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Employer Routed Funding

Employer Responses to Funding Reform

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The views expressed in this report are the authors' and do not necessarily reflect those of the Department for Business, Innovation and Skills.

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Executive Summary

The Study

The broad aim of the study was to explore how employers' engagement with the Apprenticeship programme would vary depending on how funding is reformed in implementing the recommendations of the Richard Review.

The issues which the study addresses include:

- employers' current views of the training offer including their level of satisfaction with it and their views about the value Apprenticeship confers on their businesses;
- the impact on learner numbers of asking employers to make greater direct financial contributions to the cost of learning;
- employers' reactions to different levels of Government co-investment;
- employers' attitudes towards the routing of Government funding via employers.

In order to explore the issues outlined above, 39 semi-structured interviews were conducted across five industrial sectors: engineering, construction, retailing, hospitality, and financial services. The sectors were selected according to the current cost to both Government and the employer of delivering Apprenticeships. The discussions with employers were focussed on those frameworks which trained people to fill the occupations typically associated with each of the sectors. For example, in construction, the semi-structured interviews concentrated on Apprenticeships in skilled construction trades (bricklaying, carpentry, *etc.*).

Method for exploring employer attitudes to co-investment

The recommendation of the Richard Review is that the price of training delivered by the provider should be set by the market rather than, as at present, by the Government. It is difficult to know what this price will be – it could be lower or higher depending upon the outcome of negotiations between employers and their providers. In order that the discussions with employers were meaningful they were asked to respond to the impact of making a specific level of co-investment. Hypothetical amounts were used in the interviews. These were set at 20 and 50 per cent of the amount currently funded by Government for the particular frameworks under which they trained.

Before summarising attitudes to co-investment, consideration is given to employer engagement in the Apprenticeship system in order to provide a context for the responses provided by employers.

Engagement with Apprenticeships

In explaining attitudes to co-investment employers fell into three groups.

1. Employers providing Apprenticeships principally with the aim of meeting future skill needs and which train mainly young people who were recruited as apprentices. These employers were typically recurrent recruiters of apprentices and saw little alternative to using Apprenticeship because it represented an industry or occupational standard relevant to them. Generally these employers were content that Apprenticeships met their business needs.
2. Employers which were relatively new to Apprenticeships which regarded this form of training as providing the skills their businesses required but their involvement was conditional upon it being better – either with respect to the content and flexibility with which the Apprenticeship was delivered, or its overall cost – than the alternatives which were available.
3. Employers whose engagement with Apprenticeships was oriented towards it being a form of continuing and initial vocational training typically associated with Level 2 Apprenticeships. Their engagement was conditional upon it costing the company relatively little – for example, most of the training was on-the-job so apprentices were productive whilst training. In addition, the employer was often relatively passive insofar as it relied upon their training provider to manage the delivery of Apprenticeships.

These orientations tended to explain employers' responses to co-investment and the impact this would have on their future participation in the programme.

Investment in Apprenticeships

Most employers had become accustomed to an Apprenticeship model where they paid nothing, or relatively little, to the training provider. Although the role of the training provider figured prominently in the delivery of Apprenticeships to employers, their costs were seldom the responsibility of the employer. Although some employers said they paid something to their provider this was often related to meeting the cost of delivering training which was outside the scope of a particular framework. It often, though not always, amounted to a few hundred pounds for each apprentice.

In general, employers were unaware of the amount of public funding their providers received for training each of the apprentices. When asked about how much they would be willing to pay for the training their provider delivered, most employers were unable to suggest a price because this was something that they had never really considered before. Where they were able to provide a price it tended to be much lower than the current level of funding provided by Government. And when presented with the actual amount of funding the providers received they were unable to gauge whether this represented a fair price.

Employers in general were satisfied with the amount of influence they had over the content, structure, and assessment of the training which comprised the Apprenticeship and were not actively looking to increase the amount of influence they had over these features. Many employers, especially those which had a relatively high degree of engagement with the Apprenticeship system, had achieved, over the years, a good fit between the strictures of the Apprenticeship framework and the needs of their business needs

Approaches to Co-investment

If faced with the prospect of co-investing in Apprenticeships at a level equivalent to 20 or 50 per cent of the funding currently provided by Government employers provided a range of views about how this would affect their Apprenticeship programme. In general, at the 20 per cent level, employers thought that at best it would have no impact on their training and at worst it would reduce the number of apprentices they trained. Some employers commented that at this level it may lead them to withdraw from Apprenticeships.

At the 50 per cent level of co-investment, at best there would be a reduction in the number of apprentices trained and at worst it would result in employers withdrawing from Apprenticeships. Many employers said that at 50 per cent they would strategically review their continued involvement in Apprenticeships and explore whether more cost effective options were available.

If faced with co-investing, many employers would look to offset the additional costs this would impose by negotiating down the price the provider may want to charge them. Some would also look to bring more training in-house thereby reducing the role of external providers in the Apprenticeship and in so doing further reduce the price the provider may want to charge. It was not always clear that the costs of bringing more training in-house had been fully worked through by employers.

Factors explaining attitudes to co-investment

The willingness of employers to co-invest was driven in large part by their rationales for investing in Apprenticeships in the first instance and the benefits they saw as being conferred on their businesses as a consequence of doing so. Where employers faced relatively high net costs in delivering Apprenticeships, such as those at Level 3 in engineering and construction, where wage costs and the amount of time spent in off-the-job training are relatively high, these employers tended to be those which were more likely to consider continuing with Apprenticeships even if they were faced with co-investing at the 50 per cent level. This relates, in part, to the fact that the element of funding met by the State in the overall costs of the Apprenticeship - that is, including apprentice wage costs and other costs met by the employer - is proportionately smaller for these programmes when compared to Apprenticeships under other frameworks. Moreover, employers saw little alternative to continuing with Apprenticeships if they were to meet their future skill needs. The costs of not investing in Apprenticeships were likely to be greater than the costs of investing in them even with the requirement to co-invest. At a 50 per cent level of co-investment however, even the resolve of this group to continue investing in Apprenticeships began to weaken somewhat.

A second group of employers, typically those in the finance sector, where there was an alternative to Apprenticeships available to them which involved training solely to pass the relevant professional qualification, were willing to co-invest in Apprenticeships to the level at which the costs of doing so were no greater than the costs of pursuing the equivalent alternative training available. At the 20 per cent level of contribution Apprenticeships were more cost effective, but at a 50 per cent level of co-investment they would be likely to switch to the alternative training programme.

Amongst the group of employers whose involvement was more passive insofar as they heavily relied upon the training provider to guide them and their apprentices through the Apprenticeship, and where the costs of training were relatively low, the willingness to co-invest at any level was weakest. For this group – who were often more likely to be located in the retail and hospitality sectors delivering training to Level 2, a requirement to make a financial contribution to the costs of training would result in them moving their training to a cheaper alternative which may include unaccredited in-house training.

It should be noted that it is not simply a case of construction, engineering and finance employers being willing to co-invest, and retailers and hospitality employers being unwilling to. The key issue is the extent to which the employers recognised the value Apprenticeships conferred on their businesses which was reflected in their willingness to substantially invest in the training of their apprentices. Some retail and hospitality employers fell into this group, too.

Employers' views on employer routed funding

Employers were split on whether or not they wanted funding routed through them. Some welcomed the idea because it would allow them to obtain greater influence over the provider. This was not in order to influence the content, delivery and assessment of Apprenticeships – as noted above most felt they had the influence they wanted - rather it was to ensure that the quality of service provided to the employer was of the standard they wanted.

Other employers were resistant to the idea of funding being routed through them because of concerns over the amount of administration involved, concerns about the complexity of any system which may be introduced, and the risk of reputational damage should something inadvertently go wrong in managing public money.

Final comments

In summary, the tipping point at which employers will substantially reduce their engagement in Apprenticeships lies between 20 and 50 per cent contribution. From the discussion with employers this feels as if it will be nearer 20 than 50 per cent. Where the cap on public funding should be set is difficult to assess since employers had little knowledge of the costs faced by providers and what would constitute a fair price for the services they provide.

Depending upon the level at which co-investment is set this is likely to have an impact on the number of apprentices in two ways. Firstly, by those employers which have relatively modest levels of engagement in Apprenticeships deciding to withdraw from this type of training. Second, as a result of those with relatively high levels of engagement reducing the number of apprentices they recruit each year. It may also result in those employers which provide Apprenticeships as part of their corporate social responsibility to the communities in which they are located no longer doing so.

Two further points need to be made. Firstly, no employers reported that they would cease to train people even if they were minded to no longer participate in Apprenticeships. They would instead shift to some other form of training such as unaccredited in-house training. Secondly, there may be transitional issues in ensuring that employers make a financial contribution through co-investment. Employers may initially be reluctant to engage in co-investment at a given level, but as the costs of not investing in Apprenticeship become apparent they may be more inclined to do so.

Finally, it needs to be borne in mind that these findings are based on a relatively small number of observations and therefore should be regarded as indicative rather than definitive.

1. Introduction

1.1 Background to the study

Identifying who should pay for training, such that investments are optimised, has been the subject of substantial debate in economics since the publication of Becker's seminal work on the subject.[1] From a public policy perspective the concern has been that insufficient or sub-optimal levels of investments have been made by employers and individuals because of various imperfections in the training market. In response, Government has sought to stimulate investments in training by bearing a substantial share of the costs of programmes such as Apprenticeships. In turn this has raised three inter-related questions. First, is the training system sufficiently demand led? The concern here is that the provision of training is sometimes influenced by the availability of public funding rather than meeting either current or future skill needs. Secondly, are the costs of training fairly distributed between employers, learners, and Government? And third, is the level of investment in skills being made by employers, learners, and the State optimal? These are issues which have been addressed, amongst other things, in the Banks Review of Fees and Co-funding[2] in the further education and skills system, published in 2010, and the Richard Review of Apprenticeships published in 2012.[3]

There is now a relatively large amount of evidence which demonstrates that both employers and learners financially benefit from participating in Apprenticeships,[4] employers through, for example, increased productivity and reduced labour turnover, and learners through an increased chance of being in employment and being in receipt of relatively high pay.[5] In recognition of the fact that employers and learners

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1 Becker, G.S. (1964). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*. Chicago, University of Chicago Press; Becker G. S. (1962), 'Investment in Human Capital: A Theoretic Analysis', Journal of Political Economy, Vol. 70(5), pp. 9-49

2 Banks, C. (2010) *Review of Fees and Co-funding*, Department for Business Innovation and Skills

3 Richard, D. (2012) *Richard Review of Apprenticeships*, Department for Business Innovation and Skills

4 National Audit Office (2012) *Adult Apprenticeships*, Report by the Comptroller and Auditor General

5 McIntosh, S. (2007) A *Cost–Benefit Analysis of Apprenticeships and Other Vocational Qualifications*, Department for Business Innovation and Skills; Hogarth, T., Gambin, L., Winterbotham, M., Koerbitz, C., Hasluck, C., Baldauf, B. (2012) *Employer Investment in*

derive a number of benefits from participating in Apprenticeships a relatively long-standing policy aim has been for employers and learners to co-invest in this form of training by meeting a share of their training providers' tuition costs. The Banks Review recommended that where the employer co-invests it should be in the form of a cash payment rather than payment in kind.[6] This would then be the amount which qualified for Government co-funding. Despite there being an intention for employers, in certain instances, to co-fund training, Banks noted that in practice very few did so.[7] The result was sub-optimal investment in skills.

If employers co-invest in vocational education and training by making a financial contribution to their provider then they will only be prepared to co-invest in that training which they regard as contributing value to their businesses. This is a point picked up in the Richard Review. In the consultation on the reform of funding further published by BIS in the light of the Richard Review recommendations, the need for co-investment and the various mechanisms which may be adopted to ensure it takes place were spelled out. It recognises that employers already fund Apprenticeships through the management and support of their apprentices and paying their wages whilst they are outside of the workplace, but it goes on to say that "...by making a direct financial contribution towards training purchased from providers, employers have stronger incentives to demand relevant, high-quality training of good value" (BIS, 2013, p.8).[8]

The suggestion is that the price of training would no longer be set by Government. In future, the price providers charge would be determined by negotiation between providers and employers. Government would fund a proportion of this price – up to a maximum for each apprentice, which is likely to vary by sector – but it is expected that employers will have an incentive to 'shop around' for training which represents the best value for money given that they are paying for a share of it. In this way the balance will be shifted firmly in favour of the employer being an active customer and away from being a passive recipient of training delivered by Government funded providers.

The new funding system has been summarised as follows by BIS:

> At the heart of the reformed system is that employers agree with training providers the content and price of training which helps their Apprentice to reach the industry standard. The government will fund a proportion of this, but only after employers

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Apprenticeships and Workplace Learning: The Fifth Net Benefits to Employers Study, London: Department for Business Innovation and Skills, Research Report 67

6 The Banks Review was concerned with the further education and skills system in general and not just Apprenticeships.

7 Data from the Evaluation of Apprenticeships Employers Survey in 2012 indicated that 11 per cent of employers made a direct cash payment to their providers.

8 BIS (2013) *A Consultation on Funding Reform for Apprenticeships in England*. London: Department for Business Innovation and Skills

> have paid their share. This will ensure that employers have strong incentives to demand high-quality training from providers, holding them to account for delivery, and that providers have strong incentives to respond to businesses' needs. (BIS, 2013, p.8)

The new system is intended to optimise investments in Apprenticeship training. If it works as intended, it should result in training investments being focussed on where most benefit can be obtained. In this way one of the principal goals of the reforms recommended by Richard will be achieved:

> I think it is right the Government contributes to the cost of training and that it should continue to do so. However, I think that the purchasing power for training must lie firmly in the hands of employers. Employers are best placed to judge the quality and relevance of training and demand the highest possible standards from training organisations. To become real consumers of training, employers should have control of Government funding and, also, contribute themselves to the cost of training. The price should be free to respond to and reflect their demand for training. This way, training providers, public and private, will respond first and foremost to the employer's needs; something that is not always in evidence today. This will maximise the value for money from Government investment. (Richard Review, p.12).[9]

1.2 Proposed models for co-investment and employer routed funding

The BIS consultation on funding Apprenticeships suggests three funding models to manage the process of employer routed funding. The description of each model provided below is drawn from the BIS consultation document.[10]

1. **Model 1: Direct Payment Model** – Businesses register Apprentices and report claims for Government funding through a new online system. Government funding is then paid directly into their bank account.
2. **Model 2: PAYE Payment Model** – Businesses register Apprentices through a new online system and then recover Government funding through their PAYE return.

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9 Richard, D. (2012) *Richard Review of Apprenticeships*, Department for Business Innovation and Skills

10 BIS (2013) *A Consultation on Funding Reform for Apprenticeships in England*. London: Department for Business Innovation and Skills

3. **Model 3: Provider Payment Model** – Registered training providers will make claims for Government funding, when they have received the employer's financial contribution.

As noted above, it is assumed that there will be co-investment by employers and Government such that the employer is meeting some of the costs charged by the provider.

1.3 Aim of the Study

The broad aim of the study is to explore how employers' engagement with the Apprenticeship programme would vary depending on the key features of any reformed system – such as the price of training, the Government co-investment rate, the maximum Government contribution per learner and additional recruitment incentives. The study has sought to assess how these may vary by factors such as industry sector, employer size, and age of apprentices.

Issues considered in the study include:

- the employers' current view of the training offer including their level of satisfaction with it, and identification of what employers value about Apprenticeships;
- the likely impact on learner numbers of asking employers to make greater direct financial contributions to the cost of learning;
- employers' reactions to different levels of Government co-investment;
- employers' attitudes towards the routing of Government funding for Apprenticeships via employers.

In exploring the issue of co-investment with employers it should be noted that the aim was also to explore the extent to which the amount of co-investment the employer makes through a cash payment to the training provider would affect their engagement with Apprenticeships. Employers' responses could either be to reduce the number of apprentices they take on, potentially disengaging with the system completely, or they may look to offset the required cash contribution by reducing costs elsewhere. For instance, if the employer were expected to make a cash contribution of, say, £1,000 for each apprentice, this may be offset as a consequence of training being more efficiently delivered such that, for example, the lost productive contribution of the apprentice whilst training is reduced without there being any adverse impact on the quality of training delivered. Co-investment, therefore, is not necessarily synonymous with the overall cost of the Apprenticeship to the employer increasing (or decreasing).

1.4 Method

Semi-structured interviews with employers

In order to explore the issues outlined above, 39 semi-structured interviews were conducted across five industrial sectors. The sectors were selected according to the current cost to both Government and the employer of delivering Apprenticeships:

High cost Apprenticeships:

- engineering
- construction

Intermediate cost Apprenticeships:

- financial services

Low cost Apprenticeships:

- hospitality
- retailing

In the interviews, the focus of discussion was upon what may be considered the core framework, at a subject / sector level, germane to each sector. So in engineering it was an engineering framework and in retailing it was customer service.

The study has also involved five interviews with employers who were not current investors in Apprenticeships to explore whether different funding mechanisms or greater influence would encourage them to invest. These employers were selected from those who expressed an interest in taking on apprentices but had not yet taken on one.[11]

The characteristics of the employers that participated in the study are provided in Annex 1.

The content of the semi-structured interviews

The general approach taken in the interviews was first to explore the value employers said their businesses derived from investing in Apprenticeships. This was designed to frame the context for the discussion. If employers said they placed a high value on the benefits Apprenticeships delivered they would, presumably, be less inclined to provide a knee-jerk response to the questions asked later about how co-investment may affect Apprenticeships in their businesses. They were then

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11 These employers were selected from the Employer Perspectives Survey

asked about how much influence they possessed over various aspects of the Apprenticeships in which they were engaged, such as, the content of training, the way training is delivered, and the assessment process, and, if so, why.

The discussion with employers then turned to funding. First, employers were asked about their knowledge of the current funding system and how much the Government provided to their providers for training each of their apprentices. When told the average amount of Government funding they were then asked their opinion of whether this represented value for money. They were also asked to consider what they would be a fair price for the training delivered by their provider.

Co-investment was then discussed. Employers were asked how they would react if they were asked to co-invest in Apprenticeships. In order to make the discussion meaningful employers were asked how they would respond if required to co-invest to a level which amounted to 20 or 50 per cent, respectively, of the amount currently funded by Government (as a proxy for price under the reformed system). These amounts are hypothetical given that levels of expected co-investment had not been set by Government at the time the research was undertaken. The aim was solely to find out how employers regarded the concept of co-investment where they would be expected to make a financial contribution to the overall cost of training delivered by their providers. Employers were prompted, if necessary, to indicate whether it would reduce the number of apprentices they trained, the level at which they trained them, or whether they would look to find an alternative means of training. They were also asked to consider how they may offset the costs of co-investment by, for example, delivering training more efficiently, reducing the duration of the Apprenticeship, or recruiting better qualified or prepared apprentices. Employers were also asked if they felt they would want or be able to negotiate a better price from their providers. Additionally, they were asked whether obtaining greater influence over various aspects of the Apprenticeship, such as its content, structure and assessment would make co-investment a more attractive proposition.

The interview ended by asking employers for their views about Government funding to providers being routed through them and whether this would increase their purchasing power in the training market.

The semi-structured interview schedule is reproduced in Annex 2.[12]

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[12] The semi-structured interview schedule is essentially a topic guide rather than a formal list of questions to be asked by the researchers in their discussions with employers about how they would respond to changes in the funding of Apprenticeships which would likely require the employer to co-invest.

1.5 Structure of the Report

The remainder of this report is structured as follows. Chapter 2 considers the employers' training decisions and the value they placed on Apprenticeships. Chapter 3 examines initial reactions to the idea of co-investment and what the employer considers to be a fair price for training. Chapter 4 provides a discussion of how employers would react if required to co-invest at a level equivalent to 20 and 50 per cent, respectively, of the current level of Government funding for the frameworks under which they trained. Chapter 5 explores how potential changes in funding would affect employers who currently do not have apprentices but have explored the possibility of taking them on. Finally, Chapter 6 provides an overall conclusion.

2. Employer Approaches to Delivering Apprenticeships

2.1 The value of Apprenticeships

In order to frame the discussion reported on in later chapters, employers were asked about the value Apprenticeships conferred upon their businesses. A working hypothesis was that those employers which could point to substantial business benefits, however defined, deriving from their engagement in Apprenticeships may be more receptive to the idea of co-investment. It is known from previous research that many employers provide Apprenticeships because it most readily delivers the skills their businesses will require over the short-term without which they would face damaging skill shortages.[13] Other employers - often those which make relatively modest investments in Apprenticeships which are more or less recouped over the training period – sometimes provide Apprenticeships more because of the positive impact it has on employee recruitment and retention.

The aim of this chapter is to outline the rationales employers provided for their participation in Apprenticeships. It highlights that employers were seeking different outcomes from their participation in Apprenticeships which was reflected, to some extent, in the way they sought to minimise the risk attached to investing in this form of training. This provides the business context for exploring the issue of co-investment in the next chapter.

2.2 Reasons for investing in Apprenticeships

The interviews with employers revealed several reasons why employers participated in Apprenticeships. It is possible to differentiate between those reasons which are concerned mainly with improving the supply of skills and those which are more to do with minimising the risks attached to investing in training. The main reasons for engaging cited by employers were:

- improving skills supply:
    - meeting current and future skill demand;

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13 Hogarth, T., Gambin, L., Winterbotham, M., Koerbitz, C., Hasluck, C., Baldauf, B. (2012) *Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits to Employers Study*, London: Department for Business Innovation and Skills, Research Report 67

  - improving the quality of recruits capable of acquiring the skills the business needs;
  - provision of relatively high quality training;
- minimising the risk attached to investing in training such that employers obtained the skills they wanted and were able to appropriate the benefits of the training they provided:
  - a preference for developing skills in-house (because in this way there is a degree of control over the delivery and content of training);
  - a means of improving labour retention (a perception that employees are more likely to stay with the employer which trained them);
  - a relatively cost effective means of training (the costs associated with training through Apprenticeships are considered to be lower than those associated with any alternatives).

In addition, several employers also said it was important for their organisation to offer training opportunities, especially to young people, in the areas in which they were located.

While the various categories are not mutually exclusive, employers gave differing emphases to the reasons why they invested in Apprenticeships. For some employers the emphasis was firmly focussed upon being able to secure the skills their businesses would need in the future. In sectors such as engineering and construction employers reported that because of impending retirements their future skill needs were likely to be substantial. There was also recognition across sectors of the need to bring new people into the business who would possess not only the latest skills – as a consequence of completing an Apprenticeship - but who could pass on new techniques and ways of working to existing employees.

Where the principal reason cited by employers was a need to meet future skill demand, this does not in itself explain why they trained through Apprenticeship rather than something else. Employers tended to cite three responses with respect to their preference for Apprenticeships:

1. the quality of training was regarded as being of high quality and met their skill needs better than any alternative;
2. by offering Apprenticeships they were able to attract a better quality of recruit capable of completing the Apprenticeship. This was especially important in sectors such as engineering where completion of the Apprenticeship was regarded as being demanding;

3. a history of delivering Apprenticeships and general satisfaction that it had met the needs of the business in the past and would do so in the future.

It needs to be emphasised that for many employers the attraction of Apprenticeships was the high quality of training it delivered. The quality of training the apprentices received, the skills acquired during Apprenticeships, and that Apprenticeships trained apprentices to an industry standard were important reasons for investing in Apprenticeships. Apprenticeships were also valued for providing broad based training rather than just job-specific training.

All employers wanted to mitigate their exposure to the risks of investing in Apprenticeships. The principal risk for many organisations was that of losing skilled employees once they had completed their Apprenticeships. For some employers Apprenticeships were seen as a way of ‘growing your own’. One employer specifically commented that they can grow their own workforce from the bottom to meet future skill demands. Apprenticeships were seen as giving employers the opportunity to develop the skills of their staff to meet their business needs and train staff in the company way of doing things. But in doing so they were inculcating within the apprentice company values which helped retain employees within the organisation. This was particularly evident in sectors such as engineering and construction where employers were making relatively high financial investments in Apprenticeships. It should also be noted that these organisations offered a variety of other incentives to their apprentices – such as access to further training and career development – which ensured that they were able to retain their apprentices.

In other sectors, especially where Apprenticeships were offered to existing employees, it was seen very much as part of a wider package of human resource development practices which had the benefit of persuading people to stay with the employer. This was evident in sectors with relatively high levels of labour turnover such as hospitality and retail. Apprenticeships were providing new skills to employees but a primary reason for delivering Apprenticeships was also related to managing employee motivation, recruitment and retention. One employer commented that by contributing to the pool of skilled labour within a sector all employers ultimately benefited, so it was less concerned about losing staff, so long as other employers were also training their employees through Apprenticeships.

Apprenticeships were often seen as relatively cost effective compared with the alternatives. Employers providing training under the finance and accountancy frameworks mentioned that it was more cost effective to train under Apprenticeship than the alternatives available (that is, training which was solely concerned with providing the relevant professional qualification required of employees in the financial services sector). Similarly, some employers training under hospitality and retail frameworks mentioned that the costs of training to the employer were relatively modest over the training period. Finally, where companies were paying a training levy in the construction sector, the Apprenticeship was one way they recouped some or all of their levy payment.

The key issue is the relative emphasis given by employers to meeting future skill needs versus mitigating the risks of investing in Apprenticeships. It was apparent, especially in sectors with relatively high levels of labour turnover, where training was typically to Level 2, and where the cost of training to the employer was relatively modest, that the Apprenticeship investment being relatively risk free was relatively more important in making the decision to participate in this form of training. In other words, employers were unwilling to contemplate bearing a substantial net cost at the end of the training period because they were not certain that they would be able to recoup that cost. In other cases, typically those cases where training led to Level 3, the decision to participate in Apprenticeships was weighted more in favour of a need to meet skill needs with recognition that at the end of the training period the employer would face a relatively large net cost of training.

Employers also pointed to it being their corporate social responsibility to provide training opportunities to young people in the communities in which they were located. As one employer commented:

> “Giving young people an opportunity. The CEO and myself are much embedded in that thought; somebody has to give them that opportunity so why not us?”

Some employers, especially larger ones, also pointed out that they actively encouraged people from more disadvantaged groups in the labour market to apply to become apprentices.

2.3 The typical apprentice

The following chapters on co-investment assess the extent to which employers may alter their recruitment of apprentices if faced with making a financial contribution to their providers. Employers, for instance, may decide to increasingly focus their recruitment upon those apprentices who attract relatively high levels of public funding. Alternatively, they may decide to recruit apprentices who are slightly more experienced and who, consequently, they think will be able to complete the Apprenticeship more quickly and thereby reduce the employer’s overall costs of training. In order to provide a context for how employers’ recruitment practices may be affected by co-investment, employers were asked to describe the profile of their typical apprentices.

Employers were asked to describe the typical new apprentice with respect to age on entry and qualifications held / required for entry. The majority of employers typically recruited school leavers or young adults as apprentices. Some, however, sought to employ those aged 18 years or over, for example because candidates of this age were more mature than 16 year olds, to meet regulations relating to supervision of activities, or for health and safety reasons. On balance apprentices were school leavers or young adults.

There were a range of qualifications requirements for apprentices. For some employers no formal qualifications were needed. This was typically the case where employers recruited apprentices from their existing workforces, or felt that personal qualities and enthusiasm were more important than academic qualifications (this was often the case in retailing and hospitality) When qualifications were required they tended to be either GCSEs or A Levels (typically for entry to a Level 3 Apprenticeship). The level and grade of these qualifications varied by employer and in several instances employers required apprentices to pass an internal skills test rather than relying solely on their examination results.

Although for most employers apprentices tended to be young (aged 16 to 24 years of age), there were examples of employers with older apprentices. One retail employer had apprentices of all ages, and for another retailer all apprentices were aged over 40. It recruited apprentices from its existing employees most of whom had only ever worked at the organisation and had learnt on-the-job rather than through completing a formal qualification:

> “They have been here for a considerable amount of time but we thought they were worth bringing on to the next level”

One employer recruited from groups which were under-represented in the construction industry, including women and people from ethnic minorities. The organisation did not have any qualification entry requirements as they thought this would deter the candidates it was targeting. Accordingly their Apprenticeship application form did not collect details about candidates’ qualifications:

> “A lot of companies will ask for ‘A’ Levels, GCSEs. We find that a bit discriminatory. Because we have our own selection process and testing sessions it doesn’t matter if they don’t have any qualifications as long as they meet our criteria and can do the job”.

This employer’s recruitment practices resulted in a varied apprentice cohort including women from ethnic minorities in their 40s, school leavers, and graduates. The respondent commented that a third of their most recently recruited apprentices were women.

The general picture to emerge is that of Level 3 Apprenticeships, especially those in finance, engineering and construction, typically requiring GCSEs and sometimes A-levels to gain access. Those at Level 2, especially in retailing and hospitality, tended to base their recruitment more upon the attributes and enthusiasms of the individual.

2.4 Delivery of Apprenticeships

Employers were asked how their Apprenticeship training was delivered and assessed. In terms of delivery there was an even spread between delivery that was provided all or mainly internally, mainly by an external training provider, or a mix between internal and external training.

A range of types of provision was found. This covered the full spectrum from training delivered entirely on the job to those with significant training off-site via day release. In the majority of cases assessments were carried out on-site either by an internal assessor or by an external assessor visiting the workplace. They either took place at regular intervals (e.g. every six weeks) whilst for others the assessments tended to occur at the end of assignments or on completion of a level / year.

There is evidence of a subtle distinction in the way training was organised. There are employers, typically smaller ones and some of those in retailing, hospitality and finance, where the training provider's role is very much oriented towards managing the Apprenticeship programme. In other words, the employers sit within the overall programme of training which the provider organises or stipulates is to be undertaken. This applies even if much of the training is undertaken on-the-job which it often was within retailing and hospitality. In contrast, in larger firms and some of those in construction and engineering, the provider's role is very much determined by the employer insofar as the employer has a clear idea of what it needs the provider to deliver – usually the off-the-job elements and assessment – and what the company will deliver or organise internally or as additional training to the Apprenticeship. The distinction is perhaps a subtle one but captures the degree to which the employer is more or less an active or passive participant in Apprenticeships. This has implications for the employer's knowledge of the Apprenticeship system and how it is funded.

2.5 Current satisfaction with delivery of Apprenticeships

Employers were asked whether they would like to have more influence over various aspects of Apprenticeships, and if so, which elements and why. On the whole employers were content with the current level of influence they had over the design and delivery of Apprenticeships. Employers were also asked how satisfied they were with the following elements of Apprenticeships:

- the content of training delivered to their apprentices;
- the way in which the training is delivered / structure of training;
- the length of the Apprenticeship / time to complete;

- the way the apprentice is assessed and judged to have completed the Apprenticeship;
- the choice of training provider;
- the quality of training;
- the amount of administration the employer has to deal with.

The majority of employers were satisfied with the content of the training delivered to their apprentices. Where employers were dissatisfied this tended to relate to specific elements of the training, such as not being entirely happy with some of the generic / soft skills training apprentices received, or that the training was too oriented towards passing exams rather than learning skills relevant to the workplace.

Relatively few were dissatisfied with the way training was delivered or the structure of the training. Some specific points mentioned by employers included: feeling that the training providers were sometimes more reactive than proactive in meeting their needs; training providers being located some distance from the business; training providers placing too much emphasis on signing-up of apprentices rather than the delivery of the training; and. training providers not providing the flexibility employers required.

The example below illustrates the way in which some employers, whilst relatively satisfied with the content of Apprenticeships, wanted their providers to be more responsive to the practicalities of running a business; especially so where the local provider had a near monopoly on the supply of training (see panel).

Employer Case Study
Medium Sized Construction Company

The company is somewhat frustrated at the lack of consistency in what is delivered by colleges. For instance, some deliver training one-day a week whilst others deliver it two-days a week. There is also a lack of consistency in the quality / content of the training delivered.

The company discusses the provision of training with the colleges it uses and important issues have been raised with the colleges, such as courses being cancelled at short notice (e.g. on the day when the apprentices turn up at college).

The company has changed providers in the past, but it was usual that the new training provider, in order to meet increased demand, tends to hire the teachers from the old provider. There simply is not much choice in the market. For example, one local college cancelled its course on groundwork with the result that the company had to send its apprentices to the CITB headquarters which proves to be logistically difficult (though it is a good course).

Most employers reported little influence over the duration of the Apprenticeship but a few were concerned by this. One employer commented the Apprenticeship was too short and apprentices needed longer to acquire the theoretical knowledge and then apply it in the workplace. One employer wanted greater flexibility as the amount of time taken to complete each level was dependent on the apprentice. Another had seasonal work and wanted to condense the Apprenticeship within a nine-month period.

Most employers were satisfied with the way in which their apprentices were assessed to have completed the Apprenticeship. Where dissatisfaction was expressed it related to assessments not being sufficiently matched to the specificities of their industry and the job role apprentices would eventually fill. One employer said that apprentices should not be allowed to successfully complete the Apprenticeship if their work within the company was unsatisfactory even if they had performed well at college. Another cited a specific issue in the delay between apprentices completing and receiving their certificates. One employer wanted the assessment to be more challenging for the apprentice and was concerned that there was too much emphasis by the provider on meeting minimum standards.

In the majority of cases, employers were satisfied with the quality of training their apprentices received. In the few instances where they were dissatisfied it related to specific problems. For example, one employer mentioned that the training provider added too many ‘bolt-ons’ to the Apprenticeship that were inconvenient to deliver and were of little value to the apprentice or the employer.

Given the high levels of satisfaction few employers suggested changes to the way in which Apprenticeship were delivered. Where they had ideas for change these included:

- greater feedback from training providers to Apprentices’ line managers; and
- apprentices to receive joint messages from both their organisation and training provider.

For some employers the changes mentioned were relatively small scale, such as providing more feedback to apprentices’ line managers during the assessment process. One employer highlighted the need for apprentices to receive messages jointly agreed by the workplace and training provider to give apprentices a clear view of what was expected of them.

A large construction company said that while it was a good idea for employers to have a say over matters such as content and delivery of Apprenticeships, this could go too far. The key issue was the credibility of the final qualification and Apprenticeship. If there was too much variation across Apprenticeships in the same industry it would undermine the credibility of the Apprenticeship and employers would be unsure of the skills possessed by any potential recruit. The current way in which standards were agreed in the construction industry via the CITB was considered satisfactory by this employer.

In general, most employers felt that they had the influence they wanted over Apprenticeships.

2.6 Knowledge of the skills funding system

In most cases employers worked with training providers to deliver their Apprenticeship training though there were two examples of employers which were accredited as training providers. In general, the degree of involvement with training providers varied along the following lines:

1. where the training provider was responsible for the delivery of all training including that delivered in the workplace and outside (if relevant) and the on-the-job and off-the-job elements;
2. where the training provider's role was more oriented towards the administration of the Apprenticeship rather than delivering training (for instance, assisting with recruitment, obtaining funding, undertaking assessments, and so on);
3. a mixed approach which often resulted in the training provider delivering the off-the-job elements of training and the employer being more responsible for the on-the-job elements.

The relationship between the employer and the training provider is important since it helps explain the extent to which the employer is knowledgeable about the Apprenticeship system and how it is funded. For some employers, the skills funding system was a black box, the details of which were managed by their training provider. These were often smaller employers and those with little history of Apprenticeship training. For this group of employers the benefits to be derived from obtaining more information about the current skills funding system was outweighed by the cost of obtaining it In contrast, other employers, many of which had a long history of Apprenticeship training, had more detailed knowledge of the training system and the employer and training provider's role within it.

An example of the former type of approach is illustrated in the panel below. In this example the company felt that it did not have sufficient resource to become more involved in the process of delivering Apprenticeships *(see panel)*.

Employer Case Study
Large hospitality employer

The company is a hotel chain with several sites spread across the UK. It has around 100 apprentices currently spread across a number of sites mainly undertaking Level 2 Apprenticeships in front of house and kitchen roles.

At the moment, all of the Apprenticeship training takes place within the workplace. The training providers recruit the apprentices, deliver the functional skills and assess whether they have achieved the Diploma and the Technical Certificate on-site. Much of the training is delivered on-the-job by hotel staff but the assessment is carried out by the training provider, also on site.

The company has considered becoming its own training provider, but if it were to do so it would still need to buy in services from an external training provider because they do not have the infrastructure or resources to deliver the functional skills or undertake assessments. In general, the employer had decided to remain with the current form of provision because it reduced the costs of becoming more actively involved in the process of delivering Apprenticeships, though it had considered the option of becoming more involved.

This may be contrasted with other larger employers in the engineering sector where the example outlined in the panel below is more typical *(see panel)*.

Employer Case Study
Manufacturing Establishment

The company is a medium sized engineering company which produces a range of hi-tech safety products. It currently has 25 apprentices working towards completion of a Level 3 engineering and manufacturing apprenticeship.

The company undertakes its own recruitment of apprentices. It has, from time to time, sampled the market for training providers so that it is able to obtain as good a fit as possible between the company's skill needs and the delivery of the Apprenticeship. To this end it has been able to find a provider which has been willing to tailor the delivery of training to the company's needs. The company has an in-depth knowledge of the framework under which its apprentices are training.

The company maintains a high level of communication with the provider to ensure that its apprentices are developing appropriately and performing to the standards the company insists upon. It is conscious of the need to monitor the performance and the behaviour of its recruits when they are on day release. The company also funds an additional year of training itself because it feels that its apprentices need that level of training before they are fully trained workers.

The key distinction is perhaps that where the employer operates within the training provider's envelope (that is, the employer is relatively dependent upon the provider) and that where the provider operates within the envelope of the employer (that is, the provider is directed more by the employer). The level of engagement with the skills system is important since this affects employer capacity to understand how they may behave within a new funding environment. In the first example above there were concerns about how they would capture the expertise to operate in a system where the employer was expected to negotiate with training providers. In the second example, the concerns were more to do with how to maintain the existing volume of training undertaken.

2.7 Types of employer engagement

As noted above, previous research has demonstrated the principal reasons why employers participate in Apprenticeships.[14]. This may be seen as a continuum. At one pole there are employers which use Apprenticeship as their principal means of meeting future skill needs mainly at an intermediate level and report that there is no alternative form of training available which will equip their apprentices with the skills required. At the other pole, there are employers which use Apprenticeship mainly as a means of improving the quality of their recruitment or as a means of retaining existing employees by registering them as apprentices. The emphasis here is less upon the provision of training and more upon Apprenticeship as a human resource management tool for controlling recruitment and retention.

On the basis of the information provided above, there appear to be distinctive types of employers engaged in Apprenticeship. This may be summarised as follows.

1. Employers providing Apprenticeships principally with the aim of meeting future skill needs and which train mainly young people who were recruited as apprentices. These employers were typically recurrent recruiters of apprentices and saw little alternative to using Apprenticeship training because it represented an industry or occupational standard relevant to them. Generally these employers were content that Apprenticeships met their business needs. In general, these employers were clear about what they wanted their providers to deliver.

2. Employers which were relatively new to Apprenticeships which regarded this form of training as providing the skills their businesses required but their involvement was conditional upon it being better – either with respect to the content and flexibility with which the Apprenticeship was delivered, or its overall cost – than the alternatives which were available.

3. Employers whose engagement with Apprenticeships was oriented towards it being a form of both continuing and initial vocational training typically associated with Level 2 Apprenticeships. Their engagement was conditional upon it costing the company relatively little – for example, most of the training was on-the-job so apprentices were productive whilst training. In addition, the

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14 Winterbotham, M., Vivian, D., Skone-James, A., Gambin, L., and Hogarth, T. (2012) *Evaluation of Apprenticeships: Employers*. London: Department for Business Innovation and Skills, Research Report 75

employer was often relatively passive insofar as they relied upon their training provider to manage the delivery of Apprenticeships.

The first type of Apprenticeship is associated with engineering and construction though there are also cases of training leading to being a chef in the hospitality sector and examples in retailing too, being associated with this type of approach. The example below illustrates a typical example of this type of employer (see panel).

Employer Case Study
Large manufacturing employer

The company has offered Apprenticeships since the early 2000s and since then has been a recurrent recruiter of apprentices. They take on between four and six apprentices a year who work towards completion of an engineering Apprenticeship, all starting at Level 2 and progressing to Level 3. Those apprentices who are considered exceptional will also undertake some Level 4 units in mathematics and science and may progress to the Foundation Degree. All apprentices are aged 16-18 years at recruitment (most are 16 years old). The company's usual entry requirements are a minimum of 5 GCSEs, including maths and a science at grade C or above.

The company provides all of its Apprenticeship training in-house having obtained accreditation as a training provider several years ago at its own training centre. They also employed their own qualified teaching staff who provided training and assessment. The apprentices start with a week's induction programme followed by training in the company training centre three days a week.

Before they set up their own training facility, the company sent its apprentices to a local college, but the college could not keep up with the technology required by the business. In addition, colleges can only offer a limited set of units which do not match the company's requirements. The respondent commented. "To be honest, it was a no-brainer to bring it in-house, to have six lads in this centre having one-to-one tuition and… to walk over to the factory and build the training around it, and of course we tailor the units within the framework to meet the requirements of what we do here". As the programme is delivered by the company in accord with the Apprenticeship Framework, the company has a great deal of influence over many aspects of the Apprenticeships.

Several of the employers training under the finance and accountancy frameworks fell into the second category. The example below is typical of this type of approach *(see panel)*.

Employer case study
Large financial services organisation

This large company trains employees under an accountancy Apprenticeship up to Level 4. They currently have two apprentices. This is the first time in a number of years that they have taken on accountancy apprentices; usually they trained existing staff to a comparable level but not through Apprenticeship. The main reason the employer offered accountancy Apprenticeships was financial. Without State funding they would be able to train to the same number of accountants but they would have fewer trainees overall because they would be unable to afford business administration and IT apprentices.

The company recognised that the Apprenticeship delivered the skills the business needed. The apprenticeship in accountancy helps to achieve various business goals: being cost effective; offsetting the emergence of potentially difficult to fill vacancies; and allowing the company to make a contribution to the local community by providing training to young people.

In general, the employer was satisfied with the framework – both its structure and content. It meets their needs and fits around the operation of the business. Whilst the employer does not currently pay any fees to the training provider for the Apprenticeship, before taking up the Apprenticeship they paid around £600 a year in fees to a training company to deliver the AAT qualification. In general, the company's participation in Apprenticeship was conditional upon it being relatively more cost-effective than this alternative.

The final type of employer was relatively more common in the retailing and hospitality sectors – though not exclusively – with training leading mainly to Level 2.

Employer Case Study
Medium sized hotel

The hotel is a mid-range hotel with a golf course. Apprentices are training under the 'Customer Service' framework which was of one year duration (Level 2), or 18 months duration (Level 3), although apprentices could complete more quickly if they were capable. There are 10 apprentices at the establishment, of these seven were at Level 2. There were no apprentices aged 16-18 years; five are aged 19-24 years and five are 25 plus years of age. All apprentices are existing employees.

The business does not appear to have formal or fixed recruitment criterion, but, instead, assesses recruits in terms of attitude and motivation. All new recruits to the hotel are taken on in a probationary position and this is part of the recruitment process with unsuitable recruits weeded out at the end of the probation period. After the probation period is complete the individual may be eligible to commence an Apprenticeship.

The age profile of apprentices (lack of 16-18 year olds) is the result of two factors. First, because of its location it is difficult for young people to come to work unless they can drive or have parents willing to deliver and collect them (and the working hours tends to discourage this). Second, the hotel employs a number of young people on a part-time basis but they are normally in full-time education (school or college) and thus ineligible for an Apprenticeship. It was stated that the level of Apprenticeship funding for different age groups is not a factor in deciding who starts an Apprenticeship.

All training is delivered at the hotel by an external training provider. The same training provider also provides assessment. The hotel actually has a number of staff trained as assessors from the time when the business delivered its own training but it now relies on the training provider to undertake assessments and organise training in-house. In the past the business used to conduct its own trainee assessments. The respondent felt that this was better than the current situation as the business was able to influence the content of training and the way it was assessed.

Apprenticeships were offered because they provide a recognised qualification but also because they provided a broader 'under pinning' of knowledge as part of the NVQ that would not be obtained just from training 'on the job'. Many recruits had no qualifications and the Apprenticeship offer was attractive to them and, accordingly, this helped with recruitment and retention.

2.8 Conclusion

The aim of the chapter has been to outline the different ways in which employers approached and delivered Apprenticeships and how this may influence their approaches to co-investment. It highlights the way in which some employers were more engaged than others in the Apprenticeship system reflected in the extent to which they relied upon the provider to deliver what the company required. It also highlights that employers were seeking different outcomes from their participation in Apprenticeships which was reflected, to some extent, in the way they sought to minimise the attendant risks from investing in Apprenticeships. These are the reference points from which employers responded to the ideas of co-investment which are explored in the next chapter.

3. Initial Reactions to Concept of Increased Co-investment

3.1 Introduction

In the previous chapter a description was provided of the reasons why employers participate in Apprenticeships and the nature of their engagement in this form of training. Employers' engagement was classified with reference to:

1. recurrent investors in Apprenticeships who were knowledgeable about the skills system and were generally content with the delivery of training. Many of these employers were delivering Apprenticeships at Level 3 and reported that given their skill needs there was no alternative to participating in Apprenticeships;
2. employers who valued the benefits Apprenticeships conferred on their businesses but their engagement was dependent upon it being a better form of training than the alternatives available to them however that may be defined;
3. employers whose engagement in Apprenticeships was more tenuous than other employers insofar as their participation was dependent upon the cost of training being relatively modest. In general this group of employers were relatively dependent upon the training provider to guide the employer through the Apprenticeship.

The nature of employer engagement in Apprenticeships provided the reference points which shaped their responses to co-investment. In this chapter, employers' initial views on co-investment are explored. It considers the following issues:

- whether employers currently make a financial contribution to their provider;
- employer knowledge of the current level of State funding for Apprenticeships;
- how much they would be willing to co-invest in Apprenticeships and the impact of co-investment on the training they provide.

The chapter is designed to provide an initial assessment of employer's views about co-investment before considering in the next chapter how they would respond if faced with a requirement to make a contribution of a certain value to their providers.

3.2 Current financial contributions to Apprenticeship training

Reforms introduced to the funding of Apprenticeships over a number of years have sought to obtain a contribution from the employer to the costs of the Apprenticeship currently met by Government. Typically, a 50 per cent employer contribution is required where the apprentice is aged 19 years or over when they commence a Level 3 Apprenticeship, and a 100 per cent contribution where the apprentice is aged over 24 years on starting their training. Over 24s can take out a loan to cover the State funded part of training with an expectation for employers to contribute the remainder.

Relatively few employers interviewed were paying their training provider for their Apprenticeship training even though some of their apprentices were not eligible for full funding. Where they were paying for the Apprenticeship two types of payment were evident:

1. paying a supplement to cover the costs of apprentices aged over 24 years;
2. paying for the delivery of additional elements of training which the employer required in order for the employee to be fully trained but which fell outside of the Apprenticeship framework.

A large engineering employer was paying around £2,800 on average for each of its Level 3 engineering apprentices because some were aged 19 years or over at the start of the training. The employer pointed out that: "From our point of view, the older apprentices are preferable, but I am conscious that there have been times when it has been desirable to recruit under-19s." The employer's training provider, a local FE college, would alert the employer to any funding issues and the amount that they would need to pay per type of apprentice. At £2,800, on average, this was not considered a problem, though if cost became an issue for the company they would begin to shop around training providers to see if a better deal was available.

There were examples where employers had a mix of apprentices by age, some of who were not eligible for funding or full funding, but they had successfully negotiated with their training provider to train all of their apprentices without a payment being made by the employer. The training provider in so doing would thereby reduce their unit cost of training and accept a lower margin. A retailer, for instance, which had a requirement for a relatively high number of apprentices to be trained each year, had managed to negotiate such an arrangement with its training provider.

The other types of payment which were made by the employer related to providing training over and above that required by the Apprenticeship. One of the manufacturing companies was typical in this regard (see panel).

Employer Case Study
Manufacturing establishment

The company has, on average, recruited around three apprentices a year over the recent past. The apprentices work towards completion of a manufacturing and operations framework at Level 3 and will gain an ONC in doing so. The company feels that this is insufficient for its needs and funds an extra year of training leading to the award of an HNC. This is to ensure that the apprentices have the skills which they will be expected to use in their day-to-day jobs.

The cost of funding the HNC element of the Apprenticeship is around £10,000 in course costs – and this cost has recently substantially increased – plus wage costs whilst the apprentices are on day-release one day a week for a year.

The amount mentioned in the above example was relatively high compared with other employers where costs were more often in the hundreds of pounds for additional training related to health and safety or something specific to the needs of the company and the industry in which it operated.

The relationship between the provider and the employer varied quite considerably. Some employers tested the training market from time to time to see if they could obtain, in their view, improved delivery. In some cases employers pointed out that there was little choice locally and they were reluctant to send their apprentices to train at a distance and so they were presented with Hobson's choice. In other cases, employers had developed, over many years, a close relationship with a training provider which delivered the training they wanted in the way they wanted, and they were reluctant to change providers.

In the few examples where employers were making a contribution to the cost of the Apprenticeship, they considered the price they were paying to be fair. In the example of a manufacturing employer which was paying an average of £2,800 per apprentice over the course of the entire Apprenticeship, the employer commented that he thought it was reasonable value: "I don't think that I have ever had a finance person come to me and say, 'Look, these Apprenticeships are too expensive' I don't think that as a business the amount we pay for apprentices is a big factor." It should be pointed out that at £2,800 this was much lower than the full amount which is nearer to £14,000 for each apprentice over the course of the three year Apprenticeship. The full cost here refers to the amount of funding provided to the training provider by the State. This varies according to age of the apprentice but £14,000 approximates the average cost for those apprentices aged 16 – 19 years of age on commencement of their Apprenticeship in engineering.

3.3 Employer knowledge of the State's contribution to training costs

All the respondents were aware that the State contributed to the cost of Apprenticeships by funding the training provider, but few knew, even in broad terms, the level of that contribution.

When employers were told how much, on average, the State contributed to the overall cost of the Apprenticeship, few commented that the amount seemed high or low. The reason for this was that they were largely unaware of the operational costs their providers faced in delivering training. A medium sized employer delivering engineering apprentices at Levels 2 and 3, when told that the provider received around £14,000 for each of their apprentices, seemed surprised but then commented: "To be fair, colleges are not cheap things to run and you've got to pay the lecturers and all the rest of it". Another employer, when told that its training provider received around £14,000 for training leading to completion of a Level 3 construction Apprenticeship, seemed genuinely surprised at the amount. Even accepting that the provider did a good job, it seemed a lot for the amount of time the apprentice actually spent with the provider. At a hospitality organisation, the respondent was aware of the funding training providers received having looked at them as part of a direct grant application process. The employer said that in comparison to University provision, the costs appeared quite high, but felt that this was "not unreasonable" so as long as what the training providers delivered was to a high standard and not just "the bare minimum".

In general, employers were unaware of the extent to which their training providers were funded by the State. They were generally aware of who was eligible to be in receipt of publicly funded training from the provider - employers were aware that those aged over 24 years at the start of the their training were ineligible for funding - but this was often the extent of their knowledge.

It needs to be reiterated that most employers did not know the extent to which the training provider was funded and could not comment, when told how much they received, whether this was a fair price.

3.4 Employers' initial views on co-investment

Employers were asked how much they would be prepared to pay for the Apprenticeship training they obtained from their provider. Again most employers were unable to say how much they would be prepared to pay because they had little conception of how providers' justified their prices. A few employers, however, ventured an estimate and, in all cases, the amount was considerably lower than the amount currently paid by the State (see Table 3.1).

Table 3.1: Amount employers prepared to pay

Employer	Framework	Amount prepared to pay	Estimate of current State funding	% of cost employer prepared to pay
Employer No.1	Hospitality L2 and L3	£1,500	£4,950	30
Employer No.2	Accountancy L2 and L3	£2,400	£5,800	41
Employer No.3	Engineering L2 and L3	£2,000	£14,300	14
Employer No.6	Hospitality L3	£1,600	£2,950	54
Employer No.8	Engineering L2 and L3	£2,800	£14,300	20
Employer No.14	Accountancy L2 and L3	Would be prepared to pay full amount – whatever that might be - depending on quality of candidate	£5,800	
Employer No.18	Construction L2 and L3	£500	£13,475	4
Employer No.29	Construction L2 and L3	£600	13,475	45

As can be seen, the amount employers may be prepared to pay is relatively low compared with the actual amounts paid to the training provider. It also shows that there is substantial variation with respect to the percentage of the overall costs employers would be willing to co-invest. It needs however, to be reiterated that employers found it exceedingly difficult, even where they were relatively knowledgeable about the skills system, to estimate how much would be a reasonable or fair price to pay for the training delivered by their training providers.

In general, employers were perplexed when it came to considering what might be a fair price and most were unable to provide a figure for how much they considered the training to be worth. This stemmed in large part from the fact that they had no history of paying for training and therefore nothing to compare it against. Where employers were able to give an indication of how much they would be prepared to pay per apprentice, they were asked if they were required to pay this amount, what would be the impact on Apprenticeship training at their workplaces. Most responded that it would be difficult to justify further expenditure on training and that they may need to review their current level of provision. There were three factors which employers drew attention to in their reluctance to pick up more of the cost of training:

1. the current economic climate resulted in all expenditure being closely scrutinised and it would be difficult to justify increased spending on training;
2. the company was already contributing to the cost of training either by making payments to the provider or through the levy system (either CITB or ECITB);
3. there were potentially cheaper alternatives to delivering training through Apprenticeships which could be taken up.

In relation to the first point one employer, a large engineering company, commented:

> “I can’t answer that question very easily. In our current climate, if you look at the finances of our business…the company hasn’t hit its financial targets in the last two years. I think they would be very upset at having to pay out yet more money. I think that [parent company] would be prepared to pay more, but how much more is difficult to predict.”

Construction and engineering construction companies reported that they were already paying a training levy, and in some instances, they were also paying for additional modules of training in order to meet their specific production needs. So any additional costs resulting from co-investment may result in the overall cost of Apprenticeships becoming overly expensive. The example below, from a large engineering company, is typical of this viewpoint:

> “We are already paying out a lot on top of that as well because that is just the framework ... Last year for the first years we paid £2,000 out and the second year £1,500, so we are up to £3,500 and by the time they do their HNCs... for us to do what we are doing now would be costing us [quite a lot] more per apprentice. I’m not saying we wouldn’t do it but we would look more at it. In the overall scheme of things, when you look at salaries and everything else, if you took all [funding] away I’m not saying it would stop us doing it but... with a salary of £13,000 for a first year apprentice and second year £15,000 so they are probably costing us £45,000 in salary [over three years] and another £20,000 on top of that in getting them through an Apprenticeship, so £65,000 to get them through an Apprenticeship. They are obviously producing as well so it is not all a cost”

Finally, some employers, such as those in the finance sector, recognised that there were alternatives to Apprenticeships available which would allow them to train their trainees to whatever level they required. A medium sized financial company, training accountants, where the subsidy to the provider was, on average, £5,800, made the following comment:

> "We would look at how much it would cost us to fund it directly ourselves which is [around £2,500] so anything less than that we are still winning ...I think if we were having to contribute more than a thousand pounds a year [or £3,000 over the apprenticeship] we would stop recruiting ... paying £3,000, it wouldn't be prohibitive"

Another medium sized financial services company was of the view that if they had to pay more to train accountants using the Apprenticeship route it would not have much impact on numbers. In general, the company recognised the importance of Apprenticeships in accountancy and the company felt they could recoup the costs later on when the apprentice had qualified. But if it had to co-invest it would probably transfer funding away from Apprenticeships delivered to non-core occupations such as IT and business administration.

In the retailing and hospitality sectors where most training was to Level 2, employers were the most sceptical about co-investment. A large hospitality company, for example, was already looking to see if stand-alone NVQs may be a cheaper, more effective alternative to Apprenticeships. A large retailer said that it already had an in-house training programme which it may make greater use of if the cost of delivering Apprenticeships became prohibitively high. Not all employers in retailing and hospitality fell into this category. There were examples at Level 2 in sectors such as retailing where co-investment was not seen as a barrier mainly because Apprenticeships were seen as more effectively meeting the employer's demand for skills than the alternatives available.

3.5 Conclusion

In the previous chapter a distinction was made between three different types of employer reflecting their degree of engagement in Apprenticeships. The responses of employers to co-investment varied according to this categorisation.

It is noteworthy that few, if any, of the employers had been required to date to make a business case for taking on apprentices which involved making a contribution to the training provider. There had been an acceptance that the provider would be publicly funded. So when asked if they would be willing to co-invest, or how much they would be willing to co-invest, the employers were in the dark to a considerable degree. Moreover, they had no way of determining what level of co-investment would be acceptable to senior management. One employer pointed out that because you are making decisions about the future, and at present you have no vacancies which are proving difficult to fill, it could be difficult to justify to senior management the need for co-investment.

Employers which had a long history of engaging in Apprenticeships were of a mind that if they were to be expected to co-invest, this is something they would just have to bear given the lack of alternatives to Apprenticeship training. They would, however, need to find some way of offsetting the cost. Where employers felt they had an alternative to Apprenticeship training, they would need to consider whether an Apprenticeship still constituted the most cost effective means of training. But where the degree of attachment to Apprenticeships was less well developed, and where the training provider bore much of the responsibility for organising and delivering training, employers were perhaps least prepared to consider co-investment.

In general employers struggled to conceive what would be a fair price for training which had been previously fully funded by Government. In general there was a lack of knowledge across all employers about how much Government contributes to the cost of Apprenticeship training.

4. Responses to a hypothetical 20 and 50 per cent level of co-investment

4.1 Introduction

The previous chapter explored employers' initial reactions to the concept of co-investment by considering how much they would be willing to contribute to the cost of training delivered by their training providers. In general, employers did not know how much public funding their provider received for training their apprentices and they had difficulty in assessing whether the amount provided represented value for money.

In order to pursue the issue of co-investment in greater detail it was decided to use hypothetical levels of co-investment based on the employer contributing a percentage of the current level of public funding per apprentice for the Apprenticeship framework relevant to their organisation. This was set at 20 and 50 per cent respectively. This gives the employer the opportunity to consider whether it would be willing to co-invest at a given financial level. Table 4.1 shows the amounts the employer may be expected to contribute at each level of co-investment depending upon the framework under which they trained. It needs to be reiterated that these amounts are hypothetical. At present public policy has not indicated the level of co-investment required from employers, only that co-investment should be part of the reformed Apprenticeship funding system.

It should be noted that following the Richard Review the price of training delivered by a provider may rise or fall. If employers require more demanding training than that currently delivered under a framework, then this may push up the price of training. If, on the other hand, employers are able to increase their purchasing power the price of training may fall. Given the uncertainty attached to the future price of training it is reasonable to use the current price of training under various frameworks as the basis for discussing co-investment with employers. It is also reasonable to assume that employers will have to make a direct financial contribution to the provider equal to a proportion of the overall price with the remainder met by Government subject to a cap on the maximum amount the State is prepared to contribute per apprentice.

Table 4.1 Hypothetical levels of co-investment from employers

	20 per cent contribution				50 per cent contribution		
Subjects / grouped frameworks	Level 2	Level 3	Level 2 + 3		Level 2	Level 3	Level 2 + 3
Engineering and Manufacturing Technologies	£860	£2,000	£2,860		£2,150	£5,000	£7,150
Construction, Planning and the Built Environment	£1,225	£1,470	£2,695		£3,063	£3,675	£6,738
Retail and Commercial Enterprise	£330	£370	£700		£825	£925	£1,750
Leisure, Travel and Tourism	£400	£590	£990		£1,000	£1,475	£2,475
Financial Services	£500	£660	£1,160		£1,250	£1,650	£2,900

The chapter starts by looking at what employers say they would do if faced with co-investing at the levels specified in Table 4.1. It then looks at how the employer would seek to offset any increase including through negotiating a price for training with the provider. It considers whether there would be any likely change in the volume of Apprenticeship training and the extent to which, according to the level of any co-investment, employers may look to alternatives to Apprenticeship training. Finally, the chapter considers what impact routing funding through the employer would have on the delivery of Apprenticeships.

4.2 Employer reactions to making a 20 or 50 per cent level of co-investment

Employers were asked how they would respond if they made a level of co-investment as detailed in Table 4.1.[15] It was explained to respondents that they would be in a position to negotiate the price of the training delivered by the provider such that the 20 or 50 per cent level of contribution may be lower (or potentially higher) depending upon the price they agreed with providers. They were also asked if the cost of co-investment could be offset by, for example, reducing the duration of the Apprenticeship or ensuring that apprentices were more productive during their training.

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15 Employers were split into two groups: (i) those who were asked about the 20 per cent contribution firsts and then whether they would co-invest at the 50 per cent level; and (ii) those who were asked about the 50 per cent contribution first and then the 20 per cent.

Employers responded that if they were required to make a 20 per cent contribution then this would, at best, have no impact on their current provision of Apprenticeships or, at worst, possibly lead to a proportionate decrease in the number of apprentices. A small number of employers indicated that they may withdraw from Apprenticeship training if co-investment was set at this level. If employers were expected to make a 50 per cent contribution then this would, in many cases, at best, result in a reduction in the number of apprentices and, at worst, lead to a strategic review of their participation in Apprenticeships which would in many instances result in the employer withdrawing wholly from their provision. This point is illustrated below with reference to an employer which thought co-investment at the 20 per cent level may lead to a reduction in the number of apprentices, but co-investment at the 50 per cent level could possibly result in withdrawal from Apprenticeship training.

When asked about the possibility of making a 20 per cent level of co-investment the employer, a medium sized engineering establishment with two engineering apprentices, said that it was important for the company to break even on training apprentices over the four year training period. If they were to make an increased contribution to the costs of the Apprenticeship they would probably need to reduce the number of apprentices:

> "I would hesitate to say none because then we don't have these young people through our business that we need. So I would like to think that we still could afford to do one but it might be one every other year".

But when the possibility of a 50 per cent contribution was mentioned, the employer said:

> "Oooh, at that point, I think we probably won't do Apprenticeships, because this takes it from a break even situation to where we are actually losing money on it".

It should be noted that this employer was already making a contribution to the costs of training older apprentices.

The employer was keen to point out that they would not stop training and would probably take on trainees and offer to train them only in the qualification that they currently obtain through an Apprenticeship. Whether public funding would be available for them to do this is a moot point.

There were, however, a number of employers who said that a 20 cent contribution – and in a few instances a 50 per cent contribution - would not have much of an impact on their provision of Apprenticeships. Several employers pointed out that they trained because of a demand for skilled labour in their organisation and they recognised that whilst there were up-front costs attached to training those individuals, there were longer-term benefits to be obtained. A finance company which subscribed to this view also commented that even at a 50 per cent contribution it may still be cheaper than the non-subsidised alternative.

The views expressed above represent very much initial responses. Employers were asked how any potential requirement to co-invest may be offset by persuading their providers to lower the price of training or reorganising the provision of training such that any additional payment to the provider was defrayed to some extent. The general picture to emerge was that employers felt there was some scope to offset any additional costs, especially at the 20 per cent level, but much less so at the 50 per cent level because, at this level of potential co-investment, there would need to be a strategic review of training possibly undertaken at higher levels within the organisation (such as by the CEO).

4.3 Factors explaining employers' responses

There were some differences between frameworks and levels. Employers in manufacturing, engineering and finance were more likely to say that contributions to the cost of training would either: (a) not have an impact on their training programmes; or (b) would reduce the number of apprentices trained rather than lead to the organisation abandoning Apprenticeships altogether. These employers were also more likely to be delivering Level 3 Apprenticeships. In contrast, employers in retailing and hospitality were more likely to say that they would either reduce the number of apprentices they trained or abandon Apprenticeships altogether. There were, however, retailers who said they would continue with Apprenticeships and engineering and construction employers who may decide to pursue an alternative to Apprenticeships at the 50 per cent level.

A number of factors explain employers' responses to meeting additional costs:

1. the principal reasons for taking on apprentices;
2. the external business environment; and
3. the business case used to justify taking on apprentices.

As discussed in Chapter 2, employers tended to cite a number of reasons why they recruited apprentices relating to: meeting a future demand for skilled labour; a preference for developing skills in-house rather than recruiting from the external labour market; the quality of training delivered through Apprenticeships; and corporate social responsibility. Some employers also mentioned that Apprenticeships were a useful tool in assisting with recruitment and retention, especially where Apprenticeships were being delivered to existing employees, and were largely cost-effective insofar as the costs were more or less balanced by the benefits over the training period.

In general, where the reason for participating in Apprenticeship was one of meeting future skill needs, employers tended to recognise that this form of training was of a high quality and allowed the company to have a high degree of influence in shaping the attitudes of apprentices to the world of work as they trained. Here employers were often of the view that that there was no alternative to recruiting apprentices if future skill needs were to be met. Amongst this group of employers if the costs of training were to increase then this was something which the employer would need to bear, unpalatable though it may be. The example of a construction company is illustrative of this point (see panel).

Employer Case Study
Medium sized construction company

The company is a recurrent recruiter of apprentices. The company much prefers to train its own skilled trades workers (mainly carpenters and bricklayers) rather than recruit from the external labour market. In this way it can ensure that it has the skills of the quality the company needs and depends upon to deliver its business strategy. In fact, it seldom needs to recruit from the labour market. Apprenticeship is also a route into managerial and professional jobs in the company, though they usually receive further training to enter these positions. There are currently 30 apprentices/technical trainees in the company. Apprenticeships are provided at Levels 2 and 3 with an expectation that most will go on to complete Level 3.

The company's training provider is paid, via the SFA, around £14,000 for training apprentices to Level 3. If the employer had to pay around £3,500 of this amount to the provider, this employer thought it would have little impact on their training volumes. Possessing trained staff is part of the company's key competencies. It might have some impact during periods of recession, but at the moment it would not have an impact.

Even though the company performed relatively poorly last year, it still took on a full complement of apprentices. If the company were expected to make a contribution to the provider – it currently does not do so - then this may have the impact of the company looking harder at the quality of candidates it receives for its Apprenticeships to ensure that they are likely to complete and stay with the company, but the company does this rigorously at the moment in any case. It may also result in Apprenticeships being subject to more scrutiny by senior management.

The example of a medium sized engineering company makes the same point as the construction company above (see panel below).

Employer Case Study
Medium sized engineering company

The company has offered Apprenticeships for a decade or so and is a recurrent recruiter of apprentices. They take on between four and six apprentices a year under the Engineering/Manufacturing framework, all starting at Level 2 and progressing to Level 3 When asked how much the company would be prepared to pay for the training, the training manager said that although the funding goes a long way to pay for the training they provide, they would be prepared to pay for all of it (that is, around

£14,000 for each apprentice as discussed earlier with the respondent): "We see our Apprenticeship training as a massive, massive benefit".

Given recent investments in their training facility and the workshop, they would not change the current system and requirement to co-invest would not affect the numbers of apprentices recruited. Nor would it affect the profile of the apprentices taken on. The company prefers to take on those aged under 19 years because they tend to have the skills and attributes the company is looking for in an apprentice and their experience of taking on older apprentices in the past had not been wholly successful.

An example of retailer which provided Apprenticeships at Level 2 where the Apprenticeship served a particular business and skill need is provided below *(see panel)*. As can be seen co-investment – at 20 per cent and possibly at 50 per cent - was not seen as a barrier because Apprenticeship delivered skills the company needed.

Employer Case Study
UK retail chain

The company is a retailer with shops throughout the UK. It provides Apprenticeships at Level 2 in a range of specialist retail activities in which it is staff are involved. This includes a number of Apprenticeships related to food preparation.

Apprenticeship training is seen primarily in terms of creating the skills that the business needs (e.g. butchery and bakery). It was not seen as a means of attracting high quality people but, instead, as a means to take existing employees and equipping them with the skills required by the business. Apprenticeships are seen as providing a rigorous and structured programme that is cost effective. Staff aspiring to supervisory positions would be expected to have served their time on the job and Apprenticeships provided a good basis for staff progression. The Apprenticeship offer was also seen as a means to retain staff and reduce staff turnover. Turnover amongst apprentices is currently low (less than 10 per cent a year). The respondent also said that Apprenticeships provided a means of doing something positive for young people and demonstrating a corporate social responsibility but while this was important it was not the driving force behind the apprenticeship programme.

Any requirement for co-investment was thought to be unlikely to affect the number of apprentices taken on. This was because the company already had a substantial budget for each apprentice to be trained. The amount the State contributed was seen as relatively modest and would not have much of an impact on their training programme. The company did not see much opportunity to mitigate the costs of co-investment since the company already used competitive bidding from colleges to secure value for money and did not feel there was much more to be gained here. While it might be possible to bring more training in-house this would add to the costs since staff would need to be trained up as assessors and such a move risked losing the broader, contextual aspects of training that colleges currently provided. The company would not consider reducing the wages of apprentices – in fact they currently offered a slightly higher level of pay to apprentices as an encouragement to take up the training.

While there were employers of the view that any cost increases would result in their Apprenticeship programmes being largely unchanged, other employers which also recognised the value which Apprenticeships delivered their businesses pointed out that, certainly at the 50 per cent level, it would be difficult, other things being equal, to train as many apprentices. This stemmed in part from a difficult external product market environment. The example of a large manufacturing company is illustrative in this regard *(see panel below)*. In this company there was a long tradition of Apprenticeship training with recognition that the apprentice is a high net cost to the company at the end of the training period. With a relatively aged workforce there was little alternative to the employer continuing to take on apprentices, especially so as it was convinced that the external labour market was unlikely to deliver the skills in the quantity or quality it required. But the external product market was currently difficult with some uncertainties at the moment about the likely size of the training budget for the forthcoming year. At the moment it was being left to departmental heads to decide how much they wanted to spend on training rather than there being a central training budget as in recent years.

Employer Case Study
Large engineering employer

If the company had to co-invest at the 20 per cent level this would amount to around £3,000 for each apprentice. This would prove difficult for the company to bear. The company is already paying around £50,000 in wages over the four-year duration of the Apprenticeship. The company also requires its apprentices to complete an HNC which the company funds itself. An additional cost of £3,000 may result in a reduction in the number of apprentices taken on with perhaps two rather than three recruited, but there may be scope to offset some of the additional cost by negotiating with the training provider, or transferring funding from the company's adult training programme (continuing vocational education and training) to meet the additional costs of the Apprenticeship.

If the employer needed to contribute around £7,000 to £8,000 for each apprentice then this would have much more serious implications for the Apprenticeship programme and it is difficult to see how this cost could be offset with the result that it would require a major re-think about the Apprenticeship programme. The respondent said it was difficult to see how the company could meet this additional cost without it having a direct impact on the number of apprentices taken on. Especially when you consider how much the company already spends on its Apprenticeship programme.

In some respects the difficulty the company above had in justifying additional expenditure on training was that funding increases would impinge upon the existing business case for delivering Apprenticeships. Over many years companies' training managers had been able to justify a given level of expenditure for training an apprentice. Some employers had already factored in changes to levels of funding depending upon the age of the apprentice on commencing training into their training plans to ensure that this would not have an impact on their overall level of training expenditure. Where changes were introduced which affected the existing business case, then this could result in a re-appraisal of training arrangements. As will be outlined below, the prospect of co-investing at the 50 per cent level was often greeted with the response that it would lead to a strategic review of initial vocational education and training at the company.

Some of the employers delivering training under finance frameworks mentioned that they could accommodate any change in funding so long as the cost remained lower than the cost of the alternative available to them. The finance employers always had the alternative of training solely to meet the requirements of the relevant Level 3 professional qualification.

In some of the retailing and hospitality case studies, training was, in some instances, being delivered to existing employees. It was also in the these cases that employers were looking to minimise their exposure to the risks attendant upon training investments in these industries given relatively high levels of labour turnover. They therefore wanted to ensure that they had more or less recouped the cost of delivering the Apprenticeship by the end of the training period of shortly thereafter. The example of the large retailer below illustrates this point *(see panel)*. If the balance of costs and benefits was disrupted then it would consider substituting Apprenticeships with an alternative form of training.

Employer Case Study
Large retailer

If the company were to co-invest at the 50 per cent level (around £850) the company was unsure whether it would be willing to contribute that amount to the provider. It could not readily think of how the cost could be offset by, for instance, reducing the duration of the Apprenticeship, changing the content of training, or negotiating the price to be paid to the provider. The company already has the influence it wants and is content with the structure of the training delivered. At the moment the company already negotiates, from time-to-time, with training providers by putting out to tender the delivery of its Apprenticeship programme.

If a £850 co-investment per apprentice were required, then the most likely response would be to rethink the company's training strategy leading, possibly, to consideration of introducing an alternative, less costly training programme. A similar response would occur at the 20 per cent level (around £330). The company had already introduced a certificate in customer care. This was aimed at older people who may be reluctant to take the functional skills tests in mathematics and English. This, potentially, provided the basis of an alternative to delivering Apprenticeships but this is not the preferred route because the company is supportive of people being provided with transferable skills which serve the needs of the industry as a whole and serve the individual employee.

Several employers said that one of the reasons they provided Apprenticeships was due to what they considered their corporate social responsibility to provide young people – especially those who may be disadvantaged in some way - with training opportunities which would assist with their transition into the labour market. In many cases this was a secondary reason compared with that of securing the skills the organisation needed in the future. But there were some examples where corporate social responsibility was one of the primary reasons for training. This resulted in employers sometimes training in excess of their own skill needs. The concern amongst this group of employers was that the requirement to co-invest may reduce their capacity to train in excess of their own training needs as the example below illustrates *(see panel)*.

Employer Case Study:
A Local Authority

The Council had around 50 apprentices at different stages of completion. It was a recurrent recruiter of apprentices across a number of its departments working towards completion at Level 2 and 3. By far the biggest group of apprentices were Business Administration, followed by IT but there was a wide range of Apprenticeships offered including, for instance, horticulture. The Council offers a limited number of Apprenticeships at Level 3.

The Council is looking to fulfil both its own demand for trained staff and also the local economy more generally. Accordingly not all apprentices were guaranteed employment with the Council upon completion though it was felt that having completed an Apprenticeship was a passport to finding skilled employment. The Council said it had a corporate social responsibility to offer training opportunities for vulnerable groups of young people in the labour market, such as children in care or about to leave care.

The Council was concerned about the impact of any requirement for co-investment. If it fell to the individual departments to make the co-investment there would be a tendency for this to be regarded as a cost and may result in a reduction in both the number of apprentices and the type of range of Apprenticeships provided.

4.4 Offsetting costs of co-investment

If employers were required to co-invest at the 20 or 50 per cent level there is always the possibility that the cost of this could be offset to some degree by reducing some of the other costs they assume in delivering Apprenticeships, such as reducing the duration of an Apprenticeship, reducing apprentice wages, increasing apprentice productivity, and so on. A number of possibilities regarding offsetting the costs of co-investment were explored including:

- negotiating with providers to reduce their costs;
- bringing more training in-house;
- identify possible cost savings internally such as reducing apprentice wages;
- ensuring that apprentices are those which attract funding (that is, those under 24 years of age);
- strategically reviewing the provision of initial vocational education and training to see if there was an alternative to Apprenticeships that could be delivered at a lower cost;
- reducing the number of apprentices taken on each year or the level at which they are trained;

Negotiating the price of training

As will be describe below some employers thought that any direct payment from them to providers – that is, employer routed funding - may result in them being more demanding about the quality of service delivered by the provider. Many employers, however, felt that they would not be in a position to negotiate down the cost of training with providers for a number of reasons:

1. there were relatively few providers and the employer was not sufficiently large to have much influence with any provider;
2. employers were already negotiating with providers regarding price, such as being prepared to train people of all ages at no additional cost despite those people not being eligible for funding, such that the provider is meeting the cost of training apprentices who do not attract State funding;
3. there were concerns that negotiating down the cost of training may have some impact on the quality of training provision.

There were exceptions to the situation described above. One employer thought it may be possible for companies like theirs in the construction sector to form a buying consortium which would ensure that providers were able to realise economies of scale in delivering training and thereby able to reduce their unit costs. Another employer, a medium sized construction company, said that at the 20 per cent level of co-investment the number of apprentices taken on each year would fall. But the prospect of being able to negotiate the price of training with a provider and thereby reduce the overall level of co-investment with which the company would be faced, the respondent's initial views were modified (see panel).

Employer Case Study
Medium sized construction company

The discussion with the construction company started with consideration of co-investment at the 50 per cent level. At this level the company, most likely, would withdraw from Apprenticeships and recruit straight from the external labour market. At the 20 per cent level the respondent said: "We would take on less... Last time we took on eight, so in this scenario we would probably take three or four max, I would think." The level of contribution the company would make without it reducing the number of apprentices would be £500.

When consideration was given to how the price of training could be determined through negotiation between employer and provider the respondent commented that it "would open up competition and then it probably would be cheaper. It is probably as expensive at it is because it gets funded." On reflection, at the 20 per cent level of co-investment where the employer could negotiate the price of training this may bring mitigate some of the reduction in apprentices initially mentioned "if we could go out and negotiate with the training providers direct and get better prices." There was, however, some concern that the negotiation process could prove to be a "hassle" for the employer.

Bringing training in-house

A common response to offsetting the costs of co-investment was that of bringing training in-house, such that the employer's costs were reduced by having the apprentice available to undertake productive work rather than being on day-release. Some employers, however, questioned whether this would really reduce costs since there are costs attached to training in-house too. Employers also considered how they could increase the efficiency with which they delivered their Apprenticeships but were, in many instances, reluctant to alter the structure of a training programme which had been established over many years and met their needs. Some employers commented that there may be scope to bring assessment in-house by training their own in-house assessors.

Reducing apprentices' wages

Where there was near unanimity across employers was the reluctance to reduce apprentice wages:

> "The problem with apprentice salaries is that if they are too low we won't retain the apprentices… the issue is them taking unskilled or semi-skilled jobs at a higher salary outside our Apprenticeship scheme. If we didn't escalate the salaries fairly quickly from the starting salary we found that we would lose them because they just couldn't afford to live, particularly those that weren't in the family home."

Changing the profile of apprentices

Some employers said they may consider limiting Apprenticeships to those who had funding attached to them, but this was a minority view with most saying that they would continue to recruit people who were suited to the demands of the training and likely to prove to be suitable employees with the company. In some cases, employers had already factored in the changes in funding for apprentices of different ages in the negotiations with providers.

Strategically review Apprenticeships compared with alternatives available

Many employers who were unable to identify how to offset the costs of co-investment felt that they would be unable to fund their current level of Apprenticeship training if they were required to co-invest to meet 50 per cent of the providers' costs and, in some cases, 20 per cent. Their most likely response would be to strategically review their initial vocational education and training. As noted above, one of the retail employers already had a company programme for training its employees, separate from the Apprenticeship programme, and it could revert to using this for training for those currently trained through Apprenticeship. A large manufacturing employer also said it would need to review what it undertook (see panel).

> **Employer Case Study**
> **Large engineering company**
>
> Asked about a possible co-investment potentially in the region of £3,000, the response was that such an increase would be too much for the company to absorb. When pushed they felt that they might possibly be able to accommodate a slightly smaller increase but £3k was probably at about the 'tipping point' where they would disengage with Apprenticeships.
>
> Nonetheless, it was expected that the number of young people being trained would remain about the same. To accommodate the maintenance of apprentice numbers, a number of responses were thought likely: (1) all training would be brought in-house where costs could be better controlled; (2) training would become more specific to the needs of the business, if necessary more specialised for individuals (who might lose more general skills); (3) if (1) and (2) were incompatible with the IT Framework, then the company would continue to train young people but no longer 'badge' such training as Apprenticeship; and (4) it would consider using graduate recruitment as a substitute for the Apprenticeship programme.

As noted elsewhere in this report, employers which had a ready alternative to Apprenticeship training available to them, were often willing to participate in Apprenticeships up to the point where it became more expensive than the alternative.

Reducing the number of apprentices

Employers considered how they could offset some of the costs which co-investment. Employers at the margin could point to ways in which there may be the possibility of offsetting some of the costs but in general the findings reported in section 4.2 remain largely unaffected: at the 20 per cent level of co-investment, at worst, there may be a reduction in the number of apprentices recruited each year; at the 50 per cent level many employers will consider withdrawing from the provision of Apprenticeships.

4.5 Obtaining more influence over Apprenticeship training through co-investment

In general there is little support for the idea of paying more in order to have more influence over the provision of Apprenticeship training. Employers had, in many instances, already managed to obtain from their providers the kind of provision they wanted. Respondents made a number of responses in relation to the issue of having more influence:

- some were wary of having too much influence since this could result in it becoming a company rather than industry wide training programme. Part of the benefit of Apprenticeships was that it trained to an industry standard.

When recruiting from the external labour market if a person had completed an Apprenticeship this demonstrated their bona fides;

- some employers felt that their views were already effectively communicated through sectoral bodies especially where they paid a levy;
- some employers preferred an off-the-peg training programme because they had little resource to spend influencing the programme or they could not see how their influence could be readily brought to bear;
- many employers were generally content with the current provision of Apprenticeship training – as the previous chapter indicated – and were not eager, or did not see it as advantageous, to obtain more influence.

Where employers wanted more influence was more in relation to the quality of provision rather than the way it was delivered, its assessment, or duration. They wanted, for example, the provider to be responsive to the queries about the progress of their apprentices, they did not want courses cancelled at short notice, and they wanted the provider to have an understanding of the needs of their business in how they went about their business. As noted elsewhere in this report, they wanted a better standard of customer service from their provider.

4.6 Employer routed funding

Employers were asked whether they would like to see Government's funding of Apprenticeships to be routed through the employer. At the moment public funding is given directly to the provider by the Skills Funding Agency at a specified level for each apprentice depending upon the framework and the age of the apprentice. Section 1.2 summarises the models of employer routed funding the Government is currently considering. The aim was not to obtain employers' views on each of the funding models rather the aim was to gauge employers' views on the principle of funding being routed through the employer. Under employer routed funding the employer would be responsible for paying the provider and would receive from Government a proportion of the total price charged by the provider.[16]

Employers were more or less evenly split on their attitudes to funding being routed through the employer. In summary the responses broadly fell into the following categories:

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[16] Implicit here is that the employer would be required to co-invest. The issue being explored is how that flow of funds to the provider, including employer co-investment, can be best managed.

- Positive:
  - it would provide employers with more influence over the delivery of training. This could be particularly important with respect to the quality rather than the price of training;
  - potentially it may allow employers to use a wider range of providers;
  - funding could be used to train in-house and limit the use of external providers to verifying training outputs;
- Negative:
  - it would add to the administrative burden of the organisation;
  - there is a danger that any such system may be complex to administer;
  - the risk of reputational damage if the something were to go inadvertently wrong in the administration of funding.

Views did not vary much by size or sector of employer or according to their reasons for engaging in Apprenticeships, except that some of the smaller employers thought they would have little influence over providers, even if funding were routed through them, because their volume of demand was such that providers would be unwilling to listen to them.

The comments made in relation to a large construction company sums up the benefits employers saw in having the funding routed through them:

> "I think that would be a very positive way of doing it because you could then negotiate with different providers and I think the provider would sharpen up a lot because they have to convince you to give them their apprentices. It would be like what I do with any other training providers effectively where I am able to go to the open market. Let's go away from apprentices at the moment because that is a small percentage of what we do but if I wanted some management training or supervisor or forklift, I can go to the market and say let's talk about this training and if they did that with apprentices we could do the same which would be a big bonus ... initially you don't go changing for the sake of it but it is always there that you can if you want to and if you feel they are not in the right market commercially you can look. I don't look for the cheapest provider, no, and I wouldn't ... it puts you in a much stronger position to talk to people ... I think [with quality of training] you are in a stronger position if you are paying for it – if you are paying for it you make sure you are getting value for money. We don't pay for the cheapest now, but I am looking for a return in investment rather than what are my bottom line costs. If you felt another provider could give better training for the same money or less you would be seriously looking at it"

A respondent at a hospitality company when asked about funding being routed through them said: 'I wound find that very attractive." At the moment the employer feels compelled to use the college "at her doorstep". It would not be expected to a make a difference to being able to take on more apprentices but it "it might make a difference to the quality of the scheme", in the sense that you can demand higher quality training and service from the provider. This could then help in making the case for taking on apprentices.

The negative side was summarised by a medium sized engineering company thus:

> "We would lose track of that funding. To do it properly we would have to spend more time administering it and separating it out ... definitely off-putting for us. The beauty of the situation at the moment is they [the provider] come along and I sign it ... we would have to find the resource to do it ... I think we would struggle to do this because everybody is up [to their necks] with workload ... I would have to justify to my finance director why we he has to mess around with an already complicated PAYE scheme which we subcontract to somebody else anyway but we would have to explain to them what we are doing. I just wouldn't like it"

The example of one of the retailers involved in the study which recurrently trained apprentices indicated how the method of funding would have little impact on the way they delivered Apprenticeships. This was largely because over time the company had been able to obtain the degree of influence it wanted over the way in which it delivered Apprenticeships. The company acknowledged that routing the funding through the employer might give the business greater influence over Apprenticeships but the scope for change was thought to be small because the company already had what it wanted. The only concern was that routing funding through the employer would increase the administrative burden associated with Apprenticeships which was already considered to be high.

In summary, employers fell into two camps. Firstly, those who regarded routing funding through the employer as an administrative cost which would not provide the employer with increased purchasing power in the training market. Second, those employers which welcomed the prospect of employer routed funding because though it may impose some costs relating to its administration, it would provide them with the influence they wanted in negotiating with providers. This negotiating influence would be used to ensure that they received a better quality of service from the provider. By quality of service from the provider was meant the way in which the provider was responsive to the needs of the employer rather than wanting more influence over the content, duration, and assessment of Apprenticeships. In many respects this was a customer service issue.

4.7 Conclusion

The results reveal that where employers had been engaged with Apprenticeships over a long period of time, and where these employers are relatively knowledgeable about the Apprenticeship system, they were more willing to consider co-investment. For this group, in general, a 20 cent increase could be, potentially, offset through a number of measures without there being much of a fall, if any, in the number of apprentices trained. And even if they could not offset the additional cost of co-investment they would still be inclined to invest in Apprenticeships. At 50 per cent this would lead at best to a reduction in the number of apprentices and, at worst, potential withdrawal from Apprenticeship training.

Where employers had alternative training programmes available to them they would consider co-investment to the point where the costs would be the same as the alternative. After that point they would be likely to switch to the cheaper alternative as this delivered the core skills they needed. At the 20 per cent level of co-investment this would favour Apprenticeships, but at 50 per cent it would most likely result in Apprenticeships being more expensive.

Where the attachment to the Apprenticeship was relatively low and where the employer's engagement with the provider was more passive, employers were generally of the view that, at best, a 20 per cent increase in costs would reduce the volume of Apprenticeship training they carried out but may result in them withdrawing from Apprenticeships in its entirety. At 50 per cent they would almost certainly withdraw from Apprenticeships. It was this group of employers who at either a 20 per cent or 50 per cent level of co-investment would face the lowest potential cash transfers since they delivered, mainly, lower cost Apprenticeships. But it was this group which was particularly sensitive to cost issues where even an increase of a few hundred pounds could have a substantial impact on their participation in Apprenticeships.

Employers were unable to say for sure how the percentage contribution in co-investment would affect the numbers trained. This would be dependent upon how they could offset any potential increase in costs. The way in which they would be most likely to offset the costs would be negotiate with the provider for a reduction in the price they charged and look to bring more training in-house such that the provider was delivering less externally. This would mean that the provider was delivering less and would need to reduce their costs accordingly. Employers, in general, were of the view that costs could not be reduced by lowering apprentice wages, altering the content of training or reducing the duration of training. They were also resistant to the idea of changing the age-profile of their current cohort of Apprenticeships to offset any of the costs of co-investment.

Most employers were of the view that they already possessed the amount of influence over the structure, content, and delivery of Apprenticeships that they wanted. Therefore being granted more influence in return for co-investment was not a particularly attractive proposition to many employers. They could not see how any additional influence over and above what they already possessed could help offset the costs of co-investment. But they did think it could be used to influence the quality of service they received from providers. Employer routed funding would help them achieve this aim.

Around half of all employers were keen on the idea of funding being routed through them because it would allow them to improve the responsiveness of providers to their needs. As just noted this related more to the quality of service providers offered rather than the influencing the substance of the Apprenticeship. The other half of employers were concerned about the administrative burden of dealing with funding issues which had, to date, been the responsibility of their provider.

5. Reactions of employers new to Apprenticeships

5.1 Introduction

Five interviews were conducted with employers who were not current investors in Apprenticeships but were interested in taking on apprentices in the future. These interviews were conducted to understand employers' reactions to the concept of increased co-investment and their reactions to 20 per cent and 50 per cent contributions to funding Apprenticeships to see whether this would have an impact on their likelihood to invest in Apprenticeships in the future or the profile of the apprentices likely to be considered.

The employers interviewed ranged in size from those with 27 employees to just over 100 employees and were from a range of sectors including Retail and Commercial Enterprise, Finance, and Leisure, Travel and Tourism. In most instances employers were looking to take on one or two apprentices, with one employer intending to take on two to three recruits every year as trainee production engineers. In general, this group of employers were looking to recruit to Level 2 Apprenticeships though there was, in some instances, the possibility of would-be apprentices progressing to Level 3.

5.2 Knowledge of Apprenticeships and training currently offered

Just one of the five non-Apprenticeship employers had ever previously offered Apprenticeships. This involved a one-off cohort of around 20 apprentices some years ago. The respondent was unsure of the detail of the Apprenticeship itself (e.g. framework, level, duration) though did recall that the Apprenticeships were offered by a provider at no cost which had been their main reason for offering them at the time.

The level of knowledge about Apprenticeships amongst these non-Apprenticeship employers was relatively limited with most having a general understanding that Apprenticeships offered training and qualifications alongside the apprentice working for their business. In terms of funding of the Apprenticeship a couple of respondents referenced the £1,500 Government grant given to employers who had never taken on apprentices. Some discussed apprentice pay and that this is relatively low, with one respondent giving £2.50 an hour as the pay rate and another a rate between £2.85 and £3.85 an hour. One respondent assumed that there would be a shared cost in terms of paying, finding and training an apprentice, but was unsure what share employers would have to pay.

There was a mix in terms of the current training being offered by these employers. Two offered training they considered equivalent to Apprenticeships: each employer had one individual undertaking training leading to a qualification, with one taking place across two years and the other across three years. The employer offering a two-year formal training programme to an employee involved on-the-job training with day release to college across the two years leading to a BTEC qualification. For the employer offering the three year formal training programme the employee was currently in their first year of the programme which was conducted internally via self-study with work experience and the second and third year of the training programme would involve an external provider.

Two employers offered informal training internally within their organisation. For one of these employers although some elements of this training involved tests it did not lead to any formal qualifications; the other had employees undergo First Aid and Fire Safety training.

Most employers were not currently involved in any national or local government backed training or skills initiatives. The one employer who was said this related to some funding for 'soft' skills that went directly to the training provider they used.

5.3 Sensitivity to fees charged for alternatives to Apprenticeships

Employers were asked whether they currently made payments to their training providers, whether they felt this price was reasonable and what affect an increase of 20 per cent or 50 per cent in provider fees would have on the number and / or profile of employees they put through this training programme.

The employer who currently had an employee on a two year formal training programme paid the college £2,000 for the two year course. They felt that this amount was fair:

> "Yes definitely [fair] ... we get a fully qualified engineer at the end of it with the work based training as well so to go out and [recruit someone fully qualified] would probably cost us £30,000 ... a year's salary whereas we have someone on a much lighter salary than that who we are supporting doing the training and who will add value to the business and who we will obviously reward as we go on"

The amount this employer was required to pay did have an impact on the number of trainees they would put through the training programme: they did not have the finances available to put a large number of trainees through the scheme and said that they were likely to continue to focus on putting one or two employees through this training. That said, this respondent did not feel that an increase of 20 per cent or 50 per cent in provider fees would be likely to impact on the number of trainees:

> “Because it is important to our business and the value that is going to be added to us in developing her”

For this employer paying double what they did currently for the trainee would lead to analysis of whether the training programme was worth the significant amount of money and investment.

The employer who had a trainee on a three year training programme had not currently made a payment to their provider as the trainee was still in the first year of the programme. For the second and third year of the training programme they believed the total costs to be £10,000 and felt that this seemed a fair price to pay. An increase of 20 per cent or 50 per cent to this fee had the potential of stopping this form of training. They did say in this situation they would be more likely to shop around for a different training provider but that suitable training providers were limited as they had to be accredited and that it was not an option to bring the training in house. The maximum level of training fees they would consider over and above what they currently pay without reducing the number of people they train was 5 per cent.

For the employer who sent staff on First Aid and Fire Safety training they paid a set amount per session for a group of staff members. This training was statutory and ultimately low cost. For these reasons an increase of 20 per cent or 50 per cent would not change their training activity.

5.4 Reasons for not investing in Apprenticeships

A variety of reasons were given by employers for not currently offering Apprenticeships. For one it was simply down to lack of knowledge and time to explore Apprenticeships: they did not feel that the costs of Apprenticeships would be a barrier to them, though a business case would need to be developed weighing up the benefits of offering Apprenticeships against the costs.

Another referenced the fact that they had not been approached to offer Apprenticeships and stated they would expect colleges to approach them with suitable Apprenticeships and frameworks. As they currently do not have any difficulties filling vacancies they had had no real strong need to explore Apprenticeship training as a means of recruiting. The main reason they were considering offering Apprenticeships in the future was for Corporate Social Responsibility (CSR) reasons.

Another common theme was that employers had historically tended to recruit qualified and fully trained staff so there was no real need to train employees through an Apprenticeship. One of these respondents did feel that Apprenticeships would offer an advantage in developing and training a person from the outset:

> “One of the advantages we see in Apprenticeships is that you develop that person from the word go and how you want that person. One of the problems in taking someone from somewhere else is they have preconceived ideas or might be set in their ways so the advantage of an Apprenticeship is we mould you to how we want you: learn our processes, terminology, our policy wording, which is a definite advantage”

One had some concerns surrounding the content and suitability of the frameworks that existed and wanted to sit down with a training provider to develop what is offered from a classroom / training perspective and what is needed from a business perspective to ensure all areas are covered and that the training provided is relevant to the apprentices job role within the company.

There were concerns about the supervisory time apprentices would require, particularly among smaller companies as they did not feel they had the resource to ensure the training was run properly. Time was also referenced in regards to the length of the Apprenticeships, with one respondent stating:

> “If it was a year to eighteen months it would be better for the individual and the business…my experience of learning, having been through a CIPD Masters degree and seen other people going through similar professional training, is that in a lot of cases the college work is spaced out far too much and you could learn a lot more in a much shorter space of time. I also think that as an individual, to be earning £3.85 an hour or whatever it is, is not really sustainable or fair long term; you want to be earning a decent wage for what you are doing ... If they could condense it to a year or eighteen months it would be better because the end is in sight”

Cost was also a factor for employers:

> “If there was more funding available; if the government was going to fund an Apprenticeship for the first year we would bite their hand off to do it ... we have sustained our business and actually grown our business in a difficult environment but we still have challenges as anybody else does so if we had a bit of funding for it, it would be a no brainer”

5.5 Reactions to current level of subsidy for Apprenticeships

During the interview respondents were given an approximate figure that the State currently pays to training providers to train an apprentice to a level within the framework most relevant to their organisation. They were told that for most courses this amount was usually set at a level intended to cover all of the training provider's costs. Respondents were then asked if they were aware of and what they felt about this level of subsidy.

None of the employers were aware that this level of State subsidy was given to training providers to train apprentices. There was a mixed response to the level of subsidy with one employer feeling it was less than they would have expected, two employers felt it seemed reasonable and would cover the costs of the training that would be provided for their relevant framework / level of qualification and two considered it to be higher than they would have expected.

5.6 Impact of increased co-Investment on likelihood of hiring apprentices

Employers were asked how they would respond if faced with paying 20 per cent or 50 per cent of the amount currently paid by the State to the training provider for the Apprenticeships.

Two employers were price sensitive and felt that needing to pay 20 per cent would mean that they seriously questioned hiring apprentices, although one did say this would mean rather than taking on two to three apprentices as currently planned they would just take on one apprentice. When asked about a 50 per cent contribution both of these employers said they would not invest in apprentices at all. One was able to recruit in different ways easily enough and any contribution above £500 would lead them to question their involvement in Apprenticeships. The other simply did not have the money within their training budget and felt that this level of investment in one individual was too much: the maximum they would contribute to an Apprenticeship was equivalent to 25 per cent of the current level of state funding.

Another felt that paying either 20 per cent or 50 per cent of the costs currently covered by the State would make Apprenticeships a far less attractive proposition. The lower contribution of 20 per cent would be less of an obstacle than 50 per cent, but they would still need to make the case to senior managers to fund the Apprenticeships as they do not currently have a skills gap or difficulties recruiting staff. Hence the impact of meeting the costs covered by the state would be hard to predict.

One employer who was currently planning to take on one apprentice indicated that an increased investment of 20 per cent or 50 per cent of the amount currently paid by the State to the training provider would reduce the frequency in which they were able to offer Apprenticeships. As a small business the respondent struggled to see where they could find the money to pay this contribution and said the maximum contribution their business could make towards the cost of an apprentice before it started to impact on the likelihood of getting involved in Apprenticeships at all was 5 per cent.

The increased co-investment of 20 per cent or 50 per cent did not have an impact on one employer's likelihood of hiring apprentices. Cost was a consideration for the business; however they saw Apprenticeships as an investment so did not feel that this level of contribution would stop them from getting involved. They felt that some State contribution was important as this added value to the Apprenticeship. If they were asked to make a contribution above 75 per cent this would lead them to question their involvement in Apprenticeships.

5.7 Impact of having greater control over Apprenticeships on reactions to co-investment

Respondents were asked if having greater influence over a number of elements of the Apprenticeships would affect their likelihood of recruiting apprentices, for example in the situation where they had to meet some of the costs currently covered by the State through co-investment.

There was a mixed response: some had no or little interest in having greater influence over Apprenticeships and this had no bearing on their decision about apprentices, for others this would have a very positive effect, and make them more willing to meet costs currently met by the state.

One accountancy firm did not see how having greater influence over the Apprenticeships would benefit them and did not feel that it would make any difference to their likelihood to take on apprentices. They presumed that any accountancy Apprenticeships would be relatively standard in terms of content and delivery so would not want to change them. Another employer also did not feel that having greater influence over Apprenticeships would make them any more likely to invest in Apprenticeships (though they did point out that if they had greater influence over the Apprenticeships this may lead to them being more respected within their organisation). When asked if obtaining their ideal Apprenticeship structure would make them more willing as a business to meet an increased overall share of the costs of delivering the Apprenticeship they felt this greater involvement would have the opposite effect. By being more involved with the Apprenticeship and investing time to influence, design and adapt the Apprenticeship to meet their needs they felt this gave even more reason why the Apprenticeship should be subsidised.

Having greater influence over the content of the training delivered and the length of the Apprenticeship was particularly desirable to one employer. They would like to be able to adapt the content to meet their business needs and have the flexibility to amend the length of the Apprenticeship to fit with their apprentices' capabilities and workload. In terms of having influence over the content of the Apprenticeship they were unsure how this would work in practice as they felt that different employers would require different things, so they were not sure if they could all be accommodated within the one Apprenticeship framework. If they obtained the ideal Apprenticeship structure this employer would contribute a maximum of 25 per cent (of the current level of state funding) towards the provider's fees – they felt any more would be too large an investment in one person.

One employer felt that having greater influence over the design and delivery of Apprenticeships could lead to the administration and paperwork side becoming more of a burden. The improvement they wanted was for the whole system to be more transparent and to be able to go directly to a provider for the training (this has not been their experience previously) and also bring a lot of the training in-house to have more control. If they could obtain their ideal Apprenticeship they would be willing to meet 50 per cent of the costs.

Another was also positive about having greater influence over the design and delivery of the Apprenticeship. If they were able to tailor the content, delivery and length of the Apprenticeship to suit their needs and receive their ideal Apprenticeship they would be likely to meet 100 per cent of the overall costs for delivering this. This employer stressed throughout their interview that although cost was a consideration for the business they saw Apprenticeships as an investment in the future of their business.

5.8 Reactions to viability of offsetting the costs of co-investment through cost reduction strategies

Employers were asked whether their business could or would consider each of the following as a way to offset an increased employer cost of Apprenticeship training resulting from co-investment:

- freely negotiating the price of training with a training provider;
- being able to carry out more of the Apprenticeship training on-site;
- working with providers to ensure efficient and high quality training;
- reducing the level of apprentice wages.

Most were reluctant to consider negotiating the price of training with a training provider as they felt this could affect the quality of the training received:

> "Well everything has a cost and they are priced how they are for a specific reason. If we started asking for 50 per cent off the cost then you are obviously going to get some degradation in the service or the training so I don't think that is something we would want to do"

Some employers felt that they could bring some aspects of the training on-site. One noted that this is how they delivered training at the moment and felt this may work but were not convinced that this would lead to a real reduction in the cost to them as a company due to the time and resource they would need to invest. Another commented that although they could provide more training on-site they would prefer to get a more experienced trainer in rather than deliver the training themselves.

In regards to ensuring providers give efficient and high quality training this was seen by the majority of employers as a given and not a cost saving measure.

Reducing the level of apprentice pay was rarely seen as a viable option as apprentices would already be on a low wage. One employer did mention that they could reduce the apprentices' wages by 20 per cent to offset a need to co-invest 20 per cent of the current amount paid by Government, but they would be reluctant to do so and this would certainly not be something they would be willing to do at a level above 20 per cent.

For the majority of employers discussing the ways in which the need to co-invest could be mitigated did not change their views on how their business may react to a scenario with reduced levels of government funding, and for most discussions with providers on the quality of training and price would take place regardless of whether reduced funding was introduced. As one employer stated it was not just about the money but the principle of the matter and they did not feel they should pay more than is necessary for Apprenticeships:

> "Why should we be paying out because in theory we are giving these people jobs so why should we be paying out? They are costing us money with wages and the training and everything else we provide."

5.9 Conclusion

Most of the non-Apprenticeship employers had a general understanding that Apprenticeships offered training and qualifications alongside an apprentice working for their business. Currently a mix of training was offered by these employers: this ranged from formal training leading to a qualification with some elements delivered by an external training provider, to informal internal training.

The reasons these employers gave for not currently investing in Apprenticeships were due to lack of knowledge, not having been approached by Apprenticeship providers, historically tending to employ/recruit qualified staff, concerns around the content of frameworks, cost, and due to the supervisory time apprentices would require.

The reaction to increased co-investment was mixed. For some employers needing to pay 20 per cent of the current level of state funding would lead to them seriously questioning the need to hire apprentices. For one an increased investment would reduce the frequency in which they were able to offer Apprenticeships, whilst for another the increased co-investment of 20 per cent or 50 per cent would not impact on their likelihood of hiring apprentices. Discussing the ways in which the costs of co-investment could be offset did not change the views of non-Apprenticeship employers on how their business may react to a scenario where they needed to co-invest.

6. Conclusions

Most employers had become accustomed to an Apprenticeship model where they paid nothing, or relatively little, to the training provider. Although the role of the training provider figured prominently in the delivery of Apprenticeships to employers, their costs were seldom the responsibility of the employer. Although some employers said they paid something to their provider this was often related to meeting the cost of delivering training which was outside the scope of a particular framework.

In general, employers were unaware of the amount of public funding their providers received for training each of the apprentices. Asked about how much they would be willing to pay for the training their provider delivered, most employers were unable to suggest a price. Where they were able to provide a price it tended to be much lower than the current level of funding provided by Government. And when presented with the actual amount of funding the providers received they were unable to gauge whether this represented a fair price.

Employers in general were satisfied with the amount of influence they had over the content, structure, and assessment of the training which comprised the Apprenticeship. They were not actively looking to increase the amount of influence they had over these features of the Apprenticeship. Many employers, especially those which had a relatively high degree of engagement with the Apprenticeship system, had achieved, over the years, a good fit between the strictures of the Apprenticeship framework and the needs of their business.

If faced with the prospect of co-investing in Apprenticeships at a level equivalent to 20 or 50 per cent of the funding currently provided by Government, employers provided a range of views about how this would affect their Apprenticeship programme. In general, at the 20 per cent level, most employers thought that at best, it would have no impact on their training and at worst would reduce the number of apprentices they trained. Some employers commented that that at this level it may lead them to withdraw from Apprenticeships.

At the 50 per cent level of co-investment at best there would be a reduction in the number of apprentices trained and at worst it would result in employers withdrawing from Apprenticeships. Many employers said that at 50 per cent they would strategically review their continued involvement in Apprenticeships and explore whether more cost effective options were available.

If faced with co-investing, many employers would look to offset the additional costs this would impose by negotiating down the price the provider may want to charge them. As noted above, some would also look to bring more training in-house thereby reducing the role of external providers in the Apprenticeship and thereby further reducing the price the provider may want to charge. It was not always clear that the costs of bringing more training in-house had been fully worked through by employers.

The willingness of employers to co-invest was driven in large part by their rationales for investing in Apprenticeships in the first instance and the benefits they saw as being conferred on their businesses as a consequence of doing so. Where employers faced relatively high net costs in delivering Apprenticeships, such as those at Level 3 in engineering and construction, where wage costs and the amount of time spent in off-the-job training are relatively high, these employers tended to be those which were more likely to consider continuing with Apprenticeships even if they were faced with co-investing at the 50 per cent level. This relates, in part, to the fact that the element of funding met by the State in the overall costs of the Apprenticeship - that is, including apprentice wage costs and other costs met by the employer - is proportionately smaller when compared with Apprenticeships under other frameworks. Moreover, employers saw little alternative to continuing with Apprenticeships if they were to meet their future skill needs. The costs of not investing in Apprenticeships were likely to be greater than the costs of investing in them even with the requirement to co-invest. That said, at a 50 per cent level of co-investment even the resolve of this group to continue investing in Apprenticeships began to weaken somewhat.

A second group of employers - typically those in the finance sector where there was an alternative to Apprenticeships available to them which involved training solely to pass the relevant professional qualification - were willing to co-invest in Apprenticeships to the level at which the costs of doing so were no greater than the costs of pursuing the equivalent alternative training available. At the 20 per cent level of contribution Apprenticeships were more cost effective, but at a 50 per cent level of co-investment this group of employers would be likely to switch to the alternative training programme.

Amongst the group of employers whose involvement was more passive insofar as they heavily relied upon the training provider to guide them and their apprentices through the Apprenticeship, and where the costs of training were relatively low, the willingness to co-invest at any level was weakest. For this group – who were often more likely to be located in the retailing and hospitality sectors delivering training to Level 2 - a requirement to make a financial contribution to the costs of training would result in them moving their training to a cheaper alternative which may include unaccredited in-house training.

It should be noted that it is not simply a case of construction, engineering and finance employers being willing to co-invest, and retailers and hospitality employers being unwilling to do so. The key issue is the extent to which the employers recognised the value Apprenticeships conferred on their businesses which was reflected in their willingness to substantially invest in the training of their apprentices. Employers in retailing and hospitality fell into this group too.

Employers were split on whether or not they wanted funding routed through them. Some welcomed the idea because it would allow them to obtain greater influence over the provider. This was not in order to influence the content, delivery and assessment of Apprenticeships – as noted above most felt they had the influence they wanted - rather it was to ensure that the quality of service provided to the employer met the standard they wanted.

Other employers were resistant to the idea of funding being routed through them because of concerns over the amount of administration involved, concerns about the complexity of any system which may be introduced, and the risk of reputational damage should something inadvertently go wrong in managing public money.

In summary, the tipping point at which employers will substantially reduce their engagement in Apprenticeships lies between 20 and 50 per cent contribution. From the discussion with employers this feels as if it will be nearer 20 than 50 per cent. Where the cap on public funding should be set is difficult to assess since employers had little knowledge of the costs faced by providers and what would constitute a fair price for the services they provide.

Depending upon the level at which co-investment is set this is likely to have an impact on the number of apprentices in two ways. Firstly, by those employers which have relatively modest levels of engagement in Apprenticeships deciding to withdraw from this type of training. Second, as a result of those with relatively high levels of engagement reducing the number of apprentices they recruit each year. It may also result in those employers which provide Apprenticeships as part of their corporate social responsibility to the communities in which they are located no longer doing so.

Two further points need to be made. Firstly, no employers reported that would cease to train people even if they were minded to no longer participate in Apprenticeships. They would instead shift to some other form of training such as unaccredited in-house training. Secondly, there may be transitional issues in ensuring that employers make a financial contribution through co-investment. Employers may be initially reluctant to engage in co-investment at a given level, but as the costs of not investing in Apprenticeship become apparent they may be more inclined to do so.

Finally, it needs to be borne in mind that the above findings are based on a relatively small number of observations and therefore should be regarded as indicative rather than definitive.

ANNEX 1: Characteristics of Employers Participating in the Study

Table A.1 Employers with apprentices

No.	Apprenticeship type	Number of Employees	No. of Apprentices
1	Leisure, Travel and Tourism	500+	81
2	Financial Services	5-49	3
3	Engineering & Manufacturing Technologies	500+	20
4	Retail and Commercial Enterprise	5-49	6
5	Construction, Planning and the Built Environment	50-249	17
6	Retail and Commercial Enterprise	50-249	3
7	Construction, Planning and the Built Environment	500+	82
8	Engineering & Manufacturing Technologies	500+	30
9	Engineering & Manufacturing Technologies	250-499	13
10	Retail and Commercial Enterprise	500+	100+ across 21 sites
11	Leisure, Travel and Tourism	50-249	18
12	Leisure, Travel and Tourism	5-49	10
13	Engineering & Manufacturing Technologies	50-249	4

No.	Apprenticeship type	Number of Employees	No. of Apprentices
14	Financial Services	250-499	4

No.	Apprenticeship type	Number of Employees	No. of Apprentices
15	Engineering & Manufacturing Technologies	350	20
16	Engineering & Manufacturing Technologies	57	2
17	Engineering & Manufacturing Technologies	50-249	6
18	Construction, Planning and the Built Environment	50-249	7
19	Leisure, Travel and Tourism	500+	5
20	Retail and Commercial Enterprise	500+	50
21	Retail and Commercial Enterprise	500+	45
22	Construction, Planning and the Built Environment	50-249	24
23	Leisure, Travel and Tourism	50-249	12
24	Retail and Commercial Enterprise	500+	100+
25	Engineering & Manufacturing Technologies	500+	15
26	Construction, Planning and the Built Environment	500+	55
27	Construction, Planning and the Built Environment	500+	24
28	Financial Services	5-49	1
29	Accountancy	500+	22
30	Construction, Planning and the Built Environment	50-249	4

31	Financial Services	50-249	29
32	Leisure, Travel and Tourism	5-49	10
33	Engineering & Manufacturing Technologies	500+	44
34	Retail	500+	100+

Table A.2 Employers without apprentices but interested in taking them on

No.	Sector	Size
1	Financial	5-49
2	Leisure	50-249
3	Engineering	50-249
4	Retail & Commercial	50-249
5	Financial	5-49

ANNEX 2: Employer Routed Funding of Apprenticeships Interview Schedule

Introduction

A1 **INTRODUCE SURVEY:** Explain to the respondent that the purpose of the study is to help inform policy makers at the Department for Business Innovation and Skills about employers' attitudes towards Apprenticeships and what they value most – and correspondingly – what they value less, about this form of training. Looking to the future, policy makers want to obtain an understanding of how much employers would value having a greater degree of influence over the way Apprenticeships are designed and delivered.

REASSURANCES TO USE IF NECESSARY

- **The interview should last around an hour**
- **Responses will be treated with the strictest confidentiality. All data will be reported in aggregate form and your answers will not be reported to our client in any way that would allow them to be identified without express permission**
- **If respondent wishes to confirm validity of the research or get more information about aims and objectives, they can call:**
    - **MRS: Market Research Society on 0500396999**
    - **IFF: Erica Garnett or Sam Morris: 0207 250 3035**
    - **IER: Terence Hogarth: 024 76 52 44 20**
    - **BIS: James Wall 0207 215 2112**

A2 **OBTAIN PERMISSION TO RECORD INTERVIEW**

B The Training Decision

B1 How many apprentices does the establishment currently have?

B2 Over how many years has this workplace been offering Apprenticeships? Is the employer a recurrent recruiter of apprentices?

B3 What frameworks are they working towards? How many are working towards each framework?

NOTE TO INTERVIEWER: ***Check which Apprenticeship is the one which corresponds most with the principal economic activity of the workplace. All further questions will relate to that Apprenticeship. Inform interviewee that this will be the case and confirm that they are they are agreeable to this.***

B4 What is the composition of your current cohort of Apprentices on this framework?

Total Number	
No. Level 2	
No. Level 3	
No. Level 4	
No. aged 16-18	
No. aged 19-24	
No. aged 25+	
No. in their first year	
No. in their second year	
No. in their third year	
No. who were recruited to the apprenticeship	
No. who were existing employees	

B5 What is the profile of the typical new apprentice in the workplace? (Probe around age on entry and qualifications held).

B6 [NOTE TO INTERVIEWER: check whether the expected destination is Level 2, Level 3, or Level 4 even if initially recruited to Level 2].

B7 Can you describe how the Apprenticeship training is delivered: How much/which elements are delivered in-house? And which are delivered by providers? How many/which providers do you use?

How do the assessments take place?

B8 Have you always operated your programme in this way? IF MADE CHANGES: Explore rationale for changing approach.

B9 Does this workplace provide additional training to supplement that of the Apprenticeship to make sure its apprentices are suitably skilled? [NOTE TO INTERVIEWER: find out what the employer provides and why]

B10 Has the workplace considered or used other training programmes to train people in the same things as Apprenticeships? Are these still being used? If yes, why? If no, why not? [NOTE TO INTERVIEWER: Probe around whether the workplace recruits recent graduates from university and whether these are potential substitutes for apprentices].

C Value of Apprenticeships

C1 What are the main reasons why this workplace offers Apprenticeships?

[PROBE AROUND: used to meet future skill needs, principal means of bringing new people into the business, it is something which the employer has always done, a good standard to train to, a means of attracting good quality candidates, to provide something back to the community in which the workplace is based, to support people to progress through the organisation].

C2 INTERVIEWER: Explore the extent to which each of the following are a reason for using Apprenticeships. For each explore:

- Whether each factors in the decision
- Whether a 'key' reason or a 'minor' reason
- How/why each of the motivations adds value to the business

A. Ability to attract high quality people to the business

B. A training programme which delivers the skills the business needs

C. A rigorous and structured training programme

D. A good springboard on which to develop further skills

E. A flexible programme of training which allows work and training to be readily accommodated

F. Reduces labour turnover

G. A cost-effective form of training

H. A way of doing something positive / for Corporate Social Responsibility (CSR) reasons

I. It offers a reassurance of quality to parents / other stakeholders

D Satisfaction with Apprenticeship Offer

D1 Would you like to have more influence over various aspects of Apprenticeships? If so, which elements and why?

D2 In general, do you have much influence over the following elements of the Apprenticeship?

NOTE TO INTERVIEWER: For each check:

- Whether they are satisfied with each element
- Whether the respondents feel they have influence over it
- IF NOT SATISFIED: What they would change? How big a deal this is / How much difference it would make to the business if this could be addressed? Would addressing it result in them making more use of Apprenticeships?

A. **The content of training delivered to their Apprentices**. [NOTE TO INTERVIEWER: ask initially open-ended and then probe around issues relating: to (a) generic skills including literacy and numeracy, communication, team working; and (b) technical skills related to specifically to the job the apprentice will eventually undertake]. If there are issues which are mentioned and the interviewee does not volunteer how or why they need changing ask: In what way would you like to change [CONTENT MENTIONED] and why? [Probe for whether they would like the content to be either removed or modified].

B. **The way in which the training is delivered / structure of training** [**NOTE TO INTERVIEWER:** probe around balance between on- and off-the-job training, time spent at the training provider, being able to fit in training around peaks in business activity in the workplace]. Why would the respondent like to see the changes made and what would these changes look like?

C. **The length of the Apprenticeship / time to complete**;

D. **The way the apprentice is assessed and judged to have completed the Apprenticeship**; [NOTE TO INTERVIEWER: probe around how often the apprentice is assessed, who assesses them, and how is it decided that the apprentice has completed, including the balance of roles between the independent assessor and employer].

E. The choice of training provider;

F. The quality of training;

G. Amount of administration the employer has to deal with

H. Any other aspects?

D3 What is your relationship with your training provider like? Is there anything you would like to change or improve? NOTE TO INTERVIEWER: ask initially open-ended then probe around the following:

- Responsiveness to your needs
- Communications

D4 [**NOTE TO INTERVIEWER**: At this point summarise the types of change the respondent would like to see made to Apprenticeships and recount these to the employer]. If you were able to bring about the changes we have just discussed, what would be the benefits to this workplace? [**NOTE TO INTERVIEWER**: probe around: reducing drop-out rates, reducing overall costs of training, increasing motivation of apprentices, and better fit between training and employer's skill needs). Of all the changes you would like to see made what are the most important to this workplace? [**NOTE TO INTERVIEWER**: probe for reasons why if not obvious from foregoing discussion].

D5 Are there potentially any costs or drawbacks resulting from the introduction of these changes to you as a business or to your Apprentices? [**NOTE TO INTERVIEWER**: probe around ensuring that future skill needs are met, being able to accommodate future changes in technology and work organisation. Also probe on costs to the individual apprentice such as providing them with a narrower skills base and less general education].

E Initial Reactions to Increased Co-investment

E1 Do you make a payment to your training provider for delivering Apprenticeships? IF YES: How much do you pay for each apprentice (over the full length of the Apprenticeship)? **NOTE TO INTERVIEWER:** Probe fully for differences by level, age etc.

IF MAKE A PAYMENT

E2 Do you know the rationale for needing to make a payment? Are you required to pay because of the age of the apprentice? Or is it because you request for training in addition to that stipulated by the Framework? Have you always had to contribute to Apprenticeships or has the amount you pay changed? Why?

E3 Has the amount you are required to pay had an impact on the number or characteristics of apprentices you take on? In what way?

E4 Do you consider this amount a fair price for what is delivered?

ASK ALL

E5 In most cases, the State currently meets all/most of the full cost of training delivered by training providers for Apprenticeships. If you had to pay for that training, how much would you be prepared to pay for it? [**NOTE TO INTERVIEWER**: This is per apprentice over the total period of the Apprenticeship]. How much is the training worth to you as a business?

E6 And if you had paid [INSERT AMOUNT THEY SAID THEY WOULD HAVE PAID AT E5] £X,XXX per apprentice, would this have affected the number of apprentices you have trained over the past two years? [**NOTE TO INTERVIEWER**: obtain either the change in numbers or the percentage change]. [PROBE FOR WHETHER it would affect the number of people trained by age group and by Level].

- IF LITTLE OR NO IMPACT REPORTED FOR OVERALL CHANGE IN THE NUMBER OF APPRENTICES TRAINED: Probe for reasons why, including the importance of Apprenticeships to meeting future skill needs to the workplace, and the capacity of the workplace to absorb additional training costs].
- IF A SUBSTANTIAL FALL IN THE NUMBER OF APPRENTICES TRAINED OVERALL OR BY AGE OR LEVEL: Why is the number of apprentices you train each year so

sensitive to the cost of training them? [Probe around: the economic performance of the workplace and the need to contain costs / the value apprentices and higher skills bring to the business].

F Impact of Increased Co-Investment on Training Volumes

NOTE TO INTERVIEWER: We need to ask the respondent how they would respond if faced with paying 20 or 50 per cent of the amount currently paid by the State to the training provider (see below for the costs).

Find out how much, if anything, the employer pays towards Apprenticeship training currently. If the employer does contribute to the cost of training already, please ask if this had any impact on the number trained or their age profile when it was first introduced. But note that we are only interested in the contribution the employer pays in relation to training under the framework. Some employers pay the provider extra to include additional elements of training which are not strictly necessary to complete the framework.

It is important to emphasise to the respondent in the discussion that they will be able to offset any implied additional cost by, for example, being able to negotiate the price of the training with the provider.

Please ensure that if the Apprenticeship includes both Level 2 and Level 3, that the Level 2 + 3 figures are used.

In the interviews, please alternate between asking about a 20 per cent contribution first and then asking about the 50 per cent contribution, and then asking about the 50 per cent contribution first in the next employer interview.

F1 At the moment, the amount that the State pays to training providers to train your Apprentices (nb overall not per annum) is in the region of…..[INSERT FIGURES FROM TABLE BELOW]?

	Amount currently funded by Government		
Subjects / grouped frameworks	**Level 2**	**Level 3**	**Level 2 + 3**
Engineering and Manufacturing Technologies	£4,300	£10,000	£14,300
Construction, Planning and the Built Environment	£6,125	£7,350	£13,475
Retail and Commercial Enterprise	£1,650	£1,850	£3,500
Leisure, Travel and Tourism	£2,000	£2,950	£4,950
Financial Services	£2,500	£3,300	£5,800

F2 Were you aware of the level of this subsidy? What are your thoughts on the level, does it seem ‘reasonable’? Why/why not?

F3 Reflecting the reductions in public funding available, the Government is likely to have to reduce the funding available for Apprenticeships. This may result in a need for employers to contribute more towards the training provision. This will not be an in-kind payment but a direct financial contribution to the learning provider. If the overall cost of training currently met by the State is £X,XXX per apprentice [**INSERT AMOUNT FOR FRAMEWORK UNDER DISCUSSION FROM TABLE ABOVE**], what amount (per apprentice) or percentage payment do you think your business might be willing to contribute?

F4 **INTERVIEWER NOTE**: Note alternate introductions to be used

PREAMBLE FOR HALF OF INTERVIEWS: If we were to assume that in the future you would be asked to meet 20 per cent of the total cost of the Apprenticeship currently met by the State, which would amount to an extra £X,XXX **[INSERT FIGURE FROM TABLE BELOW]** per apprentice, how do you think this may have affected the recruitment of apprentices over the past two years into [**NAME OF FRAMEWORK**].

PREAMBLE FOR OTHER HALF OF INTERVIEWS: If we were to assume that in the future you would be asked to meet 50 per cent of the total cost of the Apprenticeship currently met by the State, which would amount to an extra £X,XXX **[INSERT FIGURE FROM TABLE BELOW]** per apprentice, how you think this may have affected the recruitment of apprentices over the past two years into [**NAME OF FRAMEWORK**].

- Would you have taken on as many apprentices? If not, why not. If fewer, how many fewer? How many fewer would you have taken?
- Would you have changed the numbers taken on into Intermediate and Advanced Apprenticeships? [NOTE TO INTERVIEWER: probe for how the balance would have changed and why?]
- Would you have changed the profile of the people you recruited? NOTE TO INTERVIEWER: probe for: whether would have taken on more young apprentices because more of their funding is covered by the State, or taken on more older, more experienced apprentices because they are more likely to complete, that it may be possible to train them more quickly, or because they are easier to manage, and thereby offset any increase in the overall cost of training]. [If would take on fewer young people or people who might take longer to complete, ask if it is the preference of the employer is to recruit people who currently fall into these groups – and why (including corporate social responsibility) - and whether they would continue to do so if additional funding were available for these groups? At what level would that additional funding need to be provided? [PROBE around the type of additional costs attached to the groups under discussion].
- [If the employer responds that there would be a major change in the number of apprentices taken on]: why is the number of apprentices taken on so sensitive to cost issues? [NOTE TO INTERVIEWER: Need to probe in relation to the additional costs relative to the employer’s overall costs of training an apprentice once things such as apprentice wages and the value the apprentice brings to the business have been factored in. Also need to probe about what would be the consequences for the business if had fewer apprentices and whether this would lead to skill shortages and how these would be

mitigated]. [If little or no change in the number of apprentices, or type of apprentices, taken on]: why is that?

F5 **INTERVIEWER NOTE**: Alternate introduction used

IF ASKED ABOUT 20% SCENARIO: And how would your reaction be different if you were asked to meet 50 per cent of the total cost of the Apprenticeship currently met by the State, which would amount to an extra £X,XXX **[INSERT FIGURE FROM TABLE BELOW]** per apprentice

IF ASKED ABOUT 50% SCENARIO: And how would your reaction be different if you were asked to meet 20 per cent of the total cost of the Apprenticeship currently met by the State, which would amount to an extra £X,XXX **[INSERT FIGURE FROM TABLE BELOW]** per apprentice

F6 What level of contribution over and above what you currently contribute, do you think your business would be able to make to the cost of training your Apprentices without reducing the volumes that you train? What is the 'tipping point' at which would reassess your involvement with Apprenticeships?

NOTE TO INTERVIEWER BELOW ARE THE AMOUNTS TO BE USED IN F4 and F5

	20 per cent contribution				50 per cent contribution		
Subjects / grouped frameworks	Level 2	Level 3	Level 2 + 3		Level 2	Level 3	Level 2 + 3
Engineering and Manufacturing Technologies	£860	£2,000	£2,860		£2,150	£5,000	£7,150
Construction, Planning and the Built Environment	£1,225	£1,470	£2,695		£3,063	£3,675	£6,738
Retail and Commercial Enterprise	£330	£370	£700		£825	£925	£1,750
Leisure, Travel and Tourism	£400	£590	£990		£1,000	£1,475	£2,475
Financial Services	£500	£660	£1,160		£1,250	£1,650	£2,900

G Co-investment and co-ownership

G1 The Government is expecting to accompany any reduction in subsidies for Apprenticeships, if these occur, with employers having greater influence over the design and delivery of Apprenticeships. If you were able to achieve the changes we have discussed so that Apprenticeships were structured to better suit your business needs, how would this impact on your reaction to making a greater financial contribution to the cost of them?

- Just to confirm, if you obtained the ideal Apprenticeship structure that we have just been discussing would this business be willing to meet an increased share of the overall costs of delivering Apprenticeships? [And if so]: how much?
- [**NOTE TO INTERVIEWER**: if amount specified by the employer above is less than 100 per cent]: Why would you not be willing to meet of all of the costs given that you would have the ideal mix of control over the Apprenticeship?
- [If respondents say no, they would not be prepared to meet additional share of the cost]: Why do you say that? [**NOTE TO INTERVIEWER**: probe for reasons including whether the proposed changes would have limited business value].

G2 There are a range of ways in which employers could offset an increased 'employer cost' of Apprenticeship training. I'd just like to discuss each of these with you to understand whether it is something that your business could or would consider.

NOTE TO INTERVIEWER: For each check:

- Are these potentially applicable to your situation?
- Would you want to bring about these changes?
- Do you think you would be able to bring about these changes? [NOTE TO INTERVIEWER: Probe whether employer thinks they would be able to achieve these changes in practice
- By how much could they mitigate any increase in the costs of Apprenticeships through this route?

A. Freely negotiating the price of training with a training provider [In particular, ask if it would be possible to get training providers to reduce their prices per apprentice without risk to the quality of the Apprenticeship]

B. Bringing more training in-house,

C. Working with providers to ensure efficient and high quality delivery,

D. Reducing the level of apprentice wages.

G3 So if the Government subsidy were to be reduced by 20 per cent of the total cost of the Apprenticeship, which would amount to employers needing to find an extra £X,XXX per apprentice **[USE FIGURE USED IN F5FOR 20 PER CENT]**, how much of this do you think you could offset through the mitigation tactics discussed?

G4 And if the Government subsidy were to be reduced by 50 per cent of the total cost of the Apprenticeship, which would amount to employers needing to find an extra £X,XXX per apprentice **[USE FIGURE USED IN F5 FOR 50 PER CENT]**, how much of this do you think you could offset through the mitigation tactics discussed?

G5 Does discussing some of these ways in which a reduction in funding could be mitigated change your views on how your business might react to a scenario with reduced level of funding? Does it change your views on how it might impact on the volume and profile of Apprentices that you take on?

H Employer-routed funding

H1 The Government is considering that in future the Government funding for Apprenticeships will be routed through employers so employers will receive the full value of the subsidy which they can use to pay training providers. This compares to a situation at the moment where the subsidy is paid by the State to the provider. What is your view on this? What difference do you think it might make to your business? Positive or Negative?

I Thank and close

I1 **Is there anything else that you would like to add about Apprenticeships and how they are funded?**

I2 **Do you have any further questions about this project?**

THANK RESPONDENT AND CLOSE INTERVIEW

Finally I would just like to confirm that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct. Thank you very much for your help today.

This publication available from www.gov.uk/bis

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