other services 10 per cent of employers had apprentices in 2014 but only 8 per cent of employers in trade, accommodation and transport and 4 per cent in the primary and utilities sector had apprentices.

Table 2.1: Employer Participation in the Apprenticeships

Sector	% of employers with apprentices
All employers	10%
Primary sector and utilities	4%
Manufacturing	15%
Construction	15%
Trade, accommodation and transport	8%
Business and other services	10%
Non-market services	16%
<i>Weighted Base</i>	<i>1,766,837</i>

Source: Employers Perspectives Survey 2014

The data suggest that size matters. A substantial percentage of workplaces with 100 or more employees participate in apprenticeships but this is still less than half of all employers of this size in the UK (according to the EPS2014, 44 per cent of establishments with 100 or more employees employed apprentices). It is likely that

the very large employers, say those with 500 or more employees, are much more likely to take on apprentices and to do so regularly. Amongst larger medium-sized employers there may well be a willingness to take on apprentices, but not necessarily to do so every year.

2.3 Factors facilitating and inhibiting employer investment in apprenticeships

Apprenticeships have been shown to produce benefits for apprentices and their employers as well as for the economy more widely. As discussed above however, a significant issue has been present for a long time – namely, how to stimulate employer demand for this form of training and to get employers to invest in apprenticeships. In order to consider how far the apprenticeship levy will go in overcoming this problem, it is useful first to gain an understanding of the factors that facilitate employer investment and those that are likely to present barriers to employers training and employing apprentices.

In the latest EPS (2014), 24 per cent of those employers not already engaged in apprenticeships reported that they planned to offer them in future and 88 per cent of those currently engaged planned to continue offering apprenticeships. This represents around a third overall of all employers in the UK planning to offer apprenticeships. In practice, these figures have not fully materialised in subsequent employer uptake of this form of training.¹² The EPS results also indicate that the reasons employers give for not already offering apprenticeships are mainly structural ones (including cost considerations and their capacity to take on and train apprentices) and deciding not to train apprentices because they do not see a need for particular skills amongst their workforce or they prefer to recruit ready skilled workers from the labour market.

The reasons why more employers do not offer apprenticeships relate to market failures of different kinds, including a lack of knowledge about the benefits this form of training might confer upon a business or the net cost to the business of training an apprentice.¹³ Some employers are simply risk-averse. In a buoyant and flexible labour market, employers may be uncertain about appropriating the returns from

¹² In the Employer Perspectives Survey 2010, 5 per cent of employers said they employed at least one apprentice, 4 per cent said they offered apprentices but had none currently, and 8 per cent planned to offer them in the future: a total of 17 per cent of employers. In the Employer Perspectives Survey 2014, 10 per cent of employers said they currently employed an apprentice.

¹³ Gambin, L. and Hogarth, T. (2015). *More Apprenticeships Anybody?* <http://www2.warwick.ac.uk/fac/soc/ier/research/apprenticeships-training/moreapprenticeshipsanybody01.pdf>

investing in apprenticeships. Unless employers have policies and practices in place that ensure apprentices are retained in the business once they have completed their training, they will be at risk of losing their apprentices – and thereby their training investment - to competitors. Accordingly, employers which might otherwise invest in apprenticeships may be averse to doing so if they fear losing their apprentices post-training. This is important when the net costs of training an apprentice are considerable (e.g. at Level 3 in engineering, the net cost borne by the employer at the end of the formal training period can be as much as £60,000).¹⁴

Though various policies have had some success in raising apprenticeship volumes, there is a sense that employer participation is dependent upon the State picking up a large share of the overall cost of apprenticeships. For some employers, participation in apprenticeships has been predicated upon being able to break-even on their investment by the end of the training period, or at least soon after. And this is dependent upon the State making a substantial contribution to meeting the costs of training.¹⁵ From the human capital perspective, an employer will be willing to fund apprenticeship training where it is specific to their organisation such that apprentices, once they have completed their training period, will not move onto another employer where that non-training employer can accrue the benefits arising from the training provided by the first employer. Apprenticeships, and other forms of training however, are unlikely to comprise wholly organisation-specific skills and it is reasonable and desirable to expect that at least some of the training provided during an apprenticeship will give rise to skills that are transferrable to other organisations. This characteristic can explain in part that employers would not have an incentive to fund apprenticeship training in full and that apprentices themselves could be expected to bear part of the cost of the training. Typically, apprentices would bear part of the costs through relatively low wages during the apprenticeship training period.¹⁶ Employers also would not be willing to incur a deficit at the end of the apprenticeship training period, as there would be no guarantee that their former apprentice, now skilled worker, would remain with the organisation or that the employer would be able to fully recoup the costs of training.

¹⁴ Gambin, L. and Hogarth, T. (2016) *Employer investment in intermediate-level STEM skills: how employers manage the investment risk associated with Apprenticeships*. London: Gatsby; Acemoglu, D. and Pische, J-S. (1999) 'Beyond Becker: Training in Imperfect Labour Markets,' *Economic Journal*, Vol. 109.

¹⁵ Hogarth, T., Gambin, L., Winterbotham, M., Baldauf, B., Briscoe, G., Gunstone, B., Hasluck, C., Koerbitz, C. and Taylor, C. (2012) *Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study*, BIS Research Paper No. 67. London: Department for Business, Innovation and Skills

¹⁶ The Apprentice Pay Survey 2014 suggests that this tends not to happen – see Winterbotham, M., Davies, B. Murphy, L., Huntley Hewitt, J. and Twedde, M. (2014) *Apprenticeship Pay Survey 2014*. BIS Research Paper No.207. The evidence points to apprentice wages in the UK being relatively high compared with other countries – see London Economics (2013) *An International Comparison of Apprentice Pay – Final Report*. London: Low Pay Commission

If an employer is to make a rational decision to invest in apprenticeship training, which constitutes a significant financial investment in most cases, then there are particular conditions which one would expect to be in place. The employer needs to be reasonably sure that the productivity gain arising from the training can be captured during the training period. If this cannot be assured then the employer would need to expect that they will be able to retain the former apprentice for a sufficient period after the training period to be able to capture the productivity improvement and, over this period, recoup their investment in training. It would need to be the case that an employer can organise the work of an apprentice during the training period so that the apprentice makes a net contribution in the workplace (i.e. that their productivity during the training period is sufficient to outweigh the costs of the training being provided, including any spillovers that results in the productivity of other workers being improved by the presence of apprentices). It could alternatively hold that the training and experience provided during the apprenticeship give rise to skills (or combinations of skills) which are sufficiently specific to the employer that there is little risk of other employers poaching and so the employer is able to recoup their net costs of training in the post-apprenticeship period.

Some possible factors that may inhibit an employers' investment in apprenticeships include:

- employers being risk averse due to potential poaching by other businesses;
- unknown or high net costs of training which an employer may not expect to be able to recoup (particularly when considered over the short-term);
- lack of skills demand more generally in the business – the employer sees no need for the skills provided through apprenticeship and/or are not hiring at all;
- having a negative previous experience with training apprentices;
- unsuitable candidates to recruit as apprentices;
- existing programmes considered ill-suited to the business;
- unsuitable supply or suitable training provider not available;
- significant administrative and transaction costs associated with the programme (direct costs and time) which cannot be absorbed by the company.

While it may be the case that there are some constraints on supply (e.g. finding a good quality training provider in a local area) previous research has indicated that

employers do not cite inadequate supply as a major factor mitigating against their investment in apprenticeship training¹⁷.

Government policy and reform of the apprenticeship system has for some time, and perhaps more overtly in the past four years than hitherto, sought to increase the number of apprentices through:

- overcoming missing information and asymmetries by demonstrating the returns that accrue to both employers and individuals from engaging with apprenticeship (the evidence is particularly strong in this regard); and,
- providing employers with the flexibility to tailor apprenticeship training to their particular skill needs (e.g. through Trailblazers).

Employers are expected to bear a greater share of the costs of apprenticeships, through co-investment and employer-routed funding¹⁸ and soon through the mandatory apprenticeship levy from April 2017. But the net cost of apprenticeships to employers is one of the main factors that will influence their training decision. Employers may be able to reduce the net costs they incur during an apprenticeship in a number of ways:

- by reducing the wages paid to the apprentice (the levy could result in downward pressure on apprentice wages, though the extent to which this is possible is constrained by the National Minimum Wage and the National Living Wage;
- by 'shopping around', or negotiating, to obtain greater value for money from training providers;
- by structuring the apprentice's activities such that the training period is shorter and/or requires less off-the-job, non-productive time (for both apprentices and their supervising staff) and the productive contribution of apprentices during the training period is increased.

¹⁷ Employer Perspectives Survey 2014: UKCES (see page 107 and 108) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373769/14.11.11_EPS_2014_-_Main_Report_full_V2.pdf

¹⁸ Employer-routed funding refers to where the employer is provided with the funding to purchase training from the training provider. It is anticipated that in combination with employer co-investment that the employer will negotiate to obtain value for money from the provider. Until recently, funding was paid directly by Government to the training provider.

¹⁸ Employer-routed funding refers to where the employer is provided with the funding to purchase training from the training provider. It is anticipated that in combination with employer co-investment that the employer will negotiate to obtain value for money from the provider. Until recently, funding was paid directly by Government to the training provider.

There may also be ways in which the risk of poaching is reduced such that employers can be more certain that they will be able to retain their apprentices after they are trained. Employers themselves may be able to achieve this through delivering training and experience to their apprentices that may provide transferrable skills to the apprentice but that these skills are bundled in a way that is unique to the employer's workplace such that, on the whole, the skills are not readily transferred to other workplaces. Employers may also be able to establish a bond with their apprentice whilst training (this could be the bundle of skills just mentioned or through training in the 'company way') so that the apprentice is disinclined to leave after their training. Employers that already train and successfully retain their apprentices often mention that they use a variety of HR and workplace practices to ensure apprentices stay with the company.

A further approach to minimising the risk attached to an employer's investment in apprenticeship training is to level the playing field across employers. A levy, applied to all employers, would in theory, see all employers (training and non-training) make a financial contribution such that those employers that do not train apprentices would not make a financial gain from 'poaching' the former apprentices trained by other employers. The next section turns to this approach to inducing employer engagement in apprenticeships in the specific case of the apprenticeship levy announced in the July 2015 Budget Statement and due to be implemented in April 2017.

2.4 The apprenticeship levy

The introduction of the apprenticeship levy changes the basis on which employers make the decision to invest in apprenticeships. The levy, to be introduced in April 2017, will require employers with an annual payroll of more than £3m to pay a levy of 0.5 per cent of their payroll. The levy will apply to employers in both the private and public sectors and it will be paid through the PAYE system. To illustrate, take four employers with payrolls of £3 million, £5 million, £20 million and £100m, respectively. The levy payment to be charged to each of these employers is shown in Table 2.2.

Table 2.2: Illustrative calculations of employers' levy obligations and resulting digital apprenticeship account

Employer	Apprenticeship levy and digital account
Employer 1 Payroll of £3m	<p>Levy = £3m x 0.5% <i>less</i> £15k allowance £15,000 <i>less</i> £15,000 = £0</p> <p>Digital account <i>including</i> 10% public</p>

Employer	Apprenticeship levy and digital account
	$£0 \times 10\% = \text{£}0$
Employer 2 Payroll of £5m	Levy = £5m x 0.5% less £15k allowance £25,000 less £15,000 = £10,000 Digital account including 10% public £15,000 x 10% = £16,500
Employer 3 Payroll of £20m	Levy = £20m x 0.5% less £15k allowance £100,000 less £15,000 = £85,000 Digital account including 10% public £85,000 x 10% = £93,500
Employer 4 Payroll of £100m	Levy = £100m x 0.5% less £15k allowance £500,000 less £15,000 = £485,000 Digital account including 10% public £485,000 x 10% = £533,500

Employers that train apprentices through approved apprenticeship frameworks or standards will be able to draw down the monies they have been levied through a digital account through which they will be able to use to pay for their apprentices' training. The Digital Apprenticeship Service (DAS) will enable employers to make payments for their apprenticeship training and will also provide support for employers to: identify, select and pay a training provider; choose an apprenticeship course; and, find a suitable candidate to hire as an apprentice. The government announced on 21 April 2016, that it would provide a 10 per cent top-up of an employer's digital account for spending on apprenticeship training in England. An illustration of the resulting amount of funding available (through the digital account) to the four employers is also provided in Table 2.2.

Employers with a pay bill of £3m or less will not have to pay the levy. These smaller employers will continue to have access to government funding to support apprenticeships. Additionally, all employers (in-scope of the levy or not) will eventually have access to the DAS and will be able to use it to manage any Government funding available to them to pay for apprenticeship training. Non-levy paying employers may be affected by the introduction of the levy in a number of ways which could have an impact on their training decisions, too. If employers in

scope of the levy engage in over-training, thereby adding to the pool of skilled workers from which local employers recruit, it may result in some smaller, non-levy paying employers no longer taking on apprentices.

Initial survey evidence indicates that 35 per cent of employers support the introduction of the Levy and 27 oppose it; the same survey though indicates that at the time the survey was conducted – 2016 – many employers were yet to make up their minds with 38 per cent saying they did not know whether they supported or opposed the Levy. Of those who said they were likely to pay the Levy, 39 supported its introduction and 44 per cent opposed it.¹⁹

The imposition of this levy potentially affects the cost-benefit calculation that underlies the employer's decision to invest in apprenticeships and subsequently, the number of apprentices they train. Some employers may be readily able to recoup their levy payment – and doing so may see them increase the number of apprentices they take on – whilst others may not consider it possible to recoup the levy (e.g. because the cost of employing apprentices relative to their productive contribution remains too high to make the investment worthwhile, notwithstanding the amount paid out in the levy). This is the crux of the matter: how the levy will affect employers' propensities to invest in apprenticeships and the underlying behaviours that influence their investment decision.

2.5 What is known about the operation of training levies in practice?

Many reviews²⁰ of training levies have highlighted the scarcity of evidence on their impacts on either the quantity or quality of training. Nor is there much evidence on the impact of such levies on employer productivity or labour market gains of individuals. Further, little is known about the level of deadweight or substitution resulting from training levies. That said, many countries operate training levies, many of which have well established apprenticeship programmes.²¹ The benefit of having a levy in place is that it potentially deals with the free-rider problem in the vocational education and training system. If all employers are required to contribute to the costs of training the free-rider problem is potentially eradicated.

¹⁹ CIPD (2016) *Employer Views on the Apprenticeship Levy*. CIPD Policy Report

²⁰ Gospel, H. (2012) *Understanding Training Levies*. UKCES Evidence Report 47. Dar, A. Canagarajah, S. and Murphy, P. (2003) *Rationale and Evidence from Evaluations*. Washington: World Bank

²¹ <http://www.smf.co.uk/wp-content/uploads/2015/07/Social-Market-Foundation-Publication-Alison-Wolf-Fixing-A-Broken-Training-System-The-Case-For-An-Apprenticeship-Levy.pdf>

International evidence on the use of levies is somewhat mixed. But it needs to be said at the outset that there is much variation in national vocational education and training systems. It is apparent that to date, no other country has tried to introduce a levy embedded within an employer-led vocational education and training system where employers will have direct access to the levy payments they have paid in.

So what does the international evidence show? The World Bank has identified 60 countries that have training funds i.e. a stock or flow of financing outside normal government budgetary channels dedicated to developing productive work skills, principally by means of payroll training levy.²² It has also noted that nearly all levy-financed training funds experienced difficulties in assisting small enterprises. Earlier evidence from the World Bank noted that whilst levies have been found to bring about an increase in the quantity of training, they tend to do so more under conditions of economic growth.²³ A potential “levelling effect” of training levies has also been noted.²⁴ This occurs where employers that may have invested more or provided more training in the absence of the levy reduce their efforts to the amount of training required by the levy (e.g. the amount required to receive a rebate or tax credit or to reclaim their levy payment).

In his 2012 review of training levies, Gospel identified a number of potential pitfalls associated with training levies, including that:

- employers may provide training that they would have provided in any case but may repackage or rebrand it as an apprenticeship in order to avoid paying a levy – this suggests that a levy could lead to significant deadweight unless it brings about qualitative differences such as improved quality of training;
- a levy can result in overtraining and divert training towards apprenticeship when other forms would actually be better suited to a business;
- they may introduce administrative burden and costs.

Gospel also highlights possible up-sides to the use of training levies, including:

- they can reduce the risk to those employers that train as it alters the incentives for other non-training employers to poach skilled workers; and
- they increase the resources available for training and reduce pressure on public finances.

²² Johanson, R. (2009) *A Review of National Training Funds*. Washington: World Bank
²³ <http://siteresources.worldbank.org/INTLM/Resources/TrainingLevies.pdf>
²⁴ Ibid

It needs to be borne in mind that the levy to be introduced in England is different in some key respects to those reviewed in the evidence cited above; in particular that the Government will give employers direct access to the funding they paid into the levy. The international evidence highlights that there is no one best way to implement a training levy, given that countries' labour markets and skill systems differ so much.²⁵ It shows, however, that levies are common across the world and that there are several features which are crucial to their success, including:

- employer buy-in;
- ring-fencing of contributions to spend on training;
- a strong role for employers in governance;
- governing bodies not acting as training providers.

All of these are features are likely to be incorporated in the final design of the apprenticeship levy. Wolf highlighted the central role of employers as stakeholders or partners in other countries where apprenticeship is a highly regarded and well-functioning education and training pathway.²⁶

2.6 How employers might respond to the apprenticeship levy (i.e. the rationale for the design of the current study)

The operation of the apprenticeship levy poses a number of questions about how employers will actually respond in practice. The expectation is that the levy will increase current investment in apprenticeships once deadweight and substitution have been taken into account. Employers would have taken on some apprentices in any case, and it is possible that some training expenditure may be diverted into apprenticeships from other training activities (for example, recruitment of higher education graduates). It needs to be recognised that substitution may result in some benefits to the employer and the wider economy. It is also worth bearing in mind that some training that would otherwise have been undertaken may be rebranded as an apprenticeship; for example, graduate trainee programmes could become higher level apprenticeships. Again, there may be benefits to the employer and employee where this happens (e.g. by providing an externally accredited qualification). These are the type of behaviours explored in this study.

²⁵ http://www.oecd-ilibrary.org/education/subsidies-and-levies-as-policy-instruments-to-encourage-employer-provided-training_5k97b083v1vb-en;jsessionid=2bc1j25p5223s.x-oecd-live-03

²⁶ <http://www.smf.co.uk/wp-content/uploads/2015/07/Social-Market-Foundation-Publication-Alison-Wolf-Fixing-A-Broken-Training-System-The-Case-For-An-Apprenticeship-Levy.pdf>

Once required to pay the levy, employers may seek ways of ensuring that they can recoup this cost. As noted above, one way of doing this may be to restructure existing programmes so that they are delivered as apprenticeships and qualify for payment through the employer's levy account. There are, however, other issues to consider, including those that ensure the employer can recover the costs of the training investment (i.e. their levy contribution plus the other costs of training an apprentice) either at the end of the formal training period or thereafter, including:

- increased employer ownership of apprenticeships may provide the employer with more assurance that they can retain the apprentice post-completion because the employer is able to make the training more firm-specific than previously;
- if employers have more flexibility regarding the structure of training they might be able to reduce the overall cost of apprenticeship training such that any residual net cost at the end of training period is reduced. In the Swiss system, for example, apprenticeships are structured so that the productive contribution of apprentices exceeds their wages and in effect, pays for their training;²⁷
- achieving economies of scale such that the marginal cost of taking on an apprentice is reduced. There is also the potential for employers to work in concert to allow them to obtain economies of scale when, for example, purchasing training from a provider. Employers sometimes form *ad hoc* consortia to train their apprentices in order to both reduce the cost of training and make best use of training facilities available locally;²⁸
- becoming a Direct Grant employer whereby the employer becomes its own training provider (and subject to Ofsted inspections which is likely to have cost implications). There may be initial set up costs in becoming a Direct Grant employer but savings may accrue over the longer-term;
- reorganising career paths within a company such that progression routes for apprentices are improved and thereby the returns to the employer – and the employee – are potentially increased. This may also improve the retention of former apprentices and allow the company to appropriate the returns of the training they have provided.

²⁷ Dionisius, R., Mühlemann, S., Pfeifer, H., Walden, G., Wenzelmann, F., and Wolter, S.C. (2009) 'Cost and Benefit of Apprenticeship Training: A Comparison of Germany and Switzerland'. *Applied Economics Quarterly*, 2009, 55(1), 7-36; Wolter, S.C. and Mühlemann, S. (2013) *Return to Investments Systems in Enterprises: Evidence from cost-benefit analyses*. European Expert Network on Economics Education Analytical Report No.16.

²⁸ McCaig C., Hogarth T., Gambin L. and Clague L. (2014) Research into the need for and capacity to deliver STEM related apprenticeship provision in England, BIS Research Paper No. 171

Potentially, depending upon how employers strategically and tactically respond to the levy, there is scope not only for the number of apprentices to increase, but at all levels, too. There is also the issue of over-training to consider. The levy, in tandem with other changes to apprenticeships, such as employer ownership, may reduce the risk faced by employers in training apprentices by, for example, reducing the marginal cost of taking on an apprentice. They may then be willing to take on more apprentices than they would otherwise have done in the past with the possibility that they train in excess of their own training needs (if there is no marginal cost of doing so). In this way the pool of skilled people at the local level may be increased.

2.7 Conclusion

The current study has been designed in such a way as to gauge how far employers currently are in planning their training and other behaviour once the levy comes into effect. As has been discussed, there is little evaluative evidence available that provides robust estimates of the impact of training or apprenticeship levies. As the introduction of the apprenticeship levy represents a system change and occurs alongside other policy reforms in an evolving economic context, full impact analysis would not be feasible and it would be a formidable undertaking unlikely to produce robust findings. Despite there being great difficulties in carrying out a full impact analysis of the apprenticeship levy after it has been introduced, it is nevertheless valuable to consider the types of possible employer reactions and what this might mean for overall training incidence and quality. The remainder of this report presents the findings of case studies of employers discussing the possible implications of the specific apprenticeship levy that is forthcoming in England.

3. The levy's impact upon apprenticeship starts

Employers reported that they tended to prepare a business plan to determine how many apprentices they take on each year. With the introduction of the levy respondents said they were in the process of developing a business plan that indicated how much they would be paying and how they might reclaim the levy. There were a number of common responses:

- continuing with business as usual;²⁹
- using the levy as a catalyst to increase the provision of apprenticeship training within the business;³⁰
- expressing concerns relating to how a sufficiently large number of apprentices could be trained;³¹
- writing off the levy payment and absorbing the cost in the bottom line of the company's accounts.³²

In general, in sectors such as engineering and construction employers said that the levy would be unlikely to affect their provision of apprenticeship training. They would continue on as before. In sectors such as financial and professional services, but not exclusively so, employers reported that they could use the levy as a catalyst to increase the number of apprentices taken on, sometimes in conjunction with developing new career pathways within the business.

There were also employers, often very large ones, where there were concerns that they would need to take on a large number of apprentices if they were to fully reclaim their levy and they were not sure whether they had the capacity to train so many apprentices or would have a use for their skills when trained.³³ This might result in some of the levy payment not being reclaimed which would then be registered as a cost on the employer's internal management accounts. This would either be written off, or it might need to be offset by reductions in expenditure on other activities.

²⁹ An approximate estimate would suggest that around a third of the firms interviewed indicated no change.

³⁰ An approximate estimate would suggest that around a half of the firms interviewed indicated that levy was a catalyst for change.

³¹ An approximate estimate would suggest that few of the firms interviewed mentioned this – less than a fifth

³² An approximate estimate would suggest that few of the firms interviewed mentioned this – less than one fifth.

³³ An approximate estimate would suggest that few of the firms interviewed mentioned this – less than a fifth.

3.1 Introduction

The purpose of this chapter is to provide an overview of how employers reported they would respond to the introduction of an apprenticeship levy. It shows how past behaviour in relation to apprenticeship training will ultimately shape employers responses to the levy. The principal findings indicate that:

- the behaviour of employers within sectors with a long tradition of apprenticeship (e.g. engineering and construction) will be largely unaffected by the introduction of the levy;³⁴
- where employers have other forms of training available to them, the levy may well result in the balance being tipped towards apprenticeships. The levy, other things being equal, makes it more cost-effective to use apprenticeships;³⁵
- the behaviour of employers in relatively low-cost sectors (such as retail and care) where the employer tends to look to recoup the net costs of training over the duration of the apprenticeship, looks to be more uncertain. There is an emphasis on being able to reclaim their levy payment, but this will need to be accommodated within an environment where there is much part-time work (an important issue given that apprentices are normally expected to work for at least 30 hours per week) and where training needs to be mostly on-the-job.³⁶

There are scale effects to consider. Large organisations with substantial levy payments – especially in non-traditional sectors – will sometimes need to take on many more apprentices than previously if they wish to fully reclaim their levy payment, but there are capacity constraints. Employers are not able to quickly double or triple the number of apprentices they train. Accordingly, it may take time for these capacity constraints to be overcome, but in some instances, where there is relatively little labour turnover, they will simply run out of people to train over time.

3.2 Why employers recruit apprentices

In order to understand how the introduction of the levy might affect the propensity of employers to take on apprentices, it is useful to consider the rationales employers provided for engaging in apprenticeship training, regardless of the levy. From the

³⁴ An indicative estimate would suggest that around a third of firms fell into this category.

³⁵ An indicative estimate would suggest that few of the firms interviewed mentioned this – less than one fifth.

³⁶ An indicative estimate would suggest that around a quarter of firms fell into this category.

employer case studies conducted as part of this study and other research³⁷ it is possible to identify a number of differing rationales as follows:

- where recruitment of apprentices is seen as the only credible means of training people in a given occupation. The price elasticity of demand tends to be relatively low because the decision to recruit an apprentice is determined by a need to develop skills that the business requires and cannot be supplied in any other way (this was most commonly observed in engineering and construction, but not exclusively so);
- where apprenticeships are seen as a preferable alternative to other types of training on offer because they are able to deliver relatively high quality training that supplies the skills the organisation needs (this was observed in financial services but again, not exclusively);
- where employers are persuaded by providers to take on apprentices because it will be relatively cost-effective to do so in that it will, for instance, improve staff motivation, lower labour turnover, etc. But the employer's capacity to appropriate the benefits from the apprenticeship is constrained by high rates of labour turnover such that the employer is sensitive to the net cost of the apprenticeship (this was often the case in sectors such as hospitality and retail).

In the current study, there were employers in the engineering and construction sectors, but not exclusively so, with a long tradition of training people in various skilled trades through apprenticeships. These employers saw little alternative to this form of training. At the other extreme, there were employers in hospitality and retail, but again not exclusively so, where the decision to invest in apprenticeships was largely driven by the training provider being able to deliver an apprenticeship – often to existing, adult employees – with minimal disruption to the production process. In between there were employers – especially those where apprenticeship was a relatively new development – who chose to invest in apprenticeships because it conferred additional benefits on the company compared to available alternatives.³⁸

These orientations towards investing in apprenticeships are important because they shape employer responses to the levy. As will be seen, amongst the first type of employer the levy poses a problem only insofar as it represents a new funding

³⁷ Hogarth, T., Adams, L., Gambin, L., Garnett, E., and Winterbotham, M. (2014) *Employer Routed Funding: Employer Responses to Funding Reform*, BIS Research Paper No. 161, i - 73, London: Department for Business, Innovation and Skills; Hogarth, T., Gambin, L., Winterbotham, M., Baldauf, B., Briscoe, G., Gunstone, B., Hasluck, C., Koerbitz, C. and Taylor, C. (2012) *Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study*, BIS Research Paper No. 67. London: Department for Business, Innovation and Skills

³⁸ Gambin, L. and Hogarth, T. (2014) *Employer investment in Higher Apprenticeships in accounting*, BIS Research Paper No. 175, i - 26, London: Department for Business, Innovation and Skills

regime but it is unlikely to affect how many apprentices are recruited (in part because the number of apprentices trained is already sufficient to reclaim their full levy payment). In contrast, among the third type of employer, the emphasis is very much upon finding a cost-neutral solution to accommodating their outlay on the levy. In other words, they will look to reclaim the levy in full but only to the point that they will not be imposing any additional cost on the business.

The following examples are illustrative of the orientations of employers towards apprenticeships. The first example is of a construction company with a long tradition of apprenticeship training in various building trades. Its approach to the levy was to ensure that its payment was reclaimed in full but at the same time the employer felt that the levy would have little or no impact on the number of apprentices it recurrently took on (see panel).

Employer Case Study: Construction Company No.1

The company had a long history of training apprentices. It currently had 55 apprentices, with around a third working towards Level 3 and the rest at Level 2. The number of apprentices is growing and given current business growth, the plan was to have around 130 to 140 apprentices in bricklaying, carpentry, tiling, technical services, etc. by 2020. The company was currently looking into how it could reclaim its levy payment. It estimated that it would have to pay around £350,000 a year but this is likely to increase as the company expands. The Training Manager was adamant that the levy payment would not affect the volume of training undertaken or the number of apprentices recruited. These were very much determined by business demand and reflected the outcome of a planning process designed to ensure that the company was training sufficient people to meet projected demand in five years. What was most important was to ensure that the levy payment was reclaimed in full – this was not considered to be a problem since the amount would most likely be lower than the cost of training the number of apprentices to be taken on.

The approach above may be contrasted with the next employer where the investment decision is based very much on minimising cost (see panel).

Employer Case Study: Hospitality Company No.1

The company ran multiple chains of restaurants across the UK. It had had an apprenticeship training programme in the past but this had fallen into abeyance as the company felt it could meet its skill needs from the external labour market. Because it would have a levy payment of £750,000 it was once again in the process of establishing an apprenticeship programme. It recognised that apprenticeships could confer many skills on individuals, though in practice their skill needs for chefs were not large given that the meals it served were pre-prepared. The new apprenticeship programme would be very much aimed at providing existing employees with a qualification as few currently had any. This would help reduce labour turnover. The apprenticeship would also assist with recruitment and would allow the company to recruit people on apprenticeship wages. Training for the most part would need to be on-the-job and cause minimal disruption to service.

It is through understanding employers' orientations towards apprenticeships that one can begin to comprehend why employers respond in different ways to the introduction of the levy.

3.3 Planning and deciding upon the number of apprentices

To be in scope of the levy employers need to have an annual wage bill in excess of £3m. In practice, this would see employer fall into scope if they employ at least 110 people.³⁹ Accordingly, employers in scope of the levy tend to be larger employers with, typically, business plans in place that determine, amongst other things, whether apprentices were to be recruited and if so, how many.

In many instances, the response to the levy had been agreed at senior levels within companies. Typically, the person responsible for learning and development within the company had estimated the amount of their levy payment and had then prepared a business plan that outlined how they might respond. As will be explained below, most employers wanted to reclaim the levy in full, but they wished to do so in such a way that it represented an investment that would, at worst, pay for itself and hopefully would yield various positive outcomes. In other cases, employers were only just embarking on the planning of their response to the levy, often because they were still awaiting more information, particularly on funding caps and expected levels of employer contribution. One training manager in an engineering company, for example, needed to submit a paper to the board detailing the levy amount (expected

³⁹ Assuming that employees are paid, on average, £27,600 (as reported in the Annual Survey of Hours and Earnings 2015), and work full-time.

to be £150,000-£200,000) and the company's suggested response. This training manager did not want to submit a paper that would raise more questions than it would answer. Similarly, others indicated that until they had more information on expected levels of employer contribution to the costs of apprenticeships there was little point in trying to work out their planned response. There are some employers, where the levy payment is relatively small, for which the decision to take on an apprentice was more *ad hoc*, but here, the number of apprentices that needed to be taken on to recoup the levy was typically less than five.

The levy assumes that businesses will have systems in place that will allow them to determine whether they want to reclaim their levy payment either in full or in part, and how many apprentices they want to take on under differing frameworks or standards. The amount of public funding attached to differing frameworks and standards is likely to vary, so the employer will be required to accommodate within their business planning how much training their levy payment will deliver. In principle, for most employers, this was not a problem. They had business processes in place that determined how many apprentices they would take on each year – if any – related to their anticipated demand for skills over the next few years (and often simply based on recruiting a similar number year on year). Several employers pointed to the initial planning round beginning around April when a business case specifying the number of apprentices to be recruited for different frameworks or standards was drafted. This was then submitted for approval by the company's senior management team. Once approved, the human resources / training department could begin the process of recruiting apprentices to start in September and informing their training providers of their requirements. Most employers therefore reported that there was a process in place that could readily accommodate the planning required to reclaim any levy payment. Some employers though had more informal planning processes and often recruited apprentices on an 'as and when needed' basis, rather than through formal, regular assessment of skill needs.

Employers explained that their levy payment would be a cost item in their internal management accounts and, as such, there was a need to think about whether it could be offset or whether it would be effectively a sunk cost that could not be recovered. It was at senior levels in the organisation that most firms considered whether and how the cost of the levy might be recouped. Most employers had not previously contributed to the costs incurred by training providers in training their apprentices, and in most cases they were unaware, or only vaguely aware, that employer routed funding / co-investment was about to be introduced, so that even without the levy they would have needed to have provided a cash contribution to meet the costs of their training provider. Some of the larger, more informed employers commented that their industry had benefitted from essentially free apprenticeships to date (i.e. because employers had not needed to make a

contribution to the provider) and that many in their industry were unprepared for the forthcoming changes in the funding of apprenticeships (*“A lot of employers won’t know what’s going to hit them, they don’t know the funding, the banding, all that sort of stuff”*), something that may negatively affect the number of apprenticeship starts.

In most instances, the aim was to recoup as much of the levy payment as possible. One proviso to this was where employing a sufficient number of apprentices to fully reclaim would result in significant additional costs to the employer (e.g. additional wages, administration, employer contribution to provider fees etc.); in these cases a consideration of the costs against the benefits would be needed. At the same time, it was evident that many respondents had not considered such elements as funding banding and the potential need to pay fees to a provider for each apprentice when thinking in terms of the number of apprentices they would need to train to reclaim their full levy (i.e. assumed the levy would always fund the full provider fees).

The decision making process was clouded to some extent by a lack of certainty about how many apprentices their levy payments would fund; and in some cases, employers did not feel they could start planning their response to the levy without information about funding and the costs they would incur. The example of the engineering plant below is typical in this regard (see panel).

Employer Case Study: Engineering Company No.2

The Learning and Development (L&D) Manager reported that the levy has taken the company by surprise – they had not expected a levy to be introduced. The company was currently engaged in a number of planning meetings to assess how they would recoup their levy payment. Their best estimate was that they would have to pay £120,000 and this would necessitate them taking on more apprentices than previously. At the time of the interview they had 12 apprentices working towards Level 3 apprenticeships in Engineering. Taking on additional apprentices would be subject to two caveats: (a) first, there would need to be a business demand for apprentices – the company was not interested in training apprentices in excess of its needs. This was not good for the company (because of the additional cost of training), or the apprentice (if they were not kept on this could be a bad signal to other prospective apprentices/employees); and (b) the company did not yet know how many apprentices would be funded by £120,000. The L&D Manager said that £120,000 levy payment would be a cost set against the training department’s budget, so there was an incentive to reclaim it. The company is experiencing buoyant demand for its goods so it could afford to absorb the cost if need be, even though it would prefer not to do so. But if trading conditions were tougher, then it is likely that money not claimed would need to be offset by reductions in the non-apprentice training budget.

3.4 Initial response to recouping the levy

As noted above, nearly all employers said they were exploring how they could reclaim their levy payment – ideally in full. The study asked respondents first of all

how they intended to reclaim their levy payment and then explored whether, given the size of their payment, they might consider using apprenticeships to train a wider group of employees than hitherto. In this way, it was possible to deal with any initial concerns about incurring an additional cost before dealing in more detail with how that cost might be offset through the provision of apprenticeship training perhaps of a different type than provided previously.

Employers' initial responses to the levy's introduction could be summarised as follows:

- business as usual. The levy would not affect either the number of apprentices recruited each year nor the frameworks/standards or levels;
- using the levy as a catalyst to increase the provision of apprenticeship training within the business. In these instances the levy provided leverage to increase their investments in what was considered a cost-effective means of training;
- concerns relating to how a sufficiently large number of apprentices could be trained such that the levy could be fully reclaimed (capacity constraints); and
- writing off the levy payment and absorbing the cost in the bottom line of the company's accounts.

Each of these four groups is now discussed in turn.

Business as Usual

For some employers the plan was to continue as before. It would, after the levy's introduction, be business as usual. The example of the engineering company below (see panel) is illustrative of this approach, which was found in many of the engineering and construction employer case studies, but also in the other sectors, if less commonly so.

Employer Case Study: Engineering Company No.3

The company has been delivering apprenticeships for 20 years, as a means of skill development. It has a long tradition on the engineering side (and takes on three to four each year for its three-year apprenticeship), and more recent involvement on the production side (injection moulding), with three recent completers, none currently on provision but with two apprentices about to be offered a start. The company's estimated levy payment was £150-£200k. The respondent thought the levy would be fairly cost neutral (e.g. 10 apprentices at £15k-£18k), but they would not increase the number of apprentices they recruit just to recoup the levy. The number is simply determined by business need, this being the established way they train their engineers. The directors would ask about levy costs and why it had not been reclaimed, and ideally they would want to reclaim the amount in full, but ultimately as a successful company they could afford not to. If there was underspend, one option they would consider would be putting on management training for existing staff within an apprenticeship.

A further example illustrating the same point is provided below.

Employer Case Study: Engineering Company No.4

The company was keen on apprenticeships and had recently started putting more existing employees on apprenticeships as well as recruiting externally. The company would like to continue and grow their involvement with apprenticeships as it is an effective means of growing talent within the business. The company provided a four-year Level 3 and 4 Advanced Engineering apprenticeship. Currently they had four apprentices. The company's estimated levy payment would be £12.5k, which the employer said was a large cost to them. The employer was concerned about the way in which the levy might operate in practice – especially administrative and training provider costs – but thought that they would be able to recoup their entire levy payment to fund what they intended to deliver in any case.

One employer in the construction sector indicated that their most likely response would be business-as-usual, but was cautious in this assessment because there was always the possibility that the levy would increase their costs of training apprentices and this might affect how many they take on (see panel).

Employer Case Study: Construction Company No.2

The company takes on approximately 80-100 apprentices each year, split almost evenly between technical and craft apprenticeships – apprentices comprise about 3% of their workforce. They pay nothing towards the training of craft apprentices, just the wages, and £1,500 a year to the provider for technical apprenticeships. The respondent described the current industry model as the one-third employer contribution being covered by CITB ('If you switch away from the current model then employers will have to find the apprentices; find the providers; negotiate a price, then possibly pay up to £9k-£12k upfront; and take the risk. It will be an absolute shock to [most employers], and the overall result will be fewer apprentices taken on'). The company's estimated levy payment would be £630k, and the interviewee felt this would largely be reclaimed (100 apprentices at £6,000 each). He expected to continue training the number of apprentices they do in the short term. But this was very dependent on the funding banding and the expected additional fee they would need to pay for each apprentice. A Level 2 craft apprentice funding banding set at £9k, and not decided yet for technical apprentices but he felt it likely to be more like £18k across the two years of training. Needing to pay £9k per apprentice was seen as a significant cost.

The above was a fairly common response from employers with established apprenticeship programmes even where the levy payment was substantially larger than the one cited in the example above. It related in large measure to the fact that they saw little alternative to apprenticeship training if they wanted to provide their own initial vocational education and training. It also related to the fact that the costs of training the number of apprentices they would be likely to take on would be covered by their reclaimed levy payment.

Catalyst for Change

There were examples where the levy was cited as being a potential catalyst that would bring about greater investment in apprenticeships. This tended to be in sectors where:

- Apprenticeships were still a relatively new development (e.g. business and professional services) and the employer had relatively few, if any, apprentices;
- the cost of apprenticeship training is relatively modest (e.g. retail and health and social care).

In some sectors where apprenticeships might still be considered a non-traditional means of training, the introduction of the levy potentially resulted in this form of training becoming more widespread. The example below is illustrative of this. The law firm had been increasing the number of people it trained as paralegals as many legal processes were becoming routinised such that it was not competitive to have a qualified solicitor undertake them (e.g. conveyancing, accident claims, etc.).

Paralegals could fill these roles at a competitive price and apprenticeships provided a perfect means of training them (see panel). The introduction of the levy provided a push for the company to increase its recruitment of apprentices.

Employer Case Study: Financial and Professional Services Case Study No.1

The HR team had invested a lot of time and effort in preparation for the levy. They had alerted the Board to the levy and received agreement to the new apprenticeship programme for the company. Briefing sessions had been held with the HR team to bring them up to speed with apprenticeships and similar sessions were being held in all divisions of the company. The discussions with divisional managers were as much to sell the idea of apprentices as it was to outline the plans for the new scheme. One issue that had to be addressed was that many managers still associated apprenticeships with trade occupations and thought they would attract weaker candidates. Explaining the new apprenticeship standards and the possibilities of higher level apprenticeships had been part of this briefing. The response from colleagues had been “we’ve heard of the new scheme, we will support it but we are not sure yet how we will manage it”. This effectively allowed the L&D manager to develop a relatively large scale programme of training at Levels 4 and 5 that would lead to apprentices becoming paralegals. The company’s levy payment if recouped in full would require, according to their in-house calculation, over 50 apprentices to be recruited. This was not feasible at the moment – 21 were about to be recruited – but was considered achievable over the longer-term.

A retail chain that currently had only one apprentice but would have a levy payment of around £150,000 provides a further example of where the levy acts as a catalyst for increased take-up of apprenticeships (see panel).

Employer Case Study: Retail Case Study No.3

The company currently employed one apprentice working towards completion of a Level 3 Motor Vehicle Maintenance apprenticeship. This was a 3-year apprenticeship with an option for a top-up year leading to a Level 4 qualification. The L&D manager sees the levy it as an opportunity to recruit more apprentices. Its levy payment will be around £150k. They would look initially to take people on in business administration in Head Office and if that worked out well they would roll-out the scheme across other standards such as Retail/Customer Service apprenticeships in its larger branches (up to 20 apprentices across the organisation), distribution centres (up to 6 apprentices), and potentially some Leadership and Management apprenticeships. In relation to the latter, they would put new branch managers on a Management apprenticeship scheme - without telling the managers they were undertaking an apprenticeship because this form of training is associated with lower level roles in the organisation). This might generate around a further 10 to 15 apprenticeship starts. In relation to the Leadership and Management apprenticeships, doing this would depend upon finding a suitable training provider. The respondent emphasised that the company moves slowly in changing its training policies, so it may take two to three years for additional apprentices to be trained.

Capacity Constraints

Employers across a range of sectors were concerned about their capacity to take on more apprentices. This was notably the case where to reclaim the levy payment in full they would need to substantially increase their apprenticeship numbers. This was especially so with respect to large companies where their levy payment ran into millions and in relation to those employers that currently had no apprentices (or very few relative to the size of their workforces). This was put into stark perspective by a health trust. The scale of apprenticeship activity that would be required to recoup the levy payment was said to be daunting (see panel).

Employer Case Study: Health and Social Care Case Study No.1 (NHS Trust)

This large employer (6000+ employees) already took on around 120 Health and Social Care apprentices a year plus a handful of others through other frameworks. They had calculated their levy payment to be around £1million a year and estimated that they would need to take on around 470 apprentices to recoup the levy (based on their current take up by level of apprenticeship – i.e. mostly L2 and L3 with some L4). This meant that they would need to triple the number of apprentices they recruited which they regarded as unfeasible. And the entire levy payment would be four times that of the current training budget. There was a sense of bewilderment at it all.

They will have to try to recoup the money so will have to find ways of increasing the number of apprenticeships. All new starters will have to get a L3 apprenticeship but there was a limit on the scale of this so they will need to look at their existing unaccredited training and delivering this under the apprenticeship banner. This was most likely to take the form of packaging individual standalone options as an apprenticeship pathway. For example a lot of clinical skills could potentially be put together as an apprenticeship. They already do this to some extent through preceptorship so would need to work out how this could work. A big mapping exercise will be needed to see what was possible. The employer also suspected they might have to look at higher level qualifications and delivering this through apprenticeships but no thought had gone into this yet.

They had also calculated that according to the public sector target of 2.3 per cent of workforce being apprentices this would equate to around 135 apprentices which would be just about achievable. They find it difficult to understand how there can be such a disparity between this and the levy measure.

More generally, although positive about apprenticeships and their importance to young people, they are sceptical as to whether the levy was the right vehicle. The employer thought that it was a potentially good means for encouraging smaller companies and the private sector to take on more apprentices, but felt that the NHS was already good at supporting development and delivering apprenticeships. The employer thought that increasing the number of apprentices was not sustainable over the long-term: over time there will simply not be enough people to put through apprenticeships as more and more of their workforce will be qualified / accredited.

This example was by no means unique. Another NHS trust said that its levy payment would be £3m which they estimated would necessitate around 900 apprentices being taken on each year if they were to reclaim their levy payment in

full. This compares with the 300 a year they would need to take on to meet their public sector targets. They expected to struggle even to meet the public sector target initially, and are concerned that the unused levy money will be taking away funding that could be used for patient care.

A similar issue arose in the retail sector. Arguably it was exacerbated here by the fact that the cost of training an apprentice is relatively low so that to reclaim the levy payment in full for a customer service standard would mean a relatively large number of apprentices would need to be recruited. These difficulties were further exacerbated by many staff working part-time – including new hires – which would mean, the employers reported, these employees / hires would be ineligible to start an apprenticeship. The example below of a large retail chain illustrates this point (see panel).

Employer Case Study: Retailer No.2

The official company position was one of opposition to the levy. The respondent said that the company felt that it spent a great deal on training to meet company needs and did not like being 'forced' to undertake a particular type of training just to recover money from the levy fund. The company's Board had considered the proposition that they just pay the levy and carry on as they are currently but it had decided that it must seek to recoup as much of the levy as possible given that it would amount to over £10m. The company had not yet worked out how to achieve this given that many of its employees were part-time and would be ineligible for an apprenticeship. The company also thought that there would be large set-up costs. At present all external funding matters were dealt with by the external training provider. Passing responsibility via the voucher scheme to the employer meant that it would be necessary to set up a large team to handle the financial side as well as to monitor and control apprenticeships across its many locations.

The problems cited above were not exclusive to the larger employers. Some of the smaller employers – sometimes with few or no apprentices – also reported capacity constraints. A construction company with approximately 250 employees reported that its principal business was that of managing construction projects with much of the building conducted by subcontractors. It had four apprentices currently working on repairs and maintenance but could not see how it would be possible to increase this number in recouping its £100,000 levy payment. It did not want to 'lend' any of its would-be apprentices to its supply chain contractors because it might not appropriate the return on its investment if the apprentice stayed with the sub-contractor⁴⁰. It was unusual in this respect since the other construction employers – that were larger than this company – tended to report that they loaned out their

⁴⁰ Note, there was quite wide variation in construction in the use of sub-contractors, and another large employer in the sector, with a commitment to have 10 per cent of its workforce as apprentices, was happy to place most of its apprentices with sub-contractors, with the company paying their wages and the sub-contractors providing the on-the-job training.

apprentices to their supply chain. This firm also said that it had limited capacity within the firm to supervise the apprentices. If staff were supervising apprentices then they would be less productive. The issue of supervision was also raised by one finance company that indicated that within the sector some small firms with very high average salaries would be eligible for the levy, but because of their size would not have the capacity to supervise any apprentices (nor would they have appropriate work for someone in these roles).

In relation to the capacity issue, several employers reported that they were conscious that there were many additional costs associated with training apprentices. Many said that they would only train an apprentice if it would lead to satisfying a demand in the business. Otherwise the company would be accumulating various wage and non-labour costs attached to the employment of the apprentice that would be likely to far exceed the amount of money drawn down per apprentice from the levy fund. A number of charities interviewed, for example, with expected levy payments in the region of £20k-£30k would ideally want to recoup this levy money but were constrained by the salary costs they would incur, and felt it difficult to justify more spending on training particularly as it comes out of donor money and takes away from their core purpose.

The levy payment as a sunk cost

Relatively few employers reported that they would write-off the levy payment. There was generally concern that the levy payment would stand as a cost against the Training Department in the internal management accounts of the firm, in which case, the L&D managers were keen to reclaim as much of the levy payment as possible. But there were a small number of employers - typically those employers who currently did not train apprentices – that were considering not reclaiming the levy payment. In some instances this related to bad experiences of recruiting apprentices in the past. The example of the retailer below is typical of this view.

Employer Case Study: Retailer No.4

The company currently had no apprentices. Between 1994 and 2012 they had trained 60 staff at L2/L3 NVQ in Bakery through apprenticeships. They wanted to be “an approved college” and deliver the apprenticeship training internally. They also employed a part-time bakery lecturer and built a fully equipped bakery training centre. Because they did not have enough apprentices they were not able to become an approved college and therefore had to register their apprentices through an external training provider. This proved very unsatisfactory. The provider took 20 per cent of the funding even though the company did all the training. The company regarded the rules governing apprenticeships as far too inflexible and bureaucratic and the training provider was not sufficiently responsive to its needs. As a consequence of this experience the company has abandoned apprenticeships and now delivers short courses at the company’s purpose built Training Centre. In 2015 over 60 staff participated in such courses and a further 80 will go through such courses in 2016. For the reasons set out above, the company had decided not to train via the apprenticeship route. That being so, the only planning necessary was to establish the size of the levy – estimated to be around £200,000.

The example above was not commonly found across the case study employers, most of which were considering how to ensure they could reclaim as much of their levy payment as possible.

3.5 The CITB levy and the apprenticeship levy

The construction sector already has a long-established levy-grant system, with CITB-registered employers who have an annual wage bill of £80,000 or more needing to pay a levy (of 0.5 per cent of their PAYE wages bill, and a higher rate for labour payments made to subcontractors), and this levy then used to fund employers to train, qualify and upskill staff (including training of apprentices).

This familiarity meant employers in the sector were accustomed to operating in a manner that would obtain the maximum return that they could from the levy (i.e. maximising the grant they received from CITB). Some employers that were supportive of the CITB levy-grant system made it clear that this was because they were a net beneficiary, and received more in grant than they paid in levy.

There was significant uncertainty about how the two levies would operate together: many spoke of having had recent discussions with CITB to try and clarify the situation or having attended employer groups where this was an issue for discussion, but many spoke of no one being able to give a definitive statement of the situation. Almost inevitably there was a reaction to the apprenticeship levy as being an additional tax and a cost to the employer, as well as imposing additional administrative burdens. At the same time, employer co-investment was as much an

issue as the apprenticeship levy, since currently most of the industry was not contributing towards the provider fees for their apprenticeship training.

The common reaction of construction employers in scope of the apprenticeship levy was to seek ways in which they would be able to claim back their levy payment in full. Given most had significant numbers of apprentices currently, many felt they would not need to take on more apprentices. This was not always the case. One employer, for example, with an estimated apprenticeship levy payment of c. £50,000 assumed it would need to broaden its offer away from just trade apprenticeships, and expected to need to offer apprenticeships within support functions (such as HR and payroll) in business administration and other roles. It was also interested in exploring the potential for using apprenticeships at Level 4 and 5.

Not all construction companies expected to seek to reclaim the apprenticeship levy in full. One housebuilder (also involved in repair and maintenance) with 240 staff (200 staff in management, professional and administrative roles, and 40 in trade roles) paid a CITB levy of £180,000 and expected the apprenticeship levy to be around £40,000. In the absence of having sufficient details on how the new levy will work, the employer expects to have to pay the levy and for this to come off the bottom line. This was because they could not see the potential for undertaking apprenticeship training. The company used to deliver apprenticeship training but the model they used where apprentices were placed with sub-contractors had been considered unsatisfactory, as the employer was paying the apprentice and paying the sub-contractor - in effect, a double charge. They did not feel the alternative of managing apprentices in-house was workable because there were too few tradespeople to support and supervise these staff, and the productivity of these staff would fall. Hence their current thinking was that the apprenticeship levy would be a hit on the bottom line. Their existing training would remain unchanged as this was focused on mandatory health and safety training.

3.6 Adapting to the levy

The next chapter considers in more detail the way in which employers will change the structure and scope of their apprenticeship training in response to the levy. There were a number of ways in which employers thought the levy might affect their provision of apprenticeship training and how they managed that training:

- expanding provision of apprenticeships into new areas of the business. For example, apprenticeships might be offered in occupations where they had not previously been delivered, or at a higher level than hitherto. In the case where employers said it would be business as usual, they reported that if there was surplus funding available after they had allocated funds to their core

areas, they might think of expanding apprenticeships into new areas if there was a business demand;

- looking to achieve cost-savings by using the employer-routed element to obtain a better deal from training providers. Most employers expected that their relationship with the training provider would be likely to continue as before, but a few employers said that they might try to offset any increased cost associated with training apprentices by negotiating down the price of training.⁴¹ Others were keen to point out that although they were aware this was assumed to be possible within the new funding regime, in reality they thought very few employers would be well placed to undertake such negotiation with providers. This was for a combination of reasons including few employers knowing the actual cost of apprenticeship training, employers not having the skills or time to conduct such negotiation, there being a limited number of suppliers for niche apprenticeships, and needing a large number of apprentices with a single provider to have any negotiating power (even those with a large number of apprentices nationally pointed out they had few with any single provider);
- some larger employers had considered becoming Direct Grant employers or forming purchasing consortiums in order to reduce the cost of training without any impact on quality.

For the most part, there was relatively little knowledge about the flexibility being developed within the apprenticeship system, such as being able to develop standards at higher levels than has been the case previously. Also, consideration of the levy's impact on starts was not being made with respect to the planned introduction of employer-routed funding. So the impact of the levy may have been seen in more negative terms because the alternative, from the employer's perspective, was that of continued free training delivered by their providers.

The various issues outlined above are considered in more detail in the next chapter.

3.7 Conclusion

The above has provided a tour d'horizon of employer reactions to the introduction of the levy. It provides the basis for the chapters that follow that give more detail about how employers expect to respond to the levy's introduction. As can be seen, employer thinking is very much about being able to recoup as much of the levy as possible. The issue that is explored in greater detail is the extent to which increasing

⁴¹ An indicative estimate suggests that few firms would do this in practice – around a tenth.

the number of apprentices taken on is additional in some way. There are two key issues that are explored in more detail in the remainder of this report:

- does the levy result in additional people being put through apprenticeships;
- are additional apprenticeship starts the result of rebranding training that would have taken place in any case as apprenticeships, or does it result in other kinds of training being discontinued?

These issues are explored in greater detail in subsequent chapters. Given that for some employers the levy payment is relatively large, there is the potential for it to result in employers reconfiguring the way in which work is organised and the training that is provided to support people in new roles. The increasing availability of apprenticeships at Levels 4 and 5, for instance, may persuade employers to invest more in apprenticeship training at the expense of graduate training programmes. And even where apprenticeships replace or substitute for an existing programme of training, it may result in qualitative benefits.

Conceptually, one might regard employers' responses to the levy with respect to the type of apprenticeships they would typically deliver, this has been categorised with respect to the overall net cost to the employer of training an individual apprentice. In engineering and construction, this net cost tends to be relatively high, but in sectors such as health care and retail it is relatively low. Hence the financial risk to the employer of investing in each type of apprentice is different.⁴² This can be cross-classified with respect to the extent to which reclaiming the levy payment in full will either be met through continuing existing provision or will require additional apprentices to be recruited. Table 3.1 shows that often in sectors such as engineering and construction, employers will be concentrated in the upper right quadrant of the table – the reclaimed levy outlay will fund existing provision. In other relatively high cost apprenticeships, such as some of those allied to the business services sector, there may well be increased use of apprenticeships to train people at an intermediate/technician level related to, for instance, paralegals or accounting technicians. In the lower right quadrant of Table 3.1, there were some employers who said that they would continue as before and expected the levy payment to balance out in this regard. But often the lower cost apprenticeship employers were

⁴² Hogarth, T., Gambin, L., Winterbotham, M., Baldauf, B., Briscoe, G., Gunstone, B., Hasluck, C., Koerbitz, C. and Taylor, C. (2012) Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study, BIS Research Paper No. 67. London: Department for Business, Innovation and Skills; Gambin, L. and Hogarth, T. (2016) Employer investment in STEM apprenticeships. London: Gatsby Foundation - <http://www.gatsby.org.uk/uploads/education/gatsby-employer-investment-apprenticeships.pdf>

located in the lower left quadrant and it was here that there were uncertainties about the number of apprentices that might be trained.

Table 3.1: Employers’ initial responses to the introduction of the levy by level of payment and cost of apprenticeship⁴³

	Increase in apprentices	No change in number of apprentices
Relatively high cost sectors	Some evidence that in sectors such business services that apprentice numbers may increase – sometimes in new occupational areas	Typically in sectors such as construction and engineering employers reported continuing as previously.
Relatively low cost sectors	In sectors such as retail, hospitality, and health care some employers reported that they would need to increase the number of apprentices – but were not always clear how this would be achieved	Some employers – often smaller ones – said that levy would pay for their existing provision.

⁴³ An approximate estimate suggests that around a fifth of the employers interviewed were in high cost sectors where they expected the number of apprentices to increase, and around a quarter of those interviewed were in high cost sectors where they expected no change in the number of apprentices. Around a quarter of those interviewed were in low cost sectors where they expected an increase in the number of apprentices and around a fifth were in low cost sectors where firms expected to no change in the number of apprentices. These data are indicative and should be treated cautiously.

4. Rethinking the provision of apprenticeships as a result of the levy

Employers had given consideration to how the levy might change their provision of apprenticeship training. There were three main responses employers provided when asked to think about what they might need to do if they were to reclaim their levy payment in full. These were:

- 1. offering apprenticeships across a wider range of occupations than previously, such that apprenticeship became increasingly recognised as a means of training people outside of the core occupations apprenticeships had traditionally served within the organisation;**
- 2. offering apprenticeships at higher levels (at Level 4 and above) which, in some situations, will result in people being trained via apprenticeships rather than full-time in higher education. This was often the case where employers had struggled to recruit graduates;**
- 3. using apprenticeships to train existing employees. Some employers, especially very large ones in retail, hospitality and health care, already trained existing employees and reported that they would need to continue to do so to reclaim their levy payment. But there was also scope to bring more training delivered to existing staff under the ambit of apprenticeships – especially management and leadership training.**

The above categories are not mutually exclusive. The remainder of this chapter explores the responses summarised above in detail.

4.1 Introduction

The previous chapter highlighted ways in which employers expected to respond to the introduction of the levy. This chapter considers in more detail the variety of ways in which the provision and structure of apprenticeship training within companies might change as a consequence of the levy's introduction. It needs to be borne in mind that many companies were still unsure about the detailed impact of the levy on their training activities because they were still awaiting information on funding levels for frameworks / standards that would tell them how much money they could reclaim from the levy for training each apprentice. Where employers thought that they would be unable to reclaim their levy in full, this was because of three main reasons:

- 1. capacity constraints on increasing the number of apprentices in those occupational areas where apprenticeships are already established;**

2. cost considerations since the cost of taking on additional apprentices just to reclaim the levy payment might not yield a sufficient return. There were also other significant costs attached to training apprentices such as wage and supervisory costs;
3. a reluctance to invest in apprenticeships because of past experiences and / or a view that apprenticeships are not well matched to the business' needs.

As indicated in the previous chapter, some employers thought, at least initially, that it would be business as usual. The amount of funding they would draw down from their Digital Apprenticeship Account (funded by their levy payments) would be sufficient to meet the costs of training all the apprentices the employer would have trained in the absence of the levy, but in several instances the levy payment would exceed the number of apprentices they would otherwise have trained. There are uncertainties here as the employer, when explaining how many apprentices the levy would fund, sometimes made errors in their calculations. For example, where an apprenticeship would take two years to complete they assumed that they would receive the full amount on a yearly basis for the same apprentice.

Amongst this group of employers that said it would be business as usual, some thought that if there were a surplus of funding available after they had allocated funds to their core apprenticeship provision they might consider expanding apprenticeship provision to new areas of the business. There was also a sizeable group of employers who said that they would be unlikely to reclaim their levy funding in full since this would require taking on many more apprentices than they currently do, something usually considered unfeasible. It was apparent that amongst this group of employers that their initial thinking was very much coloured by a view that post-levy they would continue to use apprenticeships as they had in the past. In many instances they had not considered how apprenticeships might fulfil training needs at higher levels and in occupational areas traditionally not closely associated with apprenticeships. Potentially expanding apprenticeships into new occupational areas or at higher levels may surmount the capacity constraint.

It was not only through expanding apprenticeship provision that employers reconsidered their response to the levy, but also the cost of apprenticeship training. By having funding routed through them, employers may be able to negotiate a better deal with training providers such that the unit cost of training an apprentice is reduced. It is known from previous studies that employers are reluctant to reduce the costs of training by reducing either the duration of training or apprentices' wages,

so it tends to be the training providers costs that can reduced.⁴⁴ But the levy will provide some employers with sizeable amounts of funding with which to purchase training from providers or establish themselves as Direct Grant employers. Many employers thought the idea of significant negotiation with providers was naïve: employers were not used to negotiating with training providers and they were largely unaware of the costs faced by providers training an apprentice. It tended to be the very largest employers with over 1,000 employees who reported that they had considerable negotiating power with providers because of the number of apprentices they recurrently recruited and the other training that they routinely purchased. Employers that were smaller than this– tended to report that the number of apprentices they needed training was not sufficient to give them negotiating power, especially in those areas where there was a dominant provider or a single preferred provider.

There was also a situation where employers indicated that they would want to increase the number of apprentices they took on each year (e.g. Professional Services Company No.3) but tended to rely upon a single training provider. They were aware that the demand for the services provided by their training provider might increase which would give the provider more market power at least over the short-term.

In general, the employer's willingness to negotiate the price of training with a provider was largely determined by their perception of how much negotiating clout they would have with a provider and whether alternative providers were available. Accordingly, large employers with a range of training providers willing to meet their needs felt that they negotiated from a position of strength and had done so for some time. In contrast, smaller employers, sometimes with niche training needs, were dependent upon one or two training providers in their locality and thought that they had relatively little influence over the price of training.

The extent to which employers considered any of the above in rethinking their behaviour in relation to apprenticeships once the levy is introduced is considered in detail below. In the previous chapter which looked at employers initial responses to the levy many said it might well be business as usual, but when the cost implications are considered in detail, this is where some employers became more concerned about the cost implications that the levy might pose the business.

⁴⁴ Hogarth, T., Adams, L., Gambin, L., Garnett, E., and Winterbotham, M. (2014) *Employer Routed Funding: Employer Responses to Funding Reform*, BIS Research Paper No. 161, i - 73, London: Department for Business, Innovation and Skills

4.2 Broadening the breadth of occupations to be trained through apprenticeships

Many companies who already had apprenticeships reported that these tended to be used for occupations that have been traditionally served by this form of training. For example, in the construction sector employers used apprenticeships to train people in various skilled trades, but it was not uncommon to find that companies also had a few apprentices working towards various business support apprenticeships (e.g. in human resources, business administration, management and leadership, etc.). In many companies it was reported that there was limited scope to expand the range of occupations that apprenticeships might give entry to, though there may be some scope to increase the numbers in these non-core apprenticeships. Nevertheless, in some companies, if the levy payment was to be recouped in full, they would need to recruit substantially more apprentices than at present. Where this was the case employers had considered:

- increasing the number of occupations that apprenticeships might serve;
- increasing the number of apprentices taken on in occupations already served by an apprenticeship, but in a way that changed the occupational profile of the workplace (e.g. whereas in the past relatively few apprentices may have been taken on business support functions, in the future more might be taken on into these occupations).

An NHS Trust estimated that it would need to substantially increase the number of apprentices it recruited each year if it were to recoup its levy payment. It thought it unlikely that they would be able to recoup their levy payment in full, but needed to give further consideration about how it could claim back as much as possible, including expanding the range of occupations that apprenticeships might support (see panel).

Employer Case Study: Health and Social Care No.3

The Trust said that it would have to try to recoup its levy payment and one way of doing this was to look at existing unaccredited training and deliver this under the apprenticeship banner. This is most likely to involve combining individual standalone options as an apprenticeship pathway. For example, many clinical skills (e.g. cannulisation, catheterisation, administration of intravenous medications via a peripheral device, venepuncture, etc.) could potentially be combined into an apprenticeship. This was already done to some extent through preceptorships. A mapping exercise would be needed to see what was possible. This was an issue for the future and there was a degree of scepticism about whether it would work in practice, but if the Trust was to recoup its levy payment then it would need to rethink its provision of apprenticeships. Carrying on as before was not an option unless it chose not to reclaim its levy payment.

A construction company with around 600 employees and an expected levy payment of around £50,000 said that the apprenticeship levy had made it reassess its

apprenticeship offer. Whereas in the past it had offered only construction trades apprenticeships, with the introduction of the levy it might result in the provision of the apprenticeships in other areas of the business (see panel).

Employer Case Study: Construction No.3

In response to the levy the Human Resources Department had prepared a paper for the company's Board of Directors that outlined how the levy might be managed internally. The HR department had made a request for all departments within the organisation to consider how apprenticeships might meet their needs. The hope was that this would increase the demand for apprentices in the business and ensure that the levy could be reclaimed in full. If there was an excess demand for apprentices relative to the amount paid in the levy, the company was not sure how this would be dealt with. Whereas in the past they had trained apprentices in construction trades the intention was now to introduce apprenticeships in many of the support functions of the business such as payroll, human resources, sales and marketing, etc. To some extent it depended upon how the shift from frameworks to standards worked out and whether the standards met the need of the business.

In other instances there was scope to substantially increase the number of apprentices recruited into some occupations where apprenticeships were a relatively recent development. For example in business and professional services there was scope to increase apprenticeships in intermediate / technician levels that were growing as a consequence of changes in the structure of demand for these services.

4.3 Providing apprenticeships at a Higher Level

Many of the recurrent recruiters of apprentices trained exclusively at Levels 2 and/or 3. There was a roughly even split between those that were aware that apprenticeships were available – or would be increasingly available – at Levels 4 and above, and those that were not aware of this at all. In relation to the former there were many examples where employers reported that they would increasingly offer apprenticeships at a higher level. This was due to two inter-related factors:

- a need to increase the number of apprentices taken on to recoup the levy;
- a strategic decision to offer apprenticeships at a higher level to meet skill demand in a range of professional occupations.

In relation to the latter point, the levy was not necessarily the reason for providing apprenticeships at Level 4 and above but had spurred the companies to push ahead with this quicker than they might have done. The example of the retail company below illustrates this development (see panel).

Employer Case Study: Retail No.1

This retailer had a well-established apprenticeship programme. They currently had around 400 apprenticeships: 350 at Level 2 and 50 on Level 3. The majority of apprentices were in retail and customer services, there was also a small number of warehouse and business administration apprentices. Their levy payment would be around £1.2m. It was expected that much of this would be recouped to fund existing provision, but it had spurred the company to think more about higher level apprenticeships (at Level 4 and above). The company said that it would probably have developed this anyway, but the levy had accelerated their development of this apprenticeship. They were currently discussing with a university about a degree level apprenticeship. The apprentice would spend the first two-years of their training rotating between different functional areas in the company (human resources, marketing, customer service, etc.) and then specialise in their final year. The plan is for the apprentice to spend four days a week at university and one-day a week in the company gaining work experience.

A construction company said that in the future there may be scope to develop managers and various building professionals through apprenticeships rather than through graduate recruitment. This would simultaneously ease some of the difficulty the company experienced in recruiting graduates and may prove attractive to young people as they would avoid student debt and would be able to earn whilst they learn. This, however, was a development for the future. At the moment they were considering rebranding some of their non-apprenticeship training – such as that for quantity surveyors - as an apprenticeship. This will mean that the content of their courses may need to change – there will be more modules to complete that the company does not really need, but on the other hand the company much prefers the assessment process in apprenticeships rather than traditional examination techniques.

4.4 Training existing staff rather new hires

When asked whether apprenticeships could be used to train existing employees rather than new recruits a number of responses were provided:

- companies were often already using apprenticeships to train existing employees and expected to continue to do so once the levy was introduced;
- because the number of apprentices to be recruited would be substantial if the levy payment was to be recouped in full, there would be a need to consider training existing employees to a higher level (some noted this was something of a short-term solution available initially after the introduction of the levy, but due to low staff turnover not something it could resort to in the medium-term);
- rebranding existing training – often related to management and leadership - into an apprenticeship.

But there were also cases where the option of using apprenticeships to train existing employees was considered inappropriate because:

- staff were already trained and qualified;
- existing staff needed be qualified to a given level to do their jobs and there was no need to train to a higher level;
- employers did not want to dismantle existing training schemes. In one large construction company, for example, which put around 500 staff on NVQ training annually, these could not be 'transferred' to apprenticeship training because the candidates would not be able to cope with the maths and English demands of an apprenticeship.

Some employers already provided apprenticeships to existing employees, though the impression is that this had been curtailed of late with apprenticeships being increasingly offered to new recruits. To some extent this reflected the fact that the existing stock of employees had completed their apprenticeships. But where employers had a tradition of training existing employees they expected to continue to do so under the levy. In other instances the levy would lead the employer to start training existing employees on apprenticeships. This was because if they were to recoup their full levy payment this would require them to recruit an unfeasibly large number of apprentices. They had neither the demand for this number of additional apprenticeship recruits nor the capacity to train them. The example below of a hotel chain that recurrently recruits apprentices is typical in this regard (see panel).

Employer Case Study: Hospitality No.5

The employer was a luxury hotel chain with around 50 hotels in the UK. It currently had around 40 apprentice chefs, plus seven working towards engineering / construction apprenticeships. It was estimated that their levy payment would be around £900,000. The company said this would mean taking on 295 apprentices. While the company might be able to recruit 100 across the UK – because there is a need to contain the overall wage bill of the company – 295 would be too many. One possibility might be to consider increasing the skills level of their staff. Staff who would currently be put on an NVQ course could be put on an 'apprenticeship' instead. But the company was cautious as many older / more experienced staff might balk at the idea of being called an apprentice. They would also look to see if they could offer apprenticeships to 'train the trainer' so that they could use the levy to increase their internal capacity to train people.

Another hospitality employer that was not currently involved in apprenticeships was also concerned that it would not be able to fully recoup its levy payment of £100,000 because it would only be able to accommodate around five to six apprentices a year (see panel).

Employer Case Study: Hospitality No.2

The company employed 1,200 people and currently did not have an apprenticeship programme. They were interested because of the levy in taking on apprentices but said that they would not be able to take on many and would need, at least initially, a lot of support in delivering apprenticeships. They were thinking about putting existing employees on apprenticeships. It would position these as either Higher apprenticeships or not refer to them as apprenticeships at all in order to win employees over who might be concerned about being apprentices. But the company wanted to know more about apprenticeships first before committing to this. For example, they might use apprenticeships to train IT systems staff which can cost up to £10,000 per trainee at the moment. So there is scope for apprenticeships to fulfil this role in the organisation.

Several employers also reported that they were interested in placing their existing managers on a Leadership and Management apprenticeship.

Although some employers were considering whether to use their levy payment to train existing staff, others said that this was not an appropriate solution for their organisation. This was often the case where employees were relatively highly skilled. This was the case in some financial / professional service companies and specialist health and social care organisations.

Employer Case Study: Health and Social Care No.3

The employer recurrently recruited apprentices. It currently had 80 apprentices working towards apprenticeships in health and social care, business administration, IT, management, and maintenance. It was not sure how many apprentices it would need to take on if it were to recoup its levy payment but was concerned that it would mean taking on more than at present and was not sure how it could accommodate any increase. Using apprenticeships to train existing staff was not a possibility in the sense that the sector was highly regulated and all staff needed to have appropriate qualifications in the core of the business (delivering health and social care). So there would be no perceived benefit to train existing staff to a level higher.

A retail company had previously participated in apprenticeships but had decided to develop its own programme of training because it was dissatisfied with the training delivered to its employees. It pointed out that using apprenticeships to train either new recruits or existing employees would require dismantling existing training systems which it was not prepared to do.

4.4 Training costs and the levy

Employers for the most part had little idea of exactly how much training their levy payment would buy, though many had a broad, approximate idea of how much they would be able to draw down for each apprentice (this was especially the larger

companies) that allowed them to assess whether, on balance, they would be able to draw down their levy payment in full. Cost, however, was one of the major factors constraining some employers from being able to fully recoup their levy payment. In other words, they were concerned that the on-costs of training an apprentice (i.e. wage and non-wage costs) were a disincentive to reclaiming their levy payment. The responses of employers with respect to cost can be classified as follows:

- in sectors such as engineering and construction where there is a relatively large net cost to the employer at the end of the training period, the number of apprentices to be recruited was determined by future business need. In this sense, the employers decision to train was less sensitive to cost issues than in other sectors;
- in sectors such as financial and professional services where there are alternatives to using apprenticeships to train people at an intermediate / technician level within the workplace – as noted in the previous chapter – the levy tended to tip the scales in favour of using apprenticeships. But again, employers were not as sensitive to cost as in some other sectors because the number of people to be trained was driven by future business demand;
- in those sectors where the risk to investing in an apprenticeship is that of not being able to retain the services of the apprentice post-training – i.e. not being able to appropriate the return on the training investment – then the employer was be looking for some assurance that the net costs of training will be less than zero at the end of the training period (i.e. no net cost) Employers in sectors such as retail and hospitality were sensitive to the additional costs of training an apprentice over and above that which the levy would cover.

Some employers responded that they had been thinking about renegotiating the price of training with providers, this was notably the case with the lower cost apprenticeships (see panel).

Employer Case Study: Hospitality No.3

The hotel chain currently had 64 apprentices in food preparation, front-of-house, and supervisory roles, plus 10 higher apprentices in management. The apprenticeships all last 12-16 months and higher apprenticeships are 18 months. The company does not usually have to pay any fees for its apprenticeship training – in the few cases they did it was around £1,200 per apprentice – so the direct costs of training an apprentice were negligible. It expects to have a levy payment of £50,000 which puts some pressure on the bottom line of the business unless it can be reclaimed. If they were to reclaim the full amount they would need to increase the number of apprentices taken on. It assumed that each apprentice would require the training provider to be paid £3,000. With the introduction of the levy the company will not change the way it trains, but they will need to introduce more planning into the system and give more thought to cost because up to now there had been no charge from using a training provider.

There was not much scope to offer different subjects / frameworks, as they already offer all the apprenticeships most relevant to hospitality. They already offered higher apprenticeships so there was not much scope for expansion there, and they already used apprenticeships to train existing staff. So if they were to take on more apprentices, it would have to be in core areas, and to make that work they would need to reduce the cost of training the apprentices. So they would definitely consider negotiating with training providers in order to get a better deal. The company thought that the levy system provided a good base for negotiating as it puts the employer in control of the finance. They were also thinking about becoming a direct grant employer in order to reduce costs.

In the higher cost apprenticeships, employers said that the quality of training was their prime concern. The fees paid to the provider were considered a relatively small part of the overall cost of training individuals to, say, completion of a Level 3 qualification in engineering, hence it would not be the levy that drove them to renegotiate terms with a training provider. Some employers, however, had considered how, in relation to employer-routed funding rather than the levy per se, they might increase their purchasing power by creating consortiums.

4.5 National Minimum Wage and apprenticeship wage costs

The impacts of the increase in the National Minimum Wage (NMW) and the introduction of the National Living Wage (NLW) on employers training decisions are difficult to gauge from the evidence collected in the study. A few employers said that the increase in the NMW meant that employees needed to be more productive. One means of achieving this goal was by training employees. Another employer, in the hospitality sector – with a very large levy payment – said that its operating margins were low and in an industry where the NMW was typically paid to many employees, this caused a cost pressure. The levy payment at first sight exacerbated this

pressure. But by having a mix of employees who were fully trained (and paid the NMW) and apprentices (paid the minimum apprenticeship wage) the pressure on operating margins was reduced. In other cases the situation was much less positive, and the combination of the levy and the increase in the minimum wage was putting pressure on operating margins (either for the employer or their sector).

Employer Case Study: Health and Social Care No.2

This large care employer currently has just over 700 apprentices on provision; most were existing employees as opposed to having been recruited as apprentices. They have recently become a Direct Grant employer. They plan to increase the number of apprentices on provision to 2,500, and to target this on new recruits. The decision to increase the number of apprentices was taken well before the introduction of the levy, as part of a strategy to reduce staff turnover by creating clear career pathways within the organisation. The respondent estimates a levy payment of £750k; this will not affect the number of apprentice starts (which exceeds the number required to claim back the levy in full).

The respondent was concerned that the levy, in combination with the impact of the NLW, would reduce the overall number of apprentice starts in the care sector, since margins are so tight, and the two would be likely to put a number of large employers out of business. He also thought, based on employer forums he was involved in, that a requirement for employers to co-invest (£1 for every £2 the government spends) would mean fewer small employers engage in apprenticeship training.

4.6 Becoming a Direct Grant Employer

Relatively few companies in the study were Direct Grant Employers – i.e. where they act as their own training provider. In a few instances where employers were considering either substantially increasing the number of apprentices taken on or increasing the breadth of apprenticeship provision, they were considering the option of becoming a Direct Grant Employer. This was to some extent cost driven – they thought they may be able to deliver training more efficiently than a training provider – but the primary driver was the degree of control this would give them over the training delivered. A luxury hotel chain (Hospitality Case Study No.5), for example, reported that because it would be increasing the number of apprentices it took on it would consider becoming a Direct Grant employer. They would have sufficient volume and they already had a well organised training function. They had seen some hospitality companies, such as Whitbread, become Direct Grant employers which was regarded as a success in the industry since they could constantly feed new people into the system as they expanded and took on more apprentices. Another hospitality company (Hospitality Case Study No.4) also indicated that it would consider becoming a Direct Grant employer to keep control over spending. But there was recognition that it would take time to develop and would be a cost over the early years but eventually it could be developed so that it made money. The respondent also noted that there was a lot of bureaucracy involved in going down

this route. He was also concerned that if many large employers were to do this, then the existing infrastructure of training providers would be damaged.

For the most part, it was a minority of employers that were considering becoming Direct Grant employers – it was mentioned by around five employers out of the 77 interviewed. Companies tended to think that they were too small to make it cost-effective to become a Direct Grant employer – they were aware that there would be an administrative burden in contracting with Government. Some were aware of the need to be inspected which was thought to add to the administrative burden. Even where employers were considering doing so, it was considered a long-term development that would need to be given more thought once the levy was introduced and its implications for the business became more manifest.

Relatively few employers said they would consider training in excess to their own needs.

4.7 Provision by companies who fall just out of scope of the levy

Employers out of scope of the levy (defined as having a pay bill of less than £3,500,000) were consulted in the current study on their reaction to the apprenticeship reform and their view on how it would or might impact their own organisation and the sector in terms of training activity. To be eligible for the study these employers had to employ 50-120 staff and offer apprenticeships.

Most of these employers demonstrated a low level of awareness of the details of apprenticeship reform prior to participating in the research. Some were unaware of recent policy changes in any depth and others misconstrued that they would be required to pay the levy. Upon learning more about the key aspects of the policy reform, employers were evenly divided between those believing that it would contribute to a surge in youth employment and give employers more autonomy over their apprenticeship offer, and those concerned over the perceived increased administrative burden and increased costs of training.

Being out of scope of the levy with their current size, predictably employers focussed on co-funding of apprenticeships; having had their apprenticeships mainly fully funded to date (and just paying wages and any on-the-job training costs), most felt needing to pay significant costs would lead them to scale back their current offer or to stop offering apprenticeships altogether. In the latter case this would simply mean providing alternative forms of training. Employers were keen to know more about how co-funding would be implemented, and this would inform their actual response. Most would be reluctant to withdraw from apprenticeships, which was felt to deliver high quality training which met their business's skills needs and to be preferable to

alternatives such as NVQs (which were seen to just involve assessment). And training apprentices was preferred to taking on those with experience in the sector / that occupation mainly because of the ability to mould the apprentice into the company way of doing things, and the long term commitment this could engender in the individual.

Although there was little sign that the issue had been considered by employers prior to it being raised at the interview, some employers felt there was potential to benefit from large local employers in their sector training more apprentices than they would otherwise have done with these then entering the labour market on completion. For example, a Health and Social Care sector employer explained that, as a charitable organisation, they would consider replacing their existing apprenticeship programme with recruitment of fully-trained apprentices from other organisations as a cost-saving measure:

“Why would I spend our charity money paying for somebody to get a qualification when a bigger organisation is already having to spend money to put towards apprentices? I would recruit from the pool definitely, rather than having to spend money I don't need to spend.”

Out of scope, Health and Social Care

Others felt they were unlikely to benefit in this way either because there were not felt to be many large employers in their sector locally (their main competitors were similarly sized companies), because the main advantage was training the apprentice in their own way of doing things, or because they had very niche requirements:

“[I would only recruit fully-trained apprentices from other companies] if they were new-build experienced. They have to be specific to the type of work that you have. An electrician who has worked in commercial industrial plants, or new build domestic, or public sector skills, it depends on their experience. So no, unless they were experienced in our type of work, then no.”

Out of scope, Construction

4.8 Conclusion

The previous chapter outlined employers' initial responses to the introduction of the levy, whereas this chapter has explored whether they might be able to recoup their levy payment by: (a) expanding what falls in scope of apprenticeship training in their organisations; or (b) being able to reduce the unit cost of training (via employer-routed funding). Table 4.1 summarises how companies might respond to the introduction of the levy with respect to broadening the range of occupations where

apprenticeships could be used to train people, the level at which apprenticeships are offered and whether apprenticeships will be used to train new hires or existing staff.

It is apparent that by bringing more training under the apprenticeship banner there is the potential to overcome the capacity constraint in some cases. One of the key capacity constraints is that everyone in scope of apprenticeship training in the workplace has completed an apprenticeship; in these cases there is little scope, unless employment levels increase, to continually increase the number of apprenticeship starts. By expanding the occupations that might be served by apprenticeships the capacity constraint is reduced. In many instances, however, employers had limited knowledge of apprenticeships outside of the core areas in which they currently delivered this form of training.

Even in organisations that were not encumbered by the capacity constraint they were of the view that if there were excess funding available to them, they might consider expanding apprenticeship provision into new occupational areas. It is difficult to say whether this would be due to the levy because many of these employers had a long-standing aim to deliver, for example, apprenticeships at Level 4 and above. But the levy might be the catalyst for this to happen.

There is also scope for employer routed funding to provide employers with the means of reducing the unit cost of training an apprentice such that more of the levy could be reclaimed. It is difficult to be clear here as the price of training under various frameworks and standards was yet to be determined at the time of interviews, but a few employers – especially those faced with recruiting much higher volumes of apprentices – said that negotiating the price of training with providers would allow them to increase their intake of apprentices. But as noted above most employers did not feel they were in a strong enough position to negotiate the price of training.

Table 4.1: Summary of employer responses to how they will use apprenticeships once the levy is introduced

Response to levy	Type of response	Characteristics of employer
Broadening occupations	Expanding the number of occupations where Apprenticeship training is applicable	This tended to be concentrated in sectors – mainly professional services – where the occupational structure of employment was being affected by a range of exogenous factors, such as technology substituting for some senior professional workers such that their work could be undertaken at a technician level rather than a senior professional level. The levy acted as a catalyst to increase the number of apprentices who could fill those intermediate level technician jobs.
	Increasing provision in occupations where previous provision limited	This tended to be a residual effect across companies in all sectors and all size groups. If there was levy funding left over once funding had been drawn down for training in traditional apprenticeship occupations, then this might be used to train apprentices typically in business support roles (this tended to happen anyway but on a small scale). Some employers wanted to use the levy as a tool to make more departments in the company think about whether they could train apprentices.
Increasing the level at which apprenticeship are delivered	Strategic response	Some companies had been thinking for some time about how they might use apprenticeships to train people who were typically recruited from higher education. This was mentioned most in relation to construction where companies had struggled to recruit construction managers / professionals (e.g. quantity surveyors).
	Ad hoc response to levy	There was also an ad hoc response – such as in health, retail and hospitality – where companies said they may need to think about offering apprenticeships at a higher level leadership and management training.
Training new hires versus existing staff	Continuing as previously	Many very large companies especially in retail, health care and hospitality had had a tradition of training existing staff. Given that the levy would in many instances require them to train more apprentices if they were to reclaim their levy payment, then they would look to continue training existing employees but perhaps expanding

Response to levy	Type of response	Characteristics of employer
		the training that fell under the ambit of apprenticeships (e.g. leadership and management training).
	Response to capacity constraints	Several very large employers reported that they would face capacity constraints in recruiting a sufficiently large number of apprentices to reclaim their levy payment in full. They simply did not have the demand to for a large number of apprentices to be recruited, so they would need to look to training existing staff. This would mean training people to Levels 2 and 3, but increasing it could extend to higher levels and incorporate some training that is currently unaccredited.

5. The levy and substitution of existing training activities

The evidence points to the levy having the following impacts on employer behaviour:

- the impact on training in traditional trades in sectors such as engineering and construction is likely to be limited. Employers for the most part feel that they will be able to reclaim their levy payment in full to carry on with their existing apprenticeship programmes;
- in sectors such as financial and professional services the levy is likely to accelerate the pace at which employers use apprenticeships to train at an intermediate / technical level. It may take time to reach a point where the levy payment can be fully reclaimed to train at this level;
- many employers across all sectors indicated that if there was levy funding remaining in their accounts once they had decided upon their core training needs, they may use this to train in a range of business support functions;
- some employers indicated that in reclaiming their levy they might consider using it as a substitute or complement to graduate recruitment, but this was something for the long-term;
- employers in retail, hospitality, and health and social care were most concerned that they would not be able to recoup their full levy payment and would need to consider how they could offset the cost that would appear in the internal management accounts.

Further details on each of the above findings, which are speculative at this stage, are provided in the remainder of the chapter.

5.1 Introduction

This chapter looks at the extent to which any extra apprenticeships starts are additional rather than substituting for existing activities in the firm. The working assumption is that the levy will be a cost on the books of the company and this will need to be accounted for in some way. This may result in additional activity whilst other training activities are unaffected or it may be that the costs of the levy need to offset against other budget lines.

It should be stated at the outset that many employers had not considered the potential for apprenticeship training to replace existing training that they undertook,

or that there was scope for apprenticeships to replace, to some extent, the need to recruit graduates, because higher level standards were being developed.

5.2 Understanding changes in employer training behaviour due to the levy

The focus here is very much on the possible impacts of the levy on the volume of apprenticeship training likely to be provided by employers and how this looks compared with their existing training offer. It is necessary here to outline key concepts to be considered. Table 5.1 provides an illustration of the main concepts, which can be described as follows.

- **Quantitative or pure additionality** – individuals who would not have received any training now do so as a result of the apprenticeship levy.
- **Qualitative or partial additionality** – when publicly funded and privately funded training are not perfectly substitutable but in the context here, apprenticeships (funded through the levy) may provide individuals with better quality training than would otherwise occur.
- **Sunk costs** where employers accept the levy payment but do not take on apprentices (they just accept the cost).
- **No change** in the number of apprentices taken on - the levy is used to fund whatever would have been funded without the levy.
- **Displacement** – when individuals that would have been trained in some way without the levy are trained through apprenticeships instead because the employer is making use of their levy.
- **Substitution** – when the profile of the individuals that receive the training changes due to the move to apprenticeships funded through the levy. Those workers that would have received the non-apprenticeship employer-provided training no longer receive any training and they are replaced by other workers undertaking apprenticeship training.

The case studies of employers do not always allow for a clear classification of employers' behaviours or reactions according to these terms. Classifying in this way is particularly difficult as the levy has yet to take effect, and indeed it will likely take time for it to become embedded and for many changes in employer behaviour to be observed. Measuring or estimating additionality and deadweight is difficult in practice as is typically impossible to separate out the effects of any intervention or policy change such as the levy except where an experiment is conducted. Given that no data are available for the post-levy period, no attempt is made here to provide an indication of the quantity of any additionality. It is, however, useful to

discuss the findings from the employer case studies with reference to these concepts of additionality and deadweight to appreciate the possible impact that this change in apprenticeship policy may have on apprenticeship training but also on other forms of employer-provided training.

5.3 Additionality resulting from the levy

In Chapter 3, various employer reactions to the introduction of the levy were described. Some employers - mainly those delivering engineering and construction frameworks and standards - felt that they would continue with 'business as usual' with this being the case for many employers that already employed apprentices as a way of ensuring their company was equipped with the skills it needed. In many cases then the number of apprentices to be trained would continue to be dictated by the business' skills and labour needs rather than being affected by having to pay the levy. In such cases, the levy can be taken as providing no additionality in terms of the number of apprenticeships being provided. Where such employers indicated that they were going to increase the number of apprentices they trained, they were clear that this had been their intention even before the introduction of the levy was announced. The provision of apprenticeships was based entirely on business needs rather than being an approach to recoup their levy outlay.

Some pure additionality could arise where employers felt that if their core apprenticeship offer (e.g. their existing provision of engineering apprenticeships) fell somewhat short of their levy payment, then they may be able to recoup the remainder through offering apprenticeships by either increasing the number of apprentices in the core area or in other areas of the business (e.g. business administration). These apprenticeships would then represent additional training that would not have taken place in the absence of the levy and the incentive for employers to fully utilise their payment. The example of a large hospitality company illustrates this (see panel).

Employer Case Study: Hospitality No. 4

The business had a sales turnover of £2 billion and employed 45,000 people. Based on its payroll, the business expected to pay an apprenticeship levy of around £3 million. The business was developing apprenticeships before the levy was announced – including developing standards at Levels 4 and 5 – and they wanted to recruit even larger numbers of apprentices in the future so long as the business can sustain it. When details of the levy funding become available, if the present apprenticeship training does not exhaust the levy funding, then the apprenticeship team would be asked to design modules that would expand apprenticeship provision in the company – up to an amount that would use up the remainder of the levy they have pay. In addition, the possibility of other training being made to fit the apprenticeship model would be considered. Examples here might include some kitchen training and driver training.

In sectors where apprenticeships were not traditionally used as the employer's means of acquiring and developing the core skills required by the business, such as retail and hospitality, a number of employers suggested that they might provide apprenticeship training to their existing employees in order to reclaim their levy payment in full. This would see a substantial rise in the number of apprenticeship starts and a number of employers thought that the value of doing this for their organisation could possibly stem from reducing staff turnover, improving employee satisfaction, and making sure employees' skills were accredited. The apprenticeships resulting from such action would represent **quantitative additionality** in the numbers of apprenticeships.

Employer Case Study: Hospitality No. 6

A large food services company with 1,500 staff and an estimated levy payment of £73,000 were cautiously optimistic that they would be able to use the levy to 'grow their own' talent. They currently take on one apprentice chef per year, and have staff undertaking NVQs if they request it (they have around 15-20 staff doing NVQs currently). Going forwards, the levy will push them to be much more structured. They would look to offer apprenticeships for chefs and front of house; perhaps also for supervisory roles, which is a current skills gap. As a catering employer, they have a huge staff turnover currently, so putting someone onto an apprenticeship for 2 or 3 years would help improve staff retention, as well as hopefully be good for staff morale. If they deliver these apprenticeships within existing headcount, money for wages won't be an issue. They believe it could be feasible for them to increase their apprenticeship offer to up to 40 in their first year of paying the levy. The only concern is the time apprentices would spend undertaking off-the-job training as this will need to be factored into planning.

5.4 Substitution and Displacement of Existing Training

The levy also raises the prospect of **substitution / displacement** where employers respond by converting existing provision of training into apprenticeships. Some

employers were looking at how they might convert existing training programmes so that they conformed to apprenticeship standards. This was the case where employers would be paying a substantial levy payment but would not be able to recoup all of that payment by taking more of the existing type of apprentices. The examples below of an engineering / logistics / customer service company and a NHS Trust illustrate this point (see panels).

Employer case study: Multi-sector company No.1

This large employer (1,000+ employees) operated across a number of sectors. Relative to the overall size of the business, their apprenticeship offer to date had been small (20 to 25 apprentices across the whole business, per year). The apprenticeships offered included engineering, warehousing and logistics and customer service. Apprentices were new recruits and typically 18+ years of age. The company made direct payments to their training providers for apprenticeships (£500 per apprentice on average).

They also offered ongoing training and development to all employees across all business areas. Their training and development activity was largely concerned with continuous improvement and use of lean tools. The employer felt that they had a 'training culture' and were wary of taking actions in response to the levy that did not fit with this culture.

On the basis of existing apprenticeship funding caps, the employer had calculated that in order to recoup their levy outlay they would need to train around 300 apprentices per year – more than ten times their current provision. In addition, they were very much aware that there will be additional costs incurred by the business in supporting apprentices (including supporting administrative and management functions).

Employer case study: Multi-sector company No.1 (continued)

As the employer saw it, the business had three main options available in response to the levy: (A) do more of the same apprenticeships they currently provide; (B) convert existing internal training into apprenticeships – they felt this was a sensible option but the scope for doing this would depend on the details of apprenticeships and the levy including eligibility of learners and programmes, suitability of frameworks and standards, etc.; (C) offer additional apprenticeship training depending on the capabilities required by the business – they felt that this was less likely to be achieved than the first two options.

The employer felt that it was likely they would adopt a combination of the first two options listed above – increase the volume of the current apprenticeships they offer and convert existing training provision into apprenticeships. The business could also look at what current roles could be converted to apprenticeships but they were not very far in thinking this through at the time of the interview.

Employer Case Study: Health and Social Care No.1

This large employer (6,000+ employees) already took on around 120 Health and Social Care apprentices a year plus a handful of others through other frameworks. They had calculated their levy payment to be around £1million a year and estimated that they would need to take on between around 470 apprentices to recoup the levy (based on their current take up by level of apprenticeship – i.e. mostly L2 and L3 with some L4). The organisation will have to try to recoup the money so will have to find ways of increasing the number of apprenticeships. All new starters will have to get a L3 apprenticeship but there was a limit on the scale of this so they will need to look at existing unaccredited training and delivering this under the apprenticeship banner. This was most likely to take the form of packaging individual standalone options as an apprenticeship pathway. For example a lot of clinical skills (cannulation, catheterisation, administration of intravenous medications via a peripheral device, venepuncture, etc.) could potentially be put together as an apprenticeship. They already do this to some extent through preceptorship so would need to work out how this could work. A big mapping exercise will be needed to see what was possible.

They had also calculated that according to the public sector target of 2.3 per cent of workforce being apprentices this would equate to around 135 apprentices which would be just about achievable. They find it difficult to understand how there can be such a disparity between this and the levy measure.

The example of the engineering company below (see panel) indicates the way in which some employers may choose to rebrand some existing training activity as apprenticeships. As noted elsewhere there is some uncertainty about the extent to which higher level apprenticeship might be taken up in the business. At the moment it would appear to be something that is being considered rather than being actively pursued in sectors such as engineering and construction.

Employer Case Study: Engineering No.1

This large company with 1,000+ employees delivered mainly engineering apprenticeships, but also some in customer services. They had trained apprentices for the past five years and these were always new recruits to the business. Their plan, even before the announcement of the apprenticeship levy, was to increase their apprenticeship numbers and the types of apprenticeships they provided. The plans were based on business needs and associated manpower planning with expansion of their apprenticeship offer being seen as an important part of their recruitment strategy. They may be able to look at additional frameworks, such as driver Apprenticeships, but they need to look into what apprenticeships are available first. They were considering higher apprenticeships and how these might sit next to their current graduate recruitment and training towards professional qualifications. This was just an idea at the moment and they had not yet given it full consideration. With regard to the leadership and management apprenticeships they had provided for some existing employees, the company had been looking at internalising this training (i.e. using their own capabilities and expertise to provide similar training but not externally accredited). In light of the levy however, the company will now look again at the feasibility of keeping this under apprenticeship banner so that it can be used in recouping their levy payment.

The company indicated that they were going to investigate ways of reclaiming their levy payment and are already looking at how they may be able to transfer what they already do (and pay for) into something that will use up their sizeable levy bill. For existing employees, for instance, they currently pay for non-apprenticeship, NVQ and other training so could look at moving these into apprenticeships.

A retail employer, for example, explained how it will look to reclaim as much of its levy payment as possible in the areas it had traditionally trained apprentices, but it expected that this would not exhaust its levy funding so it would look to convert other types of training it undertook into apprenticeships (see panel).

Employer Case Study: Retailer No.5

The company expected to pay a levy of around £2m. They were of the view that if they were to continue training apprentices in the same volume under the same standards / frameworks as in the past they would be able to draw down around £500,000 of their levy payment. In order to claim more than this they would need to: (a) hire an Apprenticeship Manager; and (b) begin to convert other kinds of training currently carried out into apprenticeships. In future, because of the levy, they would look to use apprenticeships wherever possible instead of other forms of training. The benefit of this is that they would be able to use apprenticeship standards to meet training needs rather than having to select from the variety of training programmes available.

Similarly several employers pointed towards existing Leadership and Management training (some accredited, in other cases unaccredited in-house training) being a potential candidate for becoming an apprenticeship. This would represent **displacement** as the apprenticeship training prompted by the levy obligation would have taken place in any case. There could, however, be **qualitative additionality** because the apprenticeship would be accredited and potentially provide more rigorous training than the other provision.

Employer Case Study: Engineering No.5

A large engineering company, specialising in material handling and forklift trucks, currently offers a small number of Engineering apprenticeships as well as some accredited management training. The year previously, they had run a Level 2 qualification in Management with the Institute of Leadership and Management, which they had found to be beneficial for the company, though very costly, and had planned to look at offering a Level 3 at some point. Having heard about the levy, the HR Manager saw it as an opportunity not only to continue their existing Engineering apprenticeship offer but also to convert the Leadership and Management training into an apprenticeship. This would allow him to structure the offer more effectively as he would have a consistent stream of funding available for the purpose. In the past, there was not any criteria to select the people that went on management training (for the ILM qualification employees were chosen fairly randomly), but going forward he was keen to introduce effective performance management across the business, and this would help decide who would undertake the apprenticeship.

Where employers reported that they would convert other training they carried out into apprenticeships, they could see benefits from doing so other than those relating to cost-effectiveness, such as providing accredited training, being able to use existing standards, etc. But this was not always the case. A hospitality services company, for example, said that the need to reclaim its levy payment would result in some training at Level 3 and above being delivered as an apprenticeship. The respondent could see little benefit in that, however, as changing the training (with which they were happy) just to secure levy funding might mean that the training did not entirely suit the needs of the organisation. Nonetheless, it was felt that the organisation may well be pushed to do this in order to reclaim its levy payment (and as standards became increasingly available for the types of L3 and above training it currently engaged in).

Another example of **displacement** and / or **substitution** was exhibited by an employer in the Professional and Business Services sector. The employer had trained employees to become paralegals but typically through programmes other than apprenticeship. The main qualification and skills of interest for the employer here are those tied to the professional examinations for the paralegal job roles, and there is less concern about the formal training route by which employees gain this level of qualification. Employers want to use, other things being equal, the most cost-efficient means of delivering this training. With the introduction of the levy, the employer will be shifting from the existing non-apprenticeship route to the relevant apprenticeship standard. In doing so, the training will be more cost-effective than the alternative mainly because it will enable them to reclaim the levy. This shift then represents displacement provided that the trainees going through the apprenticeship are not different than those that would have gone through the existing route; or substitution if the profile of workers receiving the training is altered as a result of moving over to provision through apprenticeships. The skills being delivered within

the organisation are unlikely to change as a result of the move to apprenticeship thus there is unlikely to be any additionality (quantitative or qualitative) provided through this approach.

5.5 Impacts on Other Training Delivered in Workplace

Some employers, especially those not inclined to recruit apprentices, have indicated that they will ultimately treat the levy as a tax, simply paying it without training any apprentices. This does not necessarily mean that the introduction of the levy will have had no impact upon their training provision. A number of employers indicated that their overall training budget could be reduced by as much as their levy payment – because the levy will sit in the internal management accounts as a cost, the training function may well be pressed into being able to offset that cost in some way such as reducing provision of other kinds of training. Employers said that some of the ‘other’ training they provided could be dispensed with, but there would be a pressure to make cost savings wherever possible. Where this occurs, the levy would then result in a reduction in other forms of non-essential training (i.e. training that is not required for regulatory or statutory reasons).

In general, the sense was that, at this early stage, employers did not foresee the levy having a major impact on reducing other forms of training taking place in the organisation.

5.6 Capacity constraints in increasing apprenticeship starts

The case studies of employers illustrate the importance of considering the capacity constraints facing businesses when trying to increase their uptake of apprenticeships. These constraints may be thought of as taking two forms:

1. the capacity within the workplace for apprentices to be supervised and to undertake appropriate tasks and on-the-job training; and
2. the capacity to continuously train a substantial number of apprentices over the medium- to long-term.

This first type of constraint has been discussed in Chapter 3 and 4 and it is an issue that is particularly pronounced for smaller employers. These employers highlight that apprentices typically require substantial supervision (especially in the earlier part of the training period) which requires experienced and skilled workers to utilise part of their working day to supervise and support apprentices. This can constitute a significant reduction in productivity for these workers. Furthermore, some employers have indicated that the activities taking place within their organisation can be difficult

to separate into smaller tasks that would allow for apprentices to undertake suitable work. Some employers noted that for some jobs they need people who can ‘hit the ground running’ and as such the roles are difficult to adapt for filling by apprentices.

The second constraint was highlighted especially in the larger organisations where they will be making substantial levy payments (often in the millions). Whilst most of these employers felt that they could train large volumes of apprentices, they questioned the sustainability of doing so over the longer term. In NHS trusts, for instance, the employer could often see a way of using apprenticeships to train large numbers of their existing staff but warned that after a few years nearly everyone would have been trained and there would be no business need to provide increased levels of apprenticeship training. The issue then arises that continuing to train apprentices would be leading to over-skilling / over-qualifying their employees and / or training in excess of their own needs and inevitably increasing staff turnover. The employers did not see either of these outcomes as particularly positive outcomes stemming from the levy.

5.7 Conclusion

Table 5.1 provides a summary of the various effects of the levy which have been reported by employers and discussed in this chapter. The current study was not intended to provide any estimates of the net effects of the apprenticeship levy on the volume of apprenticeship training employers provide. The employer case studies nonetheless provide indications of possible ways in which additionality and deadweight may arise from the changes in employer behaviour that may be prompted by the levy. There is some indication too of the relative scale of additionality and substitution that may arise once the levy is implemented.

Four main types of changes in employer behaviour were conveyed by employers:

Neutral outcomes

No change in the volume of apprenticeship training *as a result of the levy* as this activity is determined by business needs. This was indicated as the likely response from those employers that already train apprentices in core business areas. Note, some employers within this group were planning large increases in their apprenticeship programmes, but emphasised that this increase had already been planned prior to the announcement of the levy, and the levy was not a contributing factor in the increase.

Positive additionality

Some increase in apprentice numbers where the firm feels it has capacity to do so with some of this possibly being in apprenticeship frameworks that are in support functions such as business administration (which would incur little additional costs to the employer, and likely to be provided mainly to existing staff). Other employers may take on apprentices rather than recruiting from the external labour market.

Substitution and displacement of existing training (often informal, provided in-house, non-accredited but may be through other equivalent qualifications and routes) where the employer moves their current activities over to apprenticeship programmes.

Negative outcomes

A possible decline in the overall training budget and thus a decrease in other, non-apprenticeship training where employers aim to compensate for the levy payment without taking on apprentices (i.e. where employers treat the levy purely as a tax without modifying their training offer but still need to balance the additional cost to the business).

Ideally one wants to obtain a sense of scale relating to the extent to which the levy will have no impact, bring about additionality, or result in deadweight loss. This is exceedingly difficult to achieve in a qualitative study, so the table below should be considered cautiously. That said, based on the responses provided by the employers it is possible to group them according to expected impacts (Table 5.2). An approximate estimate suggests that just under half of employers said that they would take on additional apprentices, just over a quarter said that there would be no change, and just over a tenth said that they would pay the levy but not take on an apprentice (i.e. a sunk cost). Estimating the level of substitution / displacement is more difficult given that many of those who took on additional apprentices said they might move some existing training over to apprenticeships.

As noted, the results should be taken as indicative. Where a quantitative estimate has been provided this is simply designed to give the reader a sense of balance between the different views expressed by employers. Accordingly, caution should be used when interpreting the quantification of qualitative evidence. It is important, furthermore, to appreciate that in the absence of a proper counterfactual to compare employer behaviour after the levy and without being able to fully separate out other changes in the labour market and apprenticeship policy, it is difficult to completely attribute change in apprenticeship training volume to the levy. This particularly applies to co-investment: many respondents commented that other employers in meetings they had attended had been making calculations of the number of

apprentices they would need to train to recoup their levy in full on the assumption that they would remain fully funded.

Table 5.1: Summary of employer behaviours in response to apprenticeship levy and the resulting net effects on employer-provided training

Current Employer Behaviour	Employer Behaviour Post-levy	Description of Resulting Change
Neutral outcome		
Provide various training (non-apprenticeship) with dedicated training budget covering the organisation	Unable to recoup any of the levy payment (i.e. pays levy as a tax) but reduction in training budget results in less training activity across the organisation	Deadweight loss – reduces training overall with no offsetting increase in training through apprenticeships
Train apprentices in core skills areas	Continue to train apprentices in these areas with any change in numbers due to business need only	Zero additionality
Train apprentices in core skills areas but insufficient to fully recoup levy payment	Continue to train apprentices in these areas with any change in numbers due to business need only <i>plus</i> Take on few apprentices in other business areas (cheaper apprenticeship programmes) to make up difference	Zero additionality Pure additionality – training people who would otherwise not receive training at all
Additionality		
Recruit graduates	Train Higher / Degree level	Pure additionality – within the firm this is additional training that

Current Employer Behaviour	Employer Behaviour Post-levy	Description of Resulting Change
and fully-skilled workers from the external labour market	apprentices and reduce other recruitment	would not have taken place without the employer's attempt to utilise their levy payment (however, individuals would have been trained/educated to largely equivalent level outside the employer (e.g. in HE or with other employers) so shifting location and possibly timing of training thus representing at least some displacement)
No formal training provided, apprenticeship or otherwise	Provide apprenticeship training to existing workers with view to reducing staff turnover and improve satisfaction	Pure additionality – without levy would have not provided apprenticeship or any other formal training for workers
Existing workers receive informal / non-accredited training	Provide apprenticeship training to existing workers with view to reducing staff turnover and improve satisfaction	Qualitative / partial additionality – providing apprenticeships due to paying levy provides accredited training to workers and may improve quality of training overall
Additionality		
Existing workers receive in-house, non-accredited training for leadership, management and other 'softer' skills	Provide apprenticeship training that is accredited and provided externally	Qualitative / partial additionality – providing apprenticeships due to paying levy provides accredited training to workers and may improve quality of training overall

Current Employer Behaviour	Employer Behaviour Post-levy	Description of Resulting Change
Support training of some employees to degree level	Change this provision to Higher and Degree Level apprenticeships	Displacement – likely that same individuals receive training, level very similar if not the same, just under the apprenticeship badge to allow utilisation of levy
Train workers through non-apprenticeship programmes (e.g. NVQs, LM, professional exams)	Switch this provision to apprenticeship programmes	Displacement – training still provided but under apprenticeship change, largely no substantive changes to training (same level, same content); could be some qualitative additionality if apprenticeship is better provision quality or expands content in some way
General training activity across the business	Levy offset by reduction in general training budget. Non-essential training reduced but increase in apprenticeship numbers to clawback levy payment	Substitution – workers throughout the business no longer receive training but apprenticeships offered to others (possibly new recruits). The profile of those receiving training in the business becomes altered. There could be some additionality if overall skills levels increase as a result.
Negative outcome		
Provide various training (non-apprenticeship) with dedicated training budget covering the organisation	Unable to recoup any of the levy payment (i.e. pays levy as a tax) but reduction in training budget results in less training activity across the organisation	Sunk costs – reduces training overall with no offsetting increase in training through apprenticeships

Table 5.2: Summary of employer behaviours in response to apprenticeship levy – an approximate indication of scale

Type of impact	Assessment of scale of impact
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Type of impact	Assessment of scale of impact
Neutral impact	In sectors such as engineering and construction, the levy is expected to have little impact on the overall number of apprentices trained in core trades at Levels 2 and 3. The general trend in the number of people trained in these occupations is likely to be least affected by the levy.
Quantitative additionality	<p>There is evidence that some employers in financial and professional services will increase the number of apprentices as a result of the levy because it will accelerate the pace at which employers move over to apprenticeships to train people in intermediate / technician level occupations.</p> <p>There is also likely to be some increase in the number of apprentices taken on in business support services (e.g. business administration) across all sectors.</p> <p>Employers in retailing, hospitality, health and social care are expected to increase the number of apprentices they have, but a substantial share of these are likely to be existing employees.</p>
Qualitative additionality	Employers across all sectors report that they may well use apprenticeships to deliver what is now unaccredited training typically related to management and leadership. It is difficult to gain a sense of the scale of this activity and given that employers were just beginning to think about this, the scale of it over the short-term must be considered small.
Substitution / displacement	There is evidence that in sectors such as construction and to a lesser extent engineering that apprenticeships could be used to deliver training that is currently delivered in higher education. This was seen as a development for the long-term, over the short-term the scale of this is likely to be modest and dependent upon the availability of frameworks / standards.
Negative outcomes (sunk costs)	<p>Nearly all employers reported that they wanted to reclaim their levy payment in full. In construction and engineering there was confidence that they would be able to do so in continuing the training they currently delivered. So it is expected that there will be no employers considering the levy a sunk cost here.</p> <p>In financial and professional services there was some concern that the levy payment would not be reclaimed in full over the short-term because processes were not yet fully in place to take on many more apprentices, but this would be achieved over the medium-term. The fact that the levy was not fully recovered would in most instances have no impact on other training activities (it would simply be registered as a cost in the internal management accounts).</p>

Type of impact	Assessment of scale of impact
	<p>In retail, hospitality and health and social care there was concern that the levy payments would be large and could not be reclaimed in full. The number of part-time workers was seen as a major constraint on increasing the number of apprentices. This would result in a cost in the internal management accounts that in most instances would need to be offset by savings elsewhere in the business. At the moment the employers were not clear how these savings would be offset – but it might include reducing the amount of training undertaken.</p>

6. Conclusion

6.1 The study

The study took place at a time when the details of the levy's introduction were only just becoming available to employers. Employers expressed a degree of uncertainty about how the levy was to be introduced and what types of training could potentially fall under the ambit of apprenticeships. Many employers tended to see apprenticeships, at least initially, in terms of the training it had delivered to them in the past. They did not, at first, see apprenticeships as a form of training that could, with more standards coming on stream, meet the skill needs of a much wider range of jobs, at differing levels of seniority, than in the past. It is important to bear this in mind when considering the findings from the study.

6.2 Initial reactions to the levy

The study took place at a time when many employers were only beginning to come to terms with the idea of an apprenticeship levy and what it might mean for their businesses. Whilst most employers could estimate the amount they would need to pay on an annual basis, they were unsure in practice of exactly how many apprentices this would fund if they were to claim it all back, though many had an approximate idea of how many it would be given that they had long experience of the apprenticeship system. There were a number of common responses across the case study companies. There was a determination from nearly all employers to reclaim their levy payment in full. This was often communicated in terms of 'it's our money and we want it back'. It should be noted that employers reported that the levy payment would sit as a cost in their internal management accounts. Accordingly it would need to be accounted for in some way. Respondents said they were in the process of preparing papers for their senior management teams that outlined how they might respond to the levy. In general, the initial reactions to the levy can be classified as follows:

- business as usual;
- using the levy as a catalyst to increase the provision of apprenticeship training within the business;
- concerns relating to how a sufficiently large number of apprentices could be trained;
- writing off the levy payment and absorbing the cost in the bottom line of the company's accounts.

There was a group of companies that expected it to be business as usual after the levy was introduced. These were typically organisations involved in the delivery of relatively

high cost apprenticeships (e.g. engineering and construction) where the amount of the overall cost of the apprenticeship accounted for by the levy payment was relatively modest. The decision to train was largely driven by a demand for skills in the workplace that could not be met other than through apprenticeships. If their levy payment could not be recouped in full – most thought that it would be - some said they might consider increasing the number of apprentices taken on usually in relatively low cost apprenticeships (e.g. business administration, leadership and management). Others however said that they would accept it as a sunk cost.

There was also a group of employers engaged in relatively low cost apprenticeships but where there were alternatives to apprenticeship training (e.g. in business services). It was here that the payment of the levy would tip employers taking the apprenticeship route. There was a degree of agnosticism with respect to whether the apprenticeship or alternative was better – both tended to be considered as high quality accredited training – but the levy would make the apprenticeship route more cost-effective.

Where employers were engaged in relatively low cost apprenticeships, such as those related to hospitality, customer service, and health and social care at Level 2, they were more concerned about the operation of the levy. This was because they were often large organisations that would be required to take on a large number of apprentices if they were to reclaim their levy payments in full. They were determined to reclaim their levy payment in full, but it that it might require to rethink how they could use apprenticeships to meet the skill needs of a wider range of occupations. Some mentioned that there were substantial capacity constraints on them being able to quickly increase their apprenticeship programmes two or threefold.

Some had a longstanding commitment to increase the use of apprenticeships in their businesses and the levy acted as a catalyst to accelerate the pace at which they moved to achieving this goal. This was often where technical change was altering occupational structures within the workplace such that some professional tasks were being automated to some extent and, as a result, there was an increased demand for people to work in intermediate / technician level occupations. Apprenticeships were seen as being well placed to meet the training needs of people working in these occupations.

The capacity constraints on some employers to train apprentices were in some instances formidable. These were twofold:

1. possessing the resources to supervise and mentor apprentices. Some employers said that they could not afford for experienced staff to spend time looking after apprentices as the impact of this on organisational performance would be too great;
2. having the capacity to absorb the apprentices when fully-trained. Some employers mentioned that there would be a point, reached quite quickly, when all

employees potentially in scope of apprenticeship training will have been fully trained. There would be no demand for apprenticeship training, but the levy would need to be paid.

In relation to the last point, most employers on balance were not interested in over-training (i.e. training in excess of their own needs). So there was limited scope for employers with no demand for apprenticeships being able to recoup their levy payment by over-training.

Where the levy payment would not be reclaimed in full employers said that the cost would need to be accounted for. In the internal management accounts of companies there would be a cost entered that reflected the levy payment. It would be most likely a cost recorded against the Training / HR Department. In some instances, it would be accepted as a sunk cost. In other cases, it would result in the training function needing to consider how it could offset the cost in some way – for example, by reducing the amount of other training it provided. It was acknowledged that there were limits to the extent to which this could be achieved: some training was mandatory; whilst cutting some courses could be a false economy. But some employers said that there may be a need to reduce some provision, especially during periods when the performance of the company was not so strong. There were few examples of companies saying that they would not reclaim the levy. Some said there may be difficulties in recruiting the levy in full – for the reasons outlined above – but the instances of companies saying they would pay the levy and not look to recruit any apprentices was rare.

6.3 Adapting to the levy

Once employers had provided their initial responses to the introduction of the levy, employers considered in more detail how they might adapt to the levy. In general, the responses of employers fell into the following categories:

- expanding the range of occupations that could be trained via apprenticeship;
- providing apprenticeships at a higher level;
- continuing to use apprenticeships to train existing staff; and
- converting continuing professional development (CPD) courses into apprenticeships (especially those related to Leadership and Management).

Employers reported that there was potential to expand the range of jobs in their organisation that could be served by apprenticeships. As noted above, in some companies there were plans to expand provision in to new occupations (e.g. para-legals in the financial and professional services sector), or to expand apprenticeships in existing occupations where, to date, relatively few people had been trained via an apprenticeship (e.g. business support jobs where a business administration apprenticeship might be useful). Employers were also looking to expand apprenticeships – over the longer-term –

into occupational areas where traditionally entry had required completion of higher education. This was determined in large part because they saw apprenticeships as conferring benefits on the company that were greater than those delivered by the existing processes of occupational formation. It was notable that in some instances where apprenticeships were being considered as a means of training at higher levels, they might not be presented as apprenticeships as it was a brand associated with training typically at Levels 2 and 3.

Employers, especially in very large companies, notably in retail, hospitality, and health and social care, were of the view that their levy payments would be so large that they would not be able to take on a sufficiently large number of apprentices to reclaim their levy in full. As such they would look to use apprenticeships to train existing staff. To some extent this would be business-as-usual for these employers, but they might need to increase the number of existing employees trained as apprentices. One way of achieving this goal was either by training people to a higher level or by converting some unaccredited CPD and training to an apprenticeship.

6.4 Assessing overall levels of impact

As noted above the impacts might be classified as having:

- a **neutral impact** where the introduction of the levy will have no impact on apprentice volumes. This was observed in relation to the traditional trades in the engineering and construction sectors where apprenticeship is the common means of acquiring the skills necessary to work in craft jobs;
- **quantitative additionality** where the levy will bring about a higher number of apprenticeship starts because the levy has accelerated the speed at which apprenticeship training is undertaken in the workplace (such as using apprenticeships to meet new occupational training needs);
- **qualitative additionality** where training unaccredited training – sometimes allied to management and leadership training - falls under the ambit of apprenticeships in the future as firms look at different ways of ensuring they fully reclaim their levy payment.

There is some displacement and substitution to take account of in assessing the additionality pointed to above. In addition there was some limited evidence of:

- **sunk costs** where employers will treat the levy purely as a tax without modifying their training activities and take the hit on the company's bottom line. There is a risk here that some activities will no longer continue as the company looks to offset the levy payment in some way.

Whilst many employers implicitly disliked the idea of the levy, the exploration of their responses to the levy suggested that on balance they were inclined to look for the means of reclaim as much of their levy payment as possible by increasing their apprenticeship provision. There are, as this report makes clear, many constraints on employers being able to achieve this goal, but employers in general were looking to find ways of ensuring that their bottom line was not affected by the levy. On balance employers were evenly split between those who said that there would no change in their behaviour towards apprentices, and those that said they would take on additional apprentices. Where they said they would take on apprentices some said it might take time to reach the stage where they could recoup all of their levy payment due to capacity constraints but the intention was to achieve that goal or something close to it. Relatively few employers were willing to accept the levy wholly as a sunk cost.

Annex A: Semi-structured interview schedules used with employers

A.1 Apprenticeship Levy Discussion Guide - Employers in scope

Interview schedule for those in scope of the levy

(Briefing for interviewer)

Important here will be understanding the way in which the levy affects the costs and benefits of training apprentices and affects the amount of training and number of apprentices taken on. The likely issues that will need to be addressed in the discussions with employers are set out below. This is designed to provide both a narrative about how employers are likely to respond to the levy, but also to provide some indicative metrics that BIS can use in its modelling of projected apprenticeships starts.

A considered appraisal from employers is required of how they are likely to respond to the levy and the planning they have put in place, or are likely to put into place, to address its introduction. There are a number of issues that will need to be included in the semi-structured interview schedule. First of all, there is a need to consider what the impact of the levy might be on the planning processes within companies. The fact that employers are required to pay the levy suggests that they will need to have processes in place to utilise that funding to pay for training. And if they are utilise that funding they will need to have a justification for doing so. It will be interesting to see if the levy actually introduces more structure and planning in relation to investing in apprentices. For example, the decision to take on apprentices may be brought forward in the planning process, or it may result in more strategic thinking about likely future skill needs.

Once the planning issue has been dealt with, it will be possible to consider employer behaviour in more detail by asking employers, where they do not spontaneously mention something, whether they would be likely to respond in that way and, if so, what would be their rationale. This is where a range of issues relating to deadweight and substitution can be addressed, as well as whether the levy will lead to more fundamental restructuring of training over the medium-term, such as relying more upon the apprenticeships to deliver skills that may have been supplied through different pathways in the past. Employers have a degree of choice in how they meet their skill needs, as the recent study on higher apprenticeships in accountancy demonstrated. That study showed that employers could recruit graduates who would train to become chartered or certified accountants, or they could recruit 18 year old school leavers who would complete the Level 4 apprenticeship in Accountancy and then progress to chartered or certified status.⁴⁵

In order to address the issues outlined above – and others that the conceptual framework may give rise to – a checklist will be developed of all the issues to be covered in the semi-structured interview schedules. This will be agreed with BIS and will ensure that every aspect of employer behaviour in relation to the levy is covered in the interviews and analysis.

⁴⁵ Gambin, L. and Hogarth, T. (2014) *Employer investment in Higher Apprenticeships in accounting*

WHERE NO APPRENTICES: There are likely to be situations where the company does not have apprentices. There is a need to check that the company has no history of providing apprenticeships and whether the respondent is aware of what constitutes an apprenticeship.

The core of an apprenticeship is as follows:

- apprentices are aged 16 years and over and combine working and studying towards an officially recognised work-based qualification from GCSE to degree level;
- apprentices must work with experienced staff, learn job-specific skills; and study for a work-based qualification during the week either at college or a training organisation;
- apprentices work towards completion of an official framework or standard that establishes the content what they will be trained in;
- apprentices must be employees of the company and paid at least the national minimum wage for apprentices.

Current behaviour in relation to apprenticeships

- **Ask for a brief history of the organisation’s investment in apprenticeships (or not as the case may be) and the rationale that underlies the investment / non-investment decision**

NOTE TO INTERVIEWER: Please complete the table below, using a separate column for each Framework. E.g. if they offer Business Admin AND Engineering apprenticeships, then use a column for each)

	Framework 1	Framework 2	Framework 3
Framework/s or standards that apprentices are currently working towards			
No. of apprentices currently taken on (and number per year) per framework [NOTE TO INTERVIEWER: number by framework (or standards) is required]			
Age of apprentices			
Length of apprenticeships			
How much are the apprentices paid in each year?			
How productive are they relative to full experienced works?			
Is the employer able to retain apprentices post-training? And how?			
What are they spending on training each apprentice? And what do they think the actual cost of training is (e.g. taking into account government			

	Framework 1	Framework 2	Framework 3
subsidies)?			

- **What is your total training budget?**
NOTE TO INTERVIEWER: Obtain an approximate amount if not sure
 - How much, or what percentage of the overall budget is spent on apprenticeships?
- IF ORGANISATION CURRENTLY HAS NO APPRENTICES:
- **Why is that?**
- IF THERE IS NO DEMAND FOR APPRENTICES:
- **Why is that?** (E.g. low labour turnover, no skilled staff expected to leave the organisation in the foreseeable future, decline in business etc.)

Initial reactions to the levy

- **Ask for their initial reaction to the announcement that the levy is to be introduced, and their initial understanding of what the levy will mean for their business.**

NOTE TO INTERVIEWER: It is really important not to dwell on this for too long – this is not a consultation or the forum within which employers should complain about the levy.

NOTE TO INTERVIEWER: Ask for an approximation of payroll, and then calculate their likely levy payment, and indicate this to the employer.

- **The Levy (and how you spend the funds in your account) will be managed through the Digital Apprenticeship Service. Have you heard of this Service before?**
 - IF YES: Probe for details about their knowledge of the Digital Apprenticeship Service
 - What is your reaction to using the Digital Apprenticeship Service to manage your levy payments? Why?
 - Do you think it will make things more or less straightforward? Why?
- **Will a levy payment of £XXXXXX be a significant cost to your organisation? Is it something that could easily be written off?**
 - IF CONSIDERS LEVY PAYMENT TO BE A SIGNIFICANT COST: Is it something that will need to be recouped in some way by either training apprentices or by making savings elsewhere?
 - IF RECOUPING BY MAKING SAVINGS ELSEWHERE: What will these be? What will be their impact? How feasible is it to take on additional apprentices?
 - IF WRITING OFF THE COST OF THE LEVY PAYMENT: Why are you writing off the cost of the levy payment?
- NOTE TO INTERVIEWER: Ask this as an open question and then probe around issues relating to: whether the amount is relatively small and does not need to be reclaimed; there is no need to

train apprentices; staff are fully trained; the costs of training apprentices are too high; they have difficulty accessing the training that meets their organisation's needs; they have other issues relating to apprenticeships (if so, what are these?).

- Are there any impacts that might result from writing off the levy payment? If so, what are these?
- **In general, what is your overall view of how the levy might affect your organisation?**

Planning for the introduction of the levy

- **Before this interview, were you aware of the levy's introduction?**
- **Has your organisation considered in detail how the levy will be accommodated?**
 - IF YES: What plans have been put in place?
 - IF NO: What plans would you be likely to put in place, to strategically and tactically accommodate the Levy?
 - NOTE TO INTERVIEWER: probe around issues to do with expectations about how the employer expects the levy to be introduced in practice – e.g. timing of making requests for finding, information to be submitted, etc. - or whether the employer has considered this at all]
- **Will the introduction of the levy change the way in which your organisation plans its training investments?**
 - PROBE: For instance, what processes are currently in place to decide how many apprentices are taken on each year, and how would these processes change, if at all, with the introduction of the levy?
- **Would more planning be introduced into your training system as a consequence of paying the Levy and needing to clawback the payment?**
 - IF YES: What is likely to change?
- **Are there any adverse effects (such as impacts on other employees, on the overall training budget) that you would need to counter when planning your apprenticeship training in the period after the Levy is introduced?**
- NOTE TO INTERVIEWER: Establish what these “adverse effects” are, and note the details

Adapting training behaviour in relation to the levy

NOTE TO INTERVIEWER: Once the employer has provided a set of initial reactions, various options can be discussed as set out below

NOTE TO INTERVIEWER: Start by citing employer's likely levy payment and on the basis of this ask about their intentions regarding the number of apprentices they are likely to train.

- **If you pay a levy payment of £XXXXXX, how many apprentices do you think you would need to train in order to recoup that money?**

NOTE TO INTERVIEWER: Explain, if required that the levy will pay for external training not the costs of employing apprentices (e.g. wages, supervision costs, etc.).

- You need to find out whether the employer has thought about how many apprentices it would need to take on to recoup the levy payment (i.e. whether they have done the maths and worked out how many apprentices their levy payment will “buy” them).
- Ask how they have made this calculation (note that costs and prices of training may be adjusted in future).

NOTE TO INTERVIEWER: If the employer is not sure (i.e. they haven’t done the maths to work out how many apprentices they could “buy”, go through some examples from the table below and explain what their levy payment could fund).

	Levy payment and number of apprenticeships this could pay for						
Cap (note: these are current caps and may change slightly after introduction of the levy, and are for the total cost of training, over 3 years)	£5,000		£20,000		£70,000		Examples
Apprenticeship duration	2 yr	3 yr	2 yr	3 yr	2 yr	3 yr	
£2,000	5	7	20	30	70	105	This would mostly be Level 2 and 3 apprenticeships and probably Retail and Business and Administration apprenticeships (although not on the Standards framework)
£3,000	3	5	13	20	46	70	This would mostly be Level 2 and 3 apprenticeships: Dental Laboratory Assistant (L3) Financial Services Customer Advisor (L3) Credit Controller / Collector (L2)
£6,000	1	2	6	10	23	35	Dental Practice Manager (L4) Investment Operations Specialist (L4) Surveying Technician (L3) Paralegal (L3) Insurance Professional (L4)
£8,000	1	1	5	7	17	26	Chartered Legal Executive (L6) Financial Services Administrator (L3) Water Process Technician (L3)
£18,000	0	0	2	3	7	11	Pretty much everything in the Automotive sector (e.g. Motor Vehicle Service and Maintenance)

	Levy payment and number of apprenticeships this could pay for						
							Technician, L3) Probably everything in Engineering Solicitor (L7) Chartered Surveyor (L6)

- **How likely is it that you will take on this many apprentices?**
 - Why do you say that?

- **Are apprentices permanent employees in your organisation? Do you think the introduction of the levy would affect this?**
 - IF YES: Why?
 - NOTE TO INTERVIEWER: Ask why there is a need to change employment status – is it that the employer is planning to over-train and then select those it wishes to retain? Are there any potential costs / benefits from doing this?

- **If you reclaimed your levy payment, what impact would it have on the number of apprentices that you train? Would you train more / the same / fewer?**
 - Would it impact on the subjects and frameworks under which you train your Apprentices?
 - Would it allow for a wider range of Apprentices to be taken on? Why?

- **As a result of the introduction of the levy, would you consider increasing the skills level of your staff (e.g. turning unskilled staff in to skilled)?**
 - IF YES: Why? (there is a cost-benefit of having more skilled staff, it creates internal rationale for increasing the number staff)
 - IF NO: Why? (they may be more confident that they will be able to retain apprentices post-training)

- **Would you consider training more apprentices than you need to recoup the costs of your levy payment?**
 - IF YES: What are the benefits to your organisation in training more apprentices than you currently need? How would you see this work in practice?

- **Are there any factors which would limit the number of apprentices that you can take on, regardless of your Levy contribution?**
 - PROBE: E.g. recognition of the on-costs of training apprentices, the needs of the business, the capacity to train people, etc.

- **Thinking about all the training that your organisation delivers, do you think that more of this will be delivered under the apprenticeship banner, given the introduction of the Levy?**
 - NOTE TO INTERVIEWER: in other words, is there scope for existing training to become branded as apprenticeships. This could include graduate trainee programmes, existing training activities.
 - IF YES: Will this affect the content of your training? In what way? (PROBE: e.g. it might become accredited, more structured)

- Will other areas of your training be reduced? IF YES: Which aspects of the training? What will be the impact?

Offsetting the levy payment

NOTE TO INTERVIEWER: At this point ask the respondent if there are ways in which they may be able to offset the levy payment in some way. Ask initially open-ended and then prompt with a range of issues

- **Thinking about Value for Money, what would you do to get the most out of your Levy payment?**
PROBE: **Would you do any of the following?**
 - Negotiate with training providers for a lower price for the training that they deliver?
 - Make existing apprenticeships more cost-effective? (e.g. reducing the duration of training)
 - IF YES: How could this be achieved? (e.g. reducing apprentice wages in order to get better economies of scale)
- **Is your organisation a direct grant employer?**
- NOTE TO INTERVIEWER: This is essentially when the employer becomes its own training provider
 - IF NO: Would you consider becoming one?
 - IF YES: Why do you say this? How would this reduce costs?
 - IF NO: Why?
 - IF NO: Do you know what this involves, e.g. Ofsted inspections?
- **Would you work with other local companies or those in your supply chain to club together and increase the efficiency with which apprenticeships are delivered (i.e. to get better economies of scale)?**
- **Would you transfer your apprentices out to other companies or parts of your organisation?**
- NOTE TO INTERVIEWER: In simple terms, would the organisation consider using other local companies with training facilities to train their apprentices, or would they look to use an Apprenticeship Training Agency (ATA) / Group Training Association (GTA) for training?
- An ATA is an employment agency for apprentices. It directly employs and manages individuals who undertake their apprenticeship with an approved training provider whilst being hired out to “host employers”
- A GTA is where employers join together to provide training for their apprenticeships, creating efficiency savings.
 - PROBE: Why do you say this?

- **Thinking about how the levy might affect the way in which you deliver apprenticeships, what is your view about the impact of the levy on the *overall* costs of training, compared to the current system?**
 - Would savings elsewhere in the company might offset the levy payment?
- **Are there any other areas of your organisation which might be affected by the introduction of the Levy?**
 - Would you look to make savings elsewhere in the organisation in order to offset your levy payment?
 - IF YES: What are these likely to be?
- **Are there any other ways in which the costs of the levy might be offset that we haven't discussed?**
- NOTE TO INTERVIEWER: Probe for whether the company would realistically look to reduce its payroll to below £3m – be careful here as a company with a large payroll is unlikely to contemplate this response. Other possible changes include subcontracting certain activities and moving work elsewhere.

How other comparable changes were coped with

NOTE TO INTERVIEWER: At this stage we want the employer to think about how they responded to similar types of change in the past – i.e. one that at first glance seemed to suggest that extra costs were facing the business. Ask the employer if they can think of something and how they managed it. If not, ask them how they managed the introduction of the national minimum wage and subsequent increases, or automatic pension enrolment.

- **For the particular subject ask about:**
 - The initial response of the company
 - How it then worked through the process of thinking about how it would accommodate the additional costs being faced.
 - What changes were implemented? What was the overall impact on the business – positives and negatives?
 - Is there anything from that experience that will affect how the Levy is managed internally?

Overall costs and benefits to the employer

- **Given the various ways in which the levy might affect you, what will be the overall impact on training levels and the number of apprentices that you employ?**
- NOTE TO INTERVIEWER: ask employer to summarise how, thinking about all of the issues that have been discussed, they think the levy will impact on overall volumes of all training and the number of apprentices taken on. Then ask them to summarise the reasons for saying this.

- The aim here is to obtain a sense of how their views change – from the opening ones about their views of the Levy – to their more considered view about how the levy might be introduced to the potential benefit of the company

Confirm if comfortable with all the information discussed being used anonymously.

Yes	1
No	2

NOTE TO INTERVIEWER: Please record in the box below any comments respondents would like removed from the transcript.

Section or reference point	Text/context:

THANK RESPONDENT ON BEHALF OF IFF / IER AND BIS AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.		
Interviewer signature:	Date:	
Finish time:	Interview Length	Mins

A.2 Apprenticeship Levy Discussion Guide - Employers NOT in scope of the levy

Introduction

Introduce self and purpose of the research. Confirm permission to record.

Current apprenticeship provision

- **How many apprentices do you currently employ?**
 - - How does this vary by subject and level?
- **Why do you participate in the apprenticeships programme?**
- **Are you able to retain your apprentices?**
- **What sort of competition do you face from local employers?**
 - - Are any of these large employers?
- **Are any of your apprentices trained by an ATA (Apprenticeship Training Agency) or GTA (Group Training Association), in conjunction with local companies?**
 - NOTE TO INTERVIEWER: An ATA is an employment agency for apprentices. It directly employs and manages individuals who undertake their apprenticeship with an approved training provider whilst being hired out to “host employers”.
 - Group Training Association (GTA) is a not for profit organisation providing support on accessing and managing training for a group of employers to encourage their involvement in apprenticeships. The crucial difference is that an ATA employs the apprentice whereas a GTA just offers training to apprentices who are employed directly by an employer.

Reasons for training apprentices

- **Why do you train apprentices?**
 - NOTE TO INTERVIEWER: Ask this as an open ended question and then probe around it (e.g. the employer prefers to train their own staff, no excess supply locally or either fully experienced workers or just those completing their apprenticeship).
- **Why have you opted for the apprenticeships programme versus some other form of training programme?**
 - NOTE TO INTERVIEWER: Probe around training programmes that include vocational qualifications (e.g. full-time study at a college and HE graduates).
 - Why is an apprenticeship better than any alternative?
- **To what extent would you say that an apprenticeship is value for money?**

- What are the costs versus benefits over the short and long term?

Apprenticeship reform

- **Are you aware of apprenticeship reform?**
 - NOTE TO INTERVIEWER: This is whether employers are aware that they are expected to meet a share of the costs of apprenticeships which are currently met by the government (aka co-investment). These funds go towards training providers.
 - IF NOT AWARE: Explain the likely changes, i.e. that the employer will be able to negotiate the price of their apprenticeship training from their provider, but that they will need to meet a share of the cost that will be matched by the State.
 - This does not necessarily mean that the overall cost to the employer will increase; it depends upon how they negotiate the costs with their training provider and how they can restructure apprenticeship training.
- **What is your view about the likely impact of this on the volume of apprenticeship training that you provide?**
 - NOTE TO INTERVIEWER: Probe for the reasons why

Knowledge of the levy introduction

- **Are you aware of the apprenticeship levy and what do you understand about how it will work?**
 - IF NO / LOW AWARENESS: Explain basic detail and principles of the levy
- **Are there any local employers that require similar types of skills, compared to you, who will need to pay the Levy?**
 - IF YES: In your view, do you think that this will result in these larger local employers training more apprentices?
 - NOTE TO INTERVIEWER: Probe for reasons behind answer.

Potential impact of levy on employer

- **Do you think that the Levy will have any impact on the number of apprentices you take on each year?**
 - NOTE TO INTERVIEWER: Ask this as an open question and ask for reasons why. Then probe around the list of issues below as necessary:
- **If local employers trained more apprentices than they needed (in order to 'get back' the money that they pay as part of the Levy), would this provide you with a pool of potentially experienced workers that you could recruit?**
 - NOTE TO INTERVIEWER: Probe around reasons for answer

- **Again, if other employers trained more apprentices (meaning a great local pool to recruit from), would you reduce the number of apprentices that you train?**
 - NOTE TO INTERVIEWER: Probe around reasons for answer – in particular whether the employer sees benefit of training their own apprentices because of the company value it instils.
 - IF NECESSARY: Remind the employer that the funding rules for non-levy payers are also likely to change
- **Given your knowledge of the sector you operate in locally, do you think there are other employers who currently train apprentices who might consider reducing their apprenticeship programmes if larger employers were training an excess number of apprentices given their own needs?**

Other impacts of the levy

- NOTE TO INTERVIEWER: When asking the questions below, remind (as necessary) the employer that there will be changes to the funding of apprenticeships for non-levy payers as well.
- **If large local employers were to increase the amount of apprenticeship training that they do, would you consider asking them to train your apprentices (either in full or in part)?**
 - NOTE TO INTERVIEWER: the implication here is that the larger employer would have a better range of facilities with which to train apprentices.
- **Would you consider joining in a consortium of larger employers to negotiate with local training providers to get a better price for the training that you require?**

Final comments

- **In summary, how do you think the Levy will affect your approach to training apprentices?**
 - Will it change anything?
 - Why? Why not?
- **Can you summarise your views on how the Levy might affect skills supply in your local area, as a whole, and the sector in which you operate?**
 - Will this be beneficial to you?

Confirm if comfortable with all the information discussed being used anonymously.

Yes	1
No	2

NOTE TO INTERVIEWER: Please record in the box below any comments respondents would like removed from the transcript.

Section or reference point	Text/context:
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THANK RESPONDENT ON BEHALF OF IFF AND BIS AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.		
Interviewer signature:	Date:	
Finish time:	Interview Length	Mins

Annex B: Employer case studies summary

A large number of employer case studies were conducted and analysed in preparing this report. Not every case study is mentioned in the report – vignettes are presented from selected case studies - though the findings are based on the entirety of the case studies undertaken. Table B.1 below provides details of each of the case studies undertaken in this research study.

Table B.1: Summary details of employer case studies

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprenticeships per year	Expected levy payments
Engineering		60	Out-of-scope	Engineering	6	N/A
		180		Engineering; Manufacturing	10-12	£50,000
	Engineering No.4	180		Engineering; Business Admin	4	£12,500
		190	Out-of-scope	Scaffolding	2	N/A
		450		Manufacturing Technician, Master Technician	30-40	£60,000
		450	Non-recurrent	-	-	£150,000
	Engineering No.2	550		Engineering	12	£120,000
	Engineering No.3	750		Maintenance; Engineering; Production	3-4	£150-200,000
	Engineering No.1	1,000+		Vehicle engineers; Vehicle maintenance; Customer Service	25	£260,000
	Engineering No.5	10,000+		Engineering	60	£250,000

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprenticeships per year	Expected levy payment
Construction		56	Out-of-scope	Electrical Installation	20	N/A
		70	Out-of-scope	Painting/Decorating	3	N/A
		70	Out-of-scope	Electrical, Plumbing.	9	N/A
		135		Electrical, Heating and Ventilation	6	£30,000
		240	Non-recurrent	Mainly trades	-	£40,000
		340	Non-recurrent	-	-	£57,600
	Construction No.3	600		Mainly trades	17	£50,000
		800		Mainly finishing Trades; Construction Management; Business Admin	79	£240-250,000
	Construction No.1	900		Mainly trades	55	£350,000
		1,000+		Trade apprenticeships; some management programmes e.g. Quantity Surveying	34	£350,000
		1,200		Trade apprenticeships in Carpentry, Plumbing; Business Admin	45	£170,000
	Construction No.2	3,000		Technical (Engineers, Quantity, Planners, Steel Fixers, Tunnelling, Heavy Trades	80-100	£630,000

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprenticeships per year	Expected levy payment
Financial & Professional Services		50	Out-of-scope	Professional Accounting	1	N/A
		80	Out-of-scope	Business Admin; IT development	9	N/A
		89	Out-of-scope	AAT Level 3 & 4; Business Admin	5	N/A
		115	Out-of-scope	Print finishing NVQ level 2	2	N/A
		153	Non-recurrent	-	-	£40,000
		160	Non-recurrent	-	-	£17,500
		200	Non-recurrent	-	-	£32,000
		360	Non-recurrent	-	-	Don't know
		380		Finance, Customer Service	7	£41,000
	Financial and Professional Services No.1	600	Non-recurrent	-	-	Don't know
		650	Non-recurrent	-	-	£140,00
		820		Chartered Legal	9	£150,000
		850		Finance; Construction; others		Don't know
		900		Certificate of Insurance/ Trailblazer	10-13	£300,000
		1,000-5,000		Procurement, business admin, IT, surveying, animal welfare, facilities, butchery and theatre	90-100	Don't know
		9,000	Non-recurrent	-	-	£1m+

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprentices per year	Expected levy payment
Health & Social Care		50	Out-of-scope	Line Management; Team Leading	3	N/A
		74	Out-of-scope	Health and Social Care	0	N/A
		115	Out-of-scope	Health and Social Care	10	N/A
		200		Business Admin	3	£21,000
		200	Non-recurrent	-	-	£2,500
		279	Non-recurrent	-	-	£15,000
		480	Non-recurrent	-	-	£27,500
		900		Business administration, finance	1 (first apprentice just started)	£70,000
		900	Non-recurrent	-	-	Don't know
		1,000+		Pharmacy technician / business admin	20	£3,000,000
	Health and Social Care No.3	1,000+		Health and social care, business administration, IT, management, and maintenance	80	Don't know
	Health and Social Care No.1	6,000		Health and Social Care	120	£1m
	Health and Social Care No.2	7,500		Health and Social Care, Hospitality, Admin, Customer Services, housekeeping	350	£750,000
		10,000+		Nursing and Business Admin; also some Finance, Catering and Scientific/ Technician	50	£1m+

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprenticeships per year	Expected levy payment
Retail & Customer Service		200	Non-recurrent	-	-	£1,000
	Retail No.4	400	Non-recurrent	-	-	£200,000
	Retail No.3	500		Vehicle Maintenance	1	£150,000
		721	Non-recurrent	-	-	Don't know
		826	Non-recurrent	-	-	£106,000
		1,000	Non-recurrent	-	-	£35,000
		1,500	Non-recurrent	-	-	£95,000
	Retail No.2	10,000+		Retail; Distribution; Warehousing; Digital/IT; Supply Chain Management	2,500+	£1m+
	Retail No.5	10,000+		Retail; Customer Service; Distribution	810	£1m+
		11,000		ATA Technician; Retail; Team Leader; Warehouse and Distribution	1,600	£1m+
	Retail No.1	14,000		Retail; Customer Service; Warehousing; Business Admin	400	£1m+

Sector	Report Case Study no. (where applicable)	No. of Employees	Non-recurrent or Out-of-scope	Apprenticeship Training Provided	Current number of apprenticeships per year	Expected levy payment
Hospitality		60	Out-of-scope	Chef; Food & Beverage Assistant	0 (usually have 1; current apprentice had just left at time of interview)	N/A
		120-200	Non-recurrent	-	0	£15,000
		160	Out-of-scope	Finance; Customer Service	3	N/A
		250		Chef	2	£5,000
		360		Chef; IT	18	Don't know
	Hospitality No.5	400		Chef; Engineering	47	£885-900,000
	Hospitality No.3	1,000+		Food Prep; Front of House; Supervisory Roles; Leadership and Management	64	£50-60,000
		1,000+		Customer Service; Business Admin	Don't know	Don't know
	Hospitality No.2	1,200	Non-recurrent	-	-	£100,000
	Hospitality No.6	1,500		Chef	1	£73,000
		2,500		Vehicle Engineering; Hospitality	8	£165,000
		5,000	Non-recurrent	-	-	£285,000
	Hospitality No.1	7500	Non-recurrent	-	-	£750,000
	Hospitality No.4	45,000		Front of House; Chef	200	£1m+



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